

ADUR & WORTHING
COUNCILS

Key Decision [Yes/No]
Ward(s) Affected:All

3rd Quarter Revenue Monitoring Report 2022/23

Report by the Director for Digital, Sustainability and Resources

Executive Summary

1. Purpose

- 1.1. This report updates the Joint Strategic Sub Committee for Adur District Council with the latest expenditure and income projections for Adur District Council and Worthing Borough Council for the current financial year 2022/23, compared to the Revenue Budget approved by both Councils in February. Whilst the 'spend to date' will be the position as at the 30th September 2022, the forecast outturn position will reflect the latest information available to ensure an up-to-date forecast is presented.

As at quarter 2, the current outturn projection for the 2022/23 financial year for the Adur District Council General Fund is a net overspend after reserve transfers of £382k. A breakdown is set out in section 4.4 of the report.

- 1.2. The following appendices have been attached to this report:

- (i) **Appendix 1** Briefing Note on Service Performance
- (ii) **Appendix 2** (a) Adur Summary
(b) Adur Use of Earmarked Reserves
- (iii) **Appendix 3** (a) HRA Summary
(b) HRA Briefing note
- (iv) **Appendix 4** (a) Table of Variations over £20,000
(b) Table of movements over £50,000 between quarter 1 and 2

2. Recommendations

- 2.1. The Joint Strategic Sub Committee for Adur District Council is asked to note the report and projected outturn position for the Joint Committee and Adur District Council against the approved revenue budgets and proposed use of reserves (Appendix 2b).

3.0 Context

- 3.1 The Joint Strategic Committee last considered the 5-year forecast for 2022/23 to 2026/27 on 5th July 2022.
- 3.2 The report outlined the financial context, and updated the outline 5 year forecast, the key budget pressures and the savings proposals for addressing the budget gap for Adur and Worthing Councils. The report built on previous strategies whose aim was to ensure that the Councils would become community funded by 2020 reliant, by then, only on income from trading and commercial activities, council tax income and business rate income.
- 3.3 The successful delivery of the strategy is fundamentally changing how the Councils are funded. The Councils are moving increasingly away from ever reducing government funding towards funding from the local community via Council Tax and Business Rates, and will become increasingly reliant on income from commercial activities.

4.0 Issues for consideration - Revenue 2022/2023 Forecast

- 4.1 As part of the 2022/23 budget the Councils committed to savings of £0.168m for Adur District Council and £1.136m for Worthing Borough Council to produce a balanced budget and to address the reduction in Government support. Services were required to carry out efficiency, procurement and base budget reviews to identify where income could be increased or expenditure reduced.
- 4.2 However, the financial landscape has changed due to the impact of the economic downturn, energy prices, rising inflation and interest rates visible in additional cost pressures falling on the Council over the last 7

months. Additional pressure has also been created by the national pay award which is higher than assumed and built into the 2022/23 budget.

4.3 The ongoing certainty around inflation, increased demand on services and energy resources and pricing, it is difficult to have certainty on the estimates and assumptions, the current projections indicate forecast year end overspends against budgets of £382k in Adur and £2.1m in Worthing. This includes meeting the challenges of the impact of the inflationary cost pressures, reduced levels of income together with the significant savings requirements to balance the 2022/23 budget. The main factors influencing the level of spend are discussed in detail in section 4.11 of the report.

4.4 The current year-end forecast is comprised of a number of elements as set out in the table below:

2022/23 Forecast Outturn	Adur	
	Q2	Q3
	£000	£000
Over/(under)spend in operational services – including share from Joint	1,035	1,608
Reduced borrowing requirement: A lower than forecast call on the MRP (provision to repay debt) and net interest in 2020/21, due to reprofiling of the capital programme.	(469)	(469)
Net Interest (increase)/decrease	(312)	(355)
Commercial property income shortfall and cost pressure (excluding business rates)	316	344
Property void allowance	(650)	(650)
Pay award - impact above budgeted allowance	392	392
Reduction in national insurance contribution rate	(30)	(30)
Net over/(under) spend before funding from reserves	282	840
Grant Funding	(9)	(39)
Transfer to/(from) reserves	(209)	(419)
Forecast net over/(under) spend	64	382

4.5 The key factors underpinning the current financial position include:

- The financial impact of rising inflation and interest rates.
- A net underspend in the Minimum Revenue Provision (MRP) and interest budgets. The budgets are calculated on both the historic financing of previous years capital programmes and the impact of financing the current year's capital spend. Changes to the expected spend, interest rate forecasts, and the associated level of borrowing have reduced the expected cost in 2022/23.

Once the above items are taken into account, the operational position is a net overspend by services of £1.608m in Adur. This projection demonstrates the pressure on the Councils finances as a result of an increase in inflation, increased homelessness caseloads and income levels in some areas still below pre pandemic levels.

4.6 In summary the overall revenue outturn projections for both councils reported for Q3 are as follows:

Projected Outturn Summary			
	Joint £000s	Adur £000s	Worthing £000s
Current Budget 2022/23	25,790	9,742	13,785
Forecast Outturn	28,752	10,582	16,572
Projected Forecast over/ (underspend) before Government support packages or any transfer to reserves	2,962	840	2,788
Reserves Funding		(419)	(559)
Grant Funding	(50)	(39)	(129)
Projected Forecast over/ (underspend) after Government funding and proposed transfer to reserves	2,912	382	2,100
Projected over/(underspend) percentage	11.29%	3.92%	15.23%

The Adur and Worthing projected forecasts in the table above include the respective share of the estimated Joint Services overspend.

Comparison to the Q2 forecast:

	Joint £000s	Adur £000s	Worthing £000s
Forecast Over/(under)spend Q3	2,912	382	2,100
Forecast Over/(under)spend Q2	2,338	64	2,017
Change in Forecast Q2 to Q3 (improvement)/deterioration	574	318	83

The Adur and Worthing projected forecasts in the table above include the respective share of the estimated Joint Services overspend.

- 4.7 In the table below, projections have been separated between authority and by Income and Expenditure, to indicate the level of overall under/overspend of costs and the over/under achievement of income targets.

	Expenditure	Income	Net Total
Joint	£'000	£'000	£'000
Budget	31,489	(6,590)	24,899
Forecast (after transfer to reserves)	34,371	(6,510)	27,861
Projected Forecast (Under)/ Overspend	2,882	80	2,962
Forecast variance % before Government funding	9.15%	-1.21%	11.90%
Adur	£'000	£'000	£'000
Budget	35,693	(26,754)	8,940
Forecast (after transfer to reserves)	35,831	(27,236)	8,595
Authority Projected Forecast (Under)/ Overspend	137	(483)	(345)
Share of Joint (Under) / Overspend	1,153	32	1,185
Authority Projected Forecast (Under) / Overspend	1,290	(451)	840
Forecast variance % before Government funding	3.61%	1.68%	9.39%

4.8 The Joint Strategic Committee (JSC) sub committee for Adur District Council is asked to consider:-

- the current projections of variances in the Councils' General Fund Revenue Budgets;
- the current projections of variances in the Adur Housing Revenue Account; and
- any amendments and virements to budgets which may require a recommendation onto Council for approval;

4.9 We adopt a more structured approach to services which have more volatile budgets or hard to predict income streams. For 2022/23, these services are:-

- Car Parking
- Development Management
- Homelessness
- Commercial Waste
- Cross cutting services including maintenance and utilities

4.10 Most of these services are subject to closer monitoring because they meet one or more of the following criteria:-

- Demand led
- Income based
- Specialist
- Significant changes to the service are being made in the near future.

4.11 Headline budget variations across both the Councils' and the Joint account

4.11.1 Commentary on service areas that are forecasting significant variances from budget are presented in appendix 1 of this report, summarised highlights are provided in this section 4.11.

4.11.2 The forecast in year deficit is set out in the following table with focus on the main factors that make up the estimated outturn position:

In Year (surplus)/deficit	Joint (Memo) £000	Adur £000
Cross Cutting		
Pay Award	972	
National Insurance	(73)	
Utilities and Rates	138	193
Maintenance	198	71
Treasury		(824)
Services (detail in appendix 1)		
Waste	1,296	(24)
Car Parks		(34)
Homelessness		247
Bereavement		8
Strategic Property		(306)
Planning and Development		197
Revenues and Benefits	270	
Other	111	147
<i>Share of Joint</i>		1,165
Total projected deficit before use of reserves		840

Further detail on these factors is provided below.

4.11.3 Pay Award and National Insurance contributions:

The national pay award has been agreed with an increase of £1,925 to each spinal column pay point which is an average pay increase of 5.82%, this increase is higher than the 2% budgeted allowance creating an in year cost pressure.

Offsetting this is the reduction in employer national insurance contributions following the government decision to remove the 1.25% rate increase introduced at the start of April 2022 from November.

4.11.4 Utilities and Rates

The contract for energy has now been renewed and the anticipated usage and price are expected to increase the costs to the council substantially by an average of 190% for electricity and 380% for gas over the next two

years. However, this increase is lower than previously forecast due to the introduction by the Government of the Energy Price Relief Scheme, which provides support to businesses through discounted energy rates for 6 months until the end of March 2023. The cost impact in the current year is as follows:

- Joint £150,000
- Adur £158,000
- Worthing £276,000

Water and rates variances against budget make up the difference in the table at 4.11.2, further information is provided in appendix 1:

	Over/(under) spend against budget	
	Joint	Adur
Water	£2,000	£21,000
Rates	(£14,000)	£14,000

4.11.5 Maintenance

Costs are expected to be overspent against budget within Joint Services and Adur. In Worthing it is expected there will be an underspend with demand on the service for reactive works lower than budget.

4.11.6 Treasury

The council has an underspend against the MRP budget of £469k due to reprofiling to 2022/23 of a proportion of the 2021/22 Capital Programme and the impact of changes to planned financing due to increased levels of capital receipts and capital grants both of which offset the need to borrow.

Increase in interest rates during the year has also led to higher investment return income:

Treasury Management (Under) / Overspends	Adur (General Fund)
	£000
Minimum Revenue Provision*	(469)
Interest from Investment Income	(215)
Interest payable on borrowing	(140)
Total	(824)

* Includes the benefit of reviewing the methodology for calculating the MRP which is estimated at £350,000.

4.11.7 Waste:

Additional costs resulting from the negotiated changes following the waste dispute earlier in the financial year and agency costs being incurred to cover vacancies, holiday and sickness. In addition there has also been a reduction in income against budget partly as a result of cancellations and refunds associated with the dispute. The service is also impacted by rising costs of fuel, parts, bins and consumables.

4.11.8 Car Parks

Income from parking in Adur district has been performing well and is predicted to meet the budget for 2022/23 based on current demand levels.

4.11.9 Homelessness

Costs pressures continue to be experienced with caseload numbers (individuals, couples and families presenting themselves to the council in immediate housing crisis) continuing to increase:

	Caseload Number (Adur)
Current (January 2023)	97
Quarter 2	92

The increase in the demand has led to an increase in the average nightly cost for temporary accommodation, with the need to use hotel chains. Cost pressures have been compounded further with some bed and breakfast providers increasing their prices to meet growing inflationary costs pressures.

4.11.10 Bereavement

There is a marginal shortfall in burial income predicted of £4000 which reflects 5.5% of the budget. There is in addition an overspend of £4,000 anticipated against supplies and services which includes the survey costs relating to Lancing and Sompting associated with extension and consecrated areas.

4.11.11 Strategic Property

Projected income in Adur from strategic property portfolios is based on the assumption that the budgeted transfer to the Property Investment Risk Reserve of £650,000 is not made for 2022/23. There are currently two empty properties within the Adur portfolio where the council is meeting the associated service costs and rates charges.

4.11.12 Planning and Development

As with Bereavement Services the budget shortfall is largely related to the underachievement of income. These income streams are largely demand led and can therefore fluctuate making forecasting difficult to predict. Based on current performance the forecast outturn position is:

	Adur	
	Q3	Q2
Income shortfall	£196,000	£92,000
Expenditure overspend	£1,000	£13,000
Total projected net overspend against budget	£197,000	£105,000

The forecast income shortfall of £196,000 equates to a 29.5% over performance against budget.

4.11.13 Revenues and Benefits

An overspend is projected due to the extension of agency staff to the end of March 2023 to process the backlog of work as a result of the additional work undertaken by the service relating to administering covid support measures and energy rebates.

4.12 Budget variations greater than £20,000

The Council's individual Summary Projected Outturns are reported in Appendix 2a. The variations greater than £20,000, for this report, are detailed in Appendix 4.

There are some expenditure items that are not identified until the year end that will impact on the final outturn. These items can have a positive or negative impact on the final position.

They include:-

- Movement in the estimate for doubtful debts
- A review of any amounts needed to be set aside for liabilities that are likely to occur in the future
- Changes in allocations of staff time to outside the General Fund.

4.13 Future Risks

4.13.1 *Inflation*

Inflation is currently the biggest risk on Council finances with the pressure on rising costs across all budget areas, particularly in utilities, fuel, supplies, salaries and construction costs. The forecast outturn positions will be reviewed during the year and adjusted to reflect the changes in actual experience and economic forecasts.

4.13.2 *Demand for housing*

Any increase in demand on Housing services through homelessness caseloads will cause additional cost pressures on the councils finances. With demand levels in excess of the availability of cheaper supply in the form of Council owned accommodation or private leasing, the costs will escalate further as the service is forced to utilise more expensive hotels.

4.13.3 *Financial sustainability*

The level of earmarked reserves (excluding the Business Rates Smoothing Reserve, the Tax Guarantee Reserve and Grants and Contributions) will reduce if they are required to meet the overspends currently forecast for the year:

Adur District Council Available Reserves	Balance at 1.4.22	Projected Transfer In/(Out) 2022/23	Remaining balance
	£	£	£
Capacity Issues Reserve	831,053	(525,493)	305,560
General Fund Working Balance	1,051,497		1,051,497
Property Investment Risk Reserve	375,674		375,674
Insurance Reserve	152,699	(29,550)	123,149
Projected overspend 2021/22		(381,550)	(381,550)
Total excluding HRA overspend	2,410,923	(936,593)	1,474,330
Projected HRA overspend 2021/22 in excess of HRA Reserve balance		(389,150)	(389,150)
Total	2,410,923	(1,325,743)	1,085,180

Adur has been in a position to increase the level of available reserves over the last couple of years which puts the Council in position to meet the current level of forecast overspend.

However, any overspend in the Housing Revenue Account in excess of the HRA available reserve balances will need to be funded from General Fund Reserves, currently this is estimated to be £389,150.

The current commitment on all the General Fund earmarked reserves are set out in appendix 2b. As set out in the 2023/24 Budget Update report elsewhere on this agenda the council will need to plan for protecting and rebuilding reserve levels into the future to ensure that the Council remains financially sustainable.

4.14 Housing Revenue Account

4.14.1 The Adur Housing Revenue Account is a ring fenced account. The HRA forecast is shown in Appendix 3a.

4.14.2 The HRA is forecast to overspend against the budget for 2022/23 by £578,149. A detailed analysis of the HRA position is included at Appendix 3b. The most significant pressures are due to:

- Void properties (including losses in associated service charges) - £545,000
- Void garages - £60,000
- Impact of inflation on salary budgets - £65,000

These pressures may now be partly offset by an improved debt financing position. Current forecasts estimate reduced interest payable costs of £68,000 due to changes in the capital programme and increased interest receivable of £42,000 due to interest rate rises.

By the end of 2022/23, the HRA will have used all of its reserves unless corrective action is taken in-year to mitigate these cost pressures.

4.15 Corrective action:

4.15.1 To mitigate the impact of the identified cost pressures, the council has continued to:

1. Hold any emerging underspend in the current year 2022/23 to manage in-year pressures.
2. Reviewed all major projects and capital projects and put on hold unless the project has an initiative that either:
 - a. Improves our financial position; or
 - b. We are committed to delivery via a funding agreement; or
 - c. We are already contractually committed to the project; or
 - d. Addresses health and safety concerns; or
 - e. The project is identified as a key priority in the new corporate strategy.
3. Vacancy control measures are in place for all posts including agency staff. This will also support the budget measures required to balance the 2023/24 budget.

4. Seeking to implement savings needed to balance the budget in 2023/24 early to also support the budget in 2022/23.

4.15.2 Further work is ongoing with respect to the implementation of those savings approved for 2023/24 which could potentially benefit the 2022/23 position.

5.0 Engagement and Communication

5.1 The Corporate Leadership Team and budget managers have all collaborated in the content of this report providing explanation and narrative on the forecast variances.

6.0 Financial Implications

6.1 At this stage at the end of the third quarter of the revenue budgetary cycle, we continue to see the financial impact of the increase in inflation on the Councils. We continue to see the benefits of the mitigating actions implemented and highlighted at 4.15, however these have been offset by both an increase in the demand on the reactive maintenance budgets and a fall in projected income.

6.2 Overall the projected outturn position net of treasury savings, the performance in the strategic property portfolio and reserve transfers is an overspend in Adur of £380k which includes the councils share of the estimated £3m overspend within the Joint Service.

6.3 The financial performance of the Councils will continue to be monitored closely against budgets and projections updated as the financial year continues.

7.0 Legal Implications

7.1 Section 151 of the Local Government Act, 1972 requires the Councils to make arrangements for the proper administration of their financial affairs. Further, Local authorities have a statutory duty under the Local Government Act 2003, to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge.

7.2 Section 76 of the Local Government and Housing Act 1989 places a duty on the Council to prevent debit balances on the Housing Revenue

Account. Regulation 76(6) requires the Council to consider and determine whether their current proposals ensure that the Account does not show a debit balance, and may take such steps that are reasonably practicable to satisfy the requirements of Section 76.

- 7.3 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 42B of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 7.4 There are a range of safeguards in place that help to prevent local authorities overcommitting themselves financially. These include a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003 when the authority is considering its budget requirement

Background Papers

Joint Overall Budget Estimates 2022/23

<https://democracy.adur-worthing.gov.uk/documents/g1623/Public%20reports%20pack%2008th-Feb-2022%2018.30%20Joint%20Strategic%20Committee.pdf?T=10>

Adur District Council Budget Estimates 2022/23 and Setting of the 2022/23 Council Tax

<https://democracy.adur-worthing.gov.uk/documents/g1626/Public%20reports%20pack%2024th-Feb-2022%2019.00%20Adur%20Council.pdf?T=10>

Worthing Overall Budget Estimates 2022/23 and Setting of 2022/23 Council Tax

<https://democracy.adur-worthing.gov.uk/documents/g1625/Public%20reports%20pack%2022nd-Feb-2022%2018.30%20Worthing%20Council.pdf?T=10>

Financial Performance 2021/22 - Revenue Outturn

<https://democracy.adur-worthing.gov.uk/documents/g1714/Public%20reports%20pack%2005th-Jul-2022%2018.30%20Joint%20Strategic%20Committee.pdf?T=10>

Officer Contact Details:-

Emma Thomas

Chief Accountant

01403 221232

emma.thomas@adur-worthing.gov.uk

Sustainability & Risk Assessment

- 1. Economic**
Matter considered and no issues identified

- 2. Social**
 - 2.1 Social Value**
Matter considered and no issues identified

 - 2.2 Equality Issues**
Matter considered and no issues identified

 - 2.3 Community Safety Issues (Section 17)**
Matter considered and no issues identified

 - 2.4 Human Rights Issues**
Matter considered and no issues identified

- 3. Environmental**
Matter considered and no issues identified

- 4. Governance**
Matter considered and no issues identified

Quarter 3 Budget Monitoring - Commentary on Services with significant outturn forecast to budget variances

This information supplements the information in the 3rd Quarter Revenue Monitoring report providing more detail to the service forecast in the areas where there are significant variances in the forecast outturn positions than budgeted. The variances are across the organisation but are mostly in the areas that are either volatile in nature or demand led which can make income streams more difficult to predict. There are also some areas where global and national economic activity are impacting causing costs pressures, such as inflation and energy supply.

1.1 Car Parking

There are no current pressures identified for the Adur Parking, income levels are on budget and there are savings predicted against the expenditure budgets. The overall forecast net outturn position is an underspend of £34,000 reflecting 9% of the budget. Although this is good news the income has still not quite recovered to the pre pandemic levels, the 2022/23 income budget was reduced by £52,000 to build in the longer term impact of covid on demand.

1.2 Homelessness

There continue to be cost pressures associated with homelessness within both Adur and Worthing the current forecast outturn overspend positions have increased marginally from those predicted in quarter 2.

In Adur the average caseload in quarter 2 was 90 increasing to 97 by the end of January 23. The forecast includes the assumption that numbers will increase by 2 cases per month for January and 1 for the remainder of 2022/23 due to the shortages of social housing and affordable properties in the private sector creating difficulties with available move on accommodation.

The increase in the demand within both Adur and Worthing has led to an increase in the average nightly cost for temporary accommodation, due to increased cost pressures, contracted landlords are increasing rents as well as the need to use hotel chains and expensive nightly booked self contained accommodation. Cost pressures have been compounded further with some bed and breakfast providers also having increased their prices to meet growing inflationary costs pressures.

The current forecast compared to Quarter 2 is shown below:

Housing Needs Variances

	Adur	
	Q3	Q2
	£000	£000
Homelessness - Emergency and temporary accommodation costs - budget pressure/(underspend)	502	425
Local Housing Allowance Income - budget shortfall/(excess)	(222)	(167)
Additional MHCLG Domestic Abuse Accommodation Grant	(33)	(33)
Net over/(under)spend forecast against budget	247	225
Variance as a percentage of Housing Needs Budget	57.0%	52.0%

1.3 Waste

The Waste and Cleansing services have significant cost pressures largely following the recent pay dispute by its employees. The agreed pay deal and subsequent knock on impact to the service whilst the dispute continued during April, has contributed towards an estimated overspend in the joint service of £1,296,000. This will impact on Adur and Worthing by £518,000 and £778,000 respectively, however the use of £581k of reserves has been approved by members to fund some of this cost (£209k Adur and £372k Worthing).

The dispute has also meant that as well as pay increases, income is lower than expected due to refunds being issued as a result of missed collections during the period along with other cost pressures that the service has had to meet including payments to waste contractors to meet our statutory obligation regarding environmental health safety plus the cost of extended opening of the West Sussex County Council refuse and recycling sites.

In addition to the impact of the pay dispute, there are inflationary pressures in fuel costs and on the maintenance budgets as the fleet gets older.

Food waste customer accounts continue to increase, despite a difficult trading year so far. Industrial action meant that no active promotional work took place

as resources were re-prioritised. The focus is now on gaining food waste customers in Adur to get our total account base to 65. An account base of 65 will save the Councils around £15k per year as food waste is diverted from general waste to the service.

Overall the net outturn forecast for Waste Services are overspends are:

	Joint (memo)	Adur	Worthing
Net forecast overspend	£1,296,000	(£24,000)	(£84,000)
Share of Joint		£518,000	£778,000
Total cost pressure		£494,000	£694,000
Approved use of reserves		(£209,000)	(£372,000)

1.4 Bereavement Services

Adur cemeteries are forecasting a marginal shortfall in income of £4,000. This is due to a predicted drop in the demand that follows three years of higher than expected excess deaths, 110 burials have taken place in 2022/23 to December compared to 112 for the same period in 2021/22. There is also a small overspend expected on expenditure budgets of £4,000 which includes survey costs for Lancing and Sompting associated with the extension and consecrated areas, plant hire and health and safety requirements.

1.5 Strategic and Commercial Property

Adur Investment property budgets are anticipated to exceed the net budget by £306,000, however this forecast assumes that the budgeted transfer to the Property Investment Risk Reserve of £650,000 is not made at the end of the financial year. There are two properties in the portfolio that are currently without tenants, the largest being One York Road (ground floor unit), where the council has the responsibility of the associated costs including business rates and service charges.

Included within both council budgets are assumptions that there will be some modest growth in the commercial property income for 2022/23 in Adur this is £101k. Any shortfall in this target is met from the in year property void allowance budget. Across both Strategic Property Investment Funds, the occupancy level is at 97.5% which is extremely healthy.

Offsetting the forecast above are predicted overspends against the core estates portfolio (£6k) and major projects (£17k) budgets.

1.6 Planning and Development

Adur Planning and Development is currently anticipated to have an overall 14% shortfall in income against budget of £92,000 for 2022/23. A breakdown of the income shortfall by service with a comparison to quarter 2 is provided in the table below:

	Q3	Q2
Building Control	£67,000	£39,000
Land charges	£53,000	£52,000
Development Control	£75,000	£1,000
Total	<u>£195,000</u>	<u>£92,000</u>

Expectation is that, although the pandemic is no longer a significant factor in the economy, inflationary price increases are expected to suppress growth and therefore fee income. Expenditure is expected to be marginally over budget by £2,000. Overall the net forecast has seen an increase in overall budget pressure of £92,000 since quarter 2.

1.7 Revenues and Benefits

There has been significant additional work for the service over the last 2 years as a result of the government measures to support businesses and individuals during the pandemic through additional business rate reliefs and business grant and self isolation grants. In the current financial year the increase in workload continued with the introduction by the government of the energy rebate to householders, with the administration of the payments delegated to local government level. As a result additional temporary staff have been required and it is anticipated this will need to continue for the remainder of 2022/23, some of the associated cost is funded from grant but there is forecast to be a cost pressure of £244,000 that will need to be met by the councils.

1.8 Parks

There are staff cost pressures associated with the job evaluation process that has been undertaken for roles within the Parks service, however these have been offset by savings on vacancies and forecast is now on budget. This is a movement of £56,000 from quarter 2 when an overspend of £56,000 was projected. There has also been a shift from quarter 2 to quarter 3 in the non pay expenditure and income estimations are set out below:

	Joint		Adur	
	Q3	Q2	Q3	Q2
Pay	£0	£56,000	£0	£0
Non Pay Costs	£79,000	£25,000	(£1,000)	(£18,000)
Income	£85,000	£28,000	(£33,000)	(£25,000)
Net overspend/(underspend)	£164,000	£109,000	(£34,000)	(£43,000)
Movement in Forecast	£55,000		£9,000	

The movement in income within Joint reflects the reduction in grounds maintenance in the year as a result of insufficient resources to carry out the additional work. Income within Worthing relates to additional receipts associated with both rental and sales. Increased expenditure items in Joint are mainly related to vehicle costs, both repair and fuel.

2.0 Treasury- External Borrowing Costs, Investments and Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is a statutory charge to the revenue budget to provide for the repayment of debt. The calculation is based on the level of historic capital spend that has been financed from borrowing. Consequently, once the accounts have been closed and the calculation has been updated for the capital spend in 2021/22, there is certainty about the charge for the forthcoming year.

Adur District Council has an underspend in the MRP budget due to reprofiling to 2022/23 of a proportion of the 2021/22 Capital Programme and the impact of changes to planned financing due to increased levels of capital receipts and

capital grants, both of which offset the need to borrow. The reduced need to borrow also translates into a saving on interest payable of £140,000 in Adur.

Interest receivable from treasury investments is forecast to be above budget due to the higher than forecast base rates available in the market.

Overall the outturn forecast is a net underspend of £824,000 for Adur:

Treasury Management (under)/overspends	Adur (General Fund)
	£000
Minimum Revenue Provision	(469)
Interest from Investment Income	(215)
Interest payable on borrowing	(140)
Total	(824)

The change in interest rates has led to an overall increase in the net interest receivable above budget.

3.0 Cross Cutting

3.1 Energy

The contract for energy has now been renewed and the anticipated usage and price are expected to increase the costs to the council substantially by an average of 190% for electricity and 380% for gas over the next two years, albeit an improvement on the growth assumed at quarter 1. The outturn projection has seen a positive impact from the Government support on energy prices through the Energy Price Relief Scheme.

The forecast cost pressure for the current year is unchanged from that projected at quarter 2:

	Q1 Forecast	Q2 Forecast	Q3 Forecast
Joint	£215,000	£150,000	£150,000
Adur	£238,000	£158,000	£158,000
Worthing	£670,000	£276,000	£276,000

In Joint the overspends are, based on current consumption, largely associated with the Town Hall. Adur costs span across services and in Worthing significant overspends are anticipated to be associated with car parks, public lighting and the crematorium.

Water

Overspends in both councils are across a number of services which include public conveniences, parks and offices. The predicted cost pressure has reduced since quarter 2;

	Q2 Forecast	Q3 Forecast
Joint	£8,000	£2,000
Adur	£22,000	£21,000
Worthing	£29,000	£3,000

Maintenance

Costs are expected to be overspent within Joint Services with a considerable amount of work required at Commerce Way including necessary repairs to the roof. Current projections are an overspend against budget of £198,000, the Adur share of this will be £79,000.


In Adur there is an overspend forecast of £71,000, this is related to the increased demand on the reactive works budget and the impact on material and fuel cost due to inflationary pressures.

**SUMMARY - 3RD QUARTER PROJECTED OUTTURN
2022/23**

APPENDIX 2a

Actual Previous year 2021/22	ADUR EXECUTIVE MEMBER PORTFOLIOS	Current Estimate 2022/23	Projected Outturn to 31st March 2023	Forecast Over/ (Under)
3,305,819	CM for Environment & Leisure	3,093,620	3,603,220	509,600
1,368,016	CM for Communities & Wellbeing	1,355,950	1,521,330	165,380
1,605,369	CM for Adur Homes & Customer Services	1,556,680	1,913,700	357,020
668,467	Leader	699,440	618,840	(80,600)
1,730,959	CM for Regeneration & Strategic Planning	1,748,130	1,691,930	(56,200)
96,312	CM for Finance & Resources	95,920	509,270	413,350
0	Holding Accounts	382,170	382,170	0
8,774,942	Total Cabinet Member	8,931,910	10,240,460	1,308,550
(1,465,168)	Credit Back Depreciation	(1,534,510)	(1,534,510)	0
2,314,250	Minimum Revenue Provision	2,344,950	1,875,950	(469,000)
1,793,626	Non ring fenced grants	0	0	0
11,417,650		9,742,350	10,581,900	839,550
0	Government Grant funding	0	0	0
	Transfer to/from reserves			
0	Contribution to/(from reserves)	0	0	0
	Grant Funded	0	(39,000)	(39,000)
(2,019,787)	Transfer from reserves to fund specific expenditure (inc carry forwards)	0	(419,000)	(419,000)
	General Fund Working balance	0	0	0
183,437	Net Underspend/(Overspend) Recommended For Transfer To/(From) Reserves	0	(381,550)	(381,550)
9,581,300	Total Budget requirement before External Support from Government	9,742,350	9,742,350	-

Appendix 2b

 ADUR DISTRICT COUNCIL EARMARKED REVENUE RESERVE ACCOUNTS	Opening Balance 2022/23	Estimated Transfers Out 2022/23	Estimated Transfers In 2022/23	Projected Closing Balance 2022/23
	£	£	£	£
Capacity Issues Reserve including approved Carry	831,053			
New Salts Farm Lancing (JSC/047/20-21 8 September 2020)		(36,000)		
Platinum Jubilee (JSC/87/21-22 8 Feb 2022)		(12,063)		
Shorham Centre Decarbonisation (JSC/34/21-22 7 sept 2021)		(118,000)		
Funding of cost pressures on waste (07/06/22 JSC)		(209,020)		
Business Development fund		(103,000)	-	
Support to housing improvement		(47,410)		
Balance				305,560
Insurance Fund	152,699	(60,250)	30,700	123,149
Business Rates Smoothing Reserve	1,785,540		110,000	1,875,540
Local Tax Income Guarantee	118,666	(59,000)		59,666
Grants and Contributions held in Reserves	1,203,102	TBC	TBC	1,203,102
Property Investment Risk Reserve	375,674	-		375,674
Projected Underspend/(Overspend) (Reserve to be identified at outturn)		(381,550)		(381,550)
Projected Underspend/(Overspend) HRA (Reserve to be identified at outturn)		(389,150)		(389,150)
General Fund Reserve	1,051,497	-	-	1,051,497
TOTALS	5,498,231	(1,415,443)	140,700	4,223,488

Appendix 3a

Housing Revenue Account Summary

	ORIGINAL BUDGET	FORECAST ACTUAL	VARIANCE
	£	£	£
EXPENDITURE			
General Management	4,075,920	4,183,575	107,655
Special Services	748,080	752,574	4,494
Rent, Rates, Taxes & Other Charges	61,100	140,437	79,337
Repairs & Maintenance	3,008,370	2,865,529	(142,841)
Bad/Doubtful Debt	50,000	50,000	0
Capital Financing Costs			
Depreciation and Revenue Contribution to Capital	4,421,760	4,421,760	0
Interest charges	2,262,200	2,194,530	(67,670)
TOTAL EXPENDITURE	14,627,430	14,608,405	(19,025)
INCOME			
Dwelling Rents	(12,750,170)	(12,332,404)	417,766
Non-Dwelling Rents	(550,480)	(494,672)	55,808
Heating and Other Service Charges	(623,110)	(498,821)	124,289
Leaseholder Service Charges	(265,940)	(224,629)	41,311
Interest Received	(28,000)	(70,000)	(42,000)
TOTAL INCOME	(14,217,700)	(13,620,526)	597,174
NET (SURPLUS)/DEFICIT -TFR (TO)/FROM HRA GENERAL RESERVE	409,730	987,879	578,149

Appendix 3b

HRA Financial Issues 2022/23 – Q3 update

1.0 Current Year Potential Variances

The table below provides a summary of and indicative figures for the main HRA budget variances.

Service Area	Budget Assumption	Latest Estimate	Budget Effect
Rental Income	CPI + 1% (4.1%)	CPI + 1% (4.1%)	n/a
Dwelling Voids	30 voids per year (1.2% of total stock) Avg loss of £3,000/wk	Current voids at end Jan = 103 (excluding Ashcroft and Inner Rooms) (4.1% of total stock) Avg loss of £10,300/wk	£ 420,000
Garage Voids	230 voids per year Avg loss of £2,500/wk	Current voids at end Oct = 339 (31% of total stock) Avg loss of £3,800/wk	£ 56,000
Service Charges	Inflationary increase of 2% to match expected contract inflation.	Contracts are generally fixed and have therefore not yet been affected by recent inflation rises. However, void loss has a proportionate effect on service charge income.	£ 120,000

Staffing Costs	Pay award of 2% = £55k	Flat rate increase of £1,925 per head = £125k	£ 70,000
Staffing Costs	Vacancy provision of 5% = £138k	Some vacancy saving can now be seen, as vacancies have arisen in the second half of the year and been held vacant.	£ 50,000
Interest Payable	Budget of £2.2m for debt financing.	Due to slippage in the capital programme and the ability to capitalise interest payments in connection with Albion Street, less borrowing costs are now anticipated.	(£ 67,000)
Interest Receivable	Budget of £28k for interest receivable on balances.	Due to interest rate rises, additional income is expected.	(£ 42,000)
Other		Other variances	(£ 28,852)
POTENTIAL OVER SPEND			£ 578,148
DEFICIT BUDGET			£ 409,730
POTENTIAL IMPACT ON RESERVES			£ 987,878

2.0 Reserve Balances

- The HRA general and earmarked reserves have been drawn upon in recent years in order to maintain service levels when the government's rent reduction policy required a 1% per annum reduction between 2016/17 and 2019/20. Since the 2020/21 budget, rents could be increased by a maximum of CPI + 1% but this has not yet been enough to counter cost pressures and bring us back to a balanced budget position.
- This rent policy and ongoing cost pressures have reduced the level of reserves significantly over the last six years. The table below sets out the opening reserve balances as at 1st April 2022. Aside from the General Reserve, the other earmarked reserves have been committed but not yet fully spent.
- The forecast closing balance of £595k is not sufficient to meet the potential requirement from reserves as per the above table at 1.0.

HRA Reserves	Opening Balance 22/23	Spent & Committed to date	Forecast Closing Balance
General Reserve	£ 544,948		£ 544,948
Discretionary Assistance Fund [committed to Ashcroft Home Loss payments]	£ 115,627	£ 114,156	£ 1,471
New Development Reserve [committed to Southwick development]	£ 352,100	£ 352,100	£ 0
Business Improvement Reserve [committed to HRA specialist HR support]	£ 91,664	£ 42,604	£ 49,060
	£ 1,104,339	£ 508,860	£ 595,479

3.0 Budget Opportunities and Pressures for 2023/24

A balanced budget must be set for 2023/24 so that no withdrawal from reserves is required. The current 2022/23 budget is set at a deficit of £410k so net cost savings or additional income of £410k have been identified in order to close this budget gap.

The 'Housing Revenue Account: 2023/24 Budget' report will provide greater detail, but it is worth noting here that some of the pressures identified at 1.0 above have been addressed as growth within that budget.

3.1 Rental Income

The annual rent increase is usually capped at CPI+1%. For 2023/24 this would have been 11.1%, so in order to limit the effect of inflationary increases on tenants' rental costs, the government has amended this cap to 7% for most properties for 2023/24 only. This provides additional income to the HRA of £850,000.

3.2 Void Loss

It is clear from current void levels that the existing budget of 30 voids per annum will not be sufficient to cover losses in 2023/24. The void allowance has been increased to 80 properties, thereby reducing the above additional income by £300,000.

3.3 Repairs & Maintenance

Growth of £135k has been included for Planned Maintenance, to reflect expected inflationary increases to contracts and include sufficient budget for compliance works.

3.4 Employee Costs

The pay award for 2023/24 has been estimated at 4.5% and additional temporary resources have been added to the repairs and maintenance team.

The vacancy provision has also been reduced in order to put less pressure on the staffing budget.

The proposed 2023/24 budget is intended to better reflect the current demands upon the service, but the targets are still challenging to achieve, particularly around reducing the void loss numbers. Close budget monitoring will be required in order to identify any issues promptly and take corrective action.

Appendix 4a

Q3 Forecast Outturn Variations

Service Area	Joint £000s (under)/ over spend	Adur £000s (under)/ over spend	Worthing £000s (under)/ over spend	Description of Significant Variations
Chief Executive				
Leader	53	(140)	-	ADUR; Contingency underspend of £120k, used to offset cost pressures elsewhere plus a current projected underspend in leaders budget.
	53	(140)	-	
Director of Communities				
Director of Communities	285	-	-	Vacancy Provision underachievement
Wellbeing	(89)	82	66	Vacant post used to fund interim restructure costs shown within other areas
Licensing & Regulation	10	1	8	ADC & WBC: Underachievement of income - reduction in number of taxi and gambling licences issued.
Env Health - Housing	(9)	(4)	(69)	ADC & WBC: HIA income forecast to exceed budget
Housing Needs	(56)	280	736	ADC & WBC: Increase in number of households supported in temporary accommodation. Shortages in affordable properties within the private sector creating difficulties with move-on from TA including landlords entering our Opening Doors Scheme. Increased use of budget hotel chains and price increase in one of our largest B&B providers
Housing Needs Grant	-	(33)	(33)	ADC & WBC: DLUHC Domestic Abuse - Safe Accommodation grant 2022-23
Head of Environment	(114)	-	-	Post saving used to contribute towards the interim staff structure costs elsewhere
Parks & Foreshore	164	(34)	(149)	JOINT: Mainly due to increased costs following post regradings ADUR: Additional income from Allotments & Parks WORTHING: Relates to additional income from Beach Huts & Chalets and underspends in supplies & services

Environmental Services (Waste)	1,296	(24)	(84)	The overspend for the Waste service relates to increased pay costs following the recent pay dispute settlement plus consequential catch up costs including income refunds for commercial waste & garden waste missed collections, along with increased vehicle costs for fuel & maintenance
Bereavement Services (Cemeteries & Crematorium)	30	8	672	ADC Burial income shortfall WBC: Additional burial income offset by net crematorium underachievement, which includes a shortfall in memorial garden income due to lack of capacity.
	1,518	276	1,147	
Director of Digital and Resources				
Elections	(2)	39	13	ADUR & WORTHING overspends in relation to extra requirements for putting on elections
Director For Digital, Sustainability & Resources	104	-	-	Vacancy Provision underachievement
Customer Services	(12)	-	-	Projected underspend in staff costs
Parking Services	7	(34)	280	Adur: Adur continues to perform well and is expected to be on budget. Worthing: Income still has not improved to pre covid levels and is not expected to do so in 2022/23. Buckingham Road is still closed and is estimated to open in March and there are many bays closed at Liverpool gardens with the temporary move of the Central clinic There are still a number of businesses where staff are working from home and not returned to the office which has had an impact on the income the council would normally have received through the town centre workers income. The council are working with the NHS Trust on leasing out the smaller part of Lyndhurst Road car park which will assist with income. In addition the cost of card services have increased with the move away from cash.
Digital & ICT	(32)	-	-	Overspends projected due to Google training, Xpress hosting and an increase in google licences. In addition there are telephony pressures associated with lines and supplier costs, offset against underspends in Digital Strategy and MFD's

Revenues	26	59	1	ADUR & WORTHING; Under achievement of Court Cost income offset by savings in postage and other costs
Benefits	244	(27)	8	JOINT - Increased cost of recruiting temporary staff to deal with the backlog following increased work from Energy rebates and other Covid related work. ADUR - underachievement of overpayment income WORTHING: Favourable subsidy position compared to budget.
Legal Services	3	15	18	Underachievement of income
Finance	(225)	89	(157)	Joint includes £250k contingency saving offsetting the cost pressures elsewhere. ALL: Saving on inflation set aside which will be offset by overspends elsewhere.
HR & OD	(60)	-	-	
Sustainability	(48)	-	-	Underspend in Salaries due to vacant posts.
Finance: Treasury Interest		(355)	(497)	Increase in investment income due to increased rates in the market following rise in Base Rate.
Finance: Treasury MRP	-	(469)	(302)	Reduced MRP due to re-profiling of capital budgets from 2021/22 and MRP review by external consultants
	6	(683)	(636)	
Director of the Economy				
Director of the Economy	80	-	6	Vacancy Provision underachievement
Leisure	-	14	184	ADUR overspend on Equipment leases. WORTHING: Contract dispute settlement relating to Splashpoint, offsetting saving in the capital programme.
Major Projects and Investment	37	(283)	(330)	ADUR: Void allowance budget offsetting the income shortfall from initial 6 month free rent period during negotiations of one of our Investment Properties plus loss of income from the One York Way, Uxbridge site which is vacant. WORTHING: Void Allowance Budget to offset net income shortfall mainly from Montague Street properties & Cannon House rent free period.
Place and Economy (Economic Development)	13	(7)	7	JOINT - Cost of the Worthing place officer which is charged to Worthing and funded from reserves ADUR Saving in advertising & service budget offset by reduced market income WORTHING: Overspend relates to reduction in Income from the Observation Wheel.

Planning and Development (Building Control)	7	67	76	Fee income is projected to not meet the budget.
Planning and Development (Development Control)	42	81	159	JOINT: Increased cost of using Agency staff to cover vacancies. WORTHING: Includes the cost of Inspectorate re Goring Gap development.
Planning and Development (Planning Policy)	(20)	1	85	WORTHING: Additional Local Plan costs for planning inspector offset by contribution from the Capacity Issues reserve.
Planning and Development (Land Charges)	13	48	35	A&W: Income not expected to meet the budget.
Business & Facilities	(21)	15	23	Income for Portland House partial let has been delayed and the income will not meet the full year anticipated budget.
	151	(64)	245	
Cross Cutting services				
Maintenance	198	71	(127)	Maintenance projected to underspend in Joint and Adu due to demands on reactive budget.
Pay Award - Latest offer	972	3	23	The pay award offer has been agreed and increases each spinal column point by £1,925, higher than built into the 21/22 budget.
Corporate Budgets	(73)	(1)	(1)	Decrease in national insurance contribution percentage by 1.25% from November
Water	2	21	3	As per our other utility costs there are increased costs.
Energy Costs	150	158	276	Our current fixed deal for our energy supplies ran out in October and this increased substantially but is partially offset by the Government support through the Energy Price Relief Scheme.
Rates	(14)	14	81	WORTHING: This overspend relates to the business rates for vacant investment properties.
	1,235	266	255	
Allocation of Joint Variance		1,185	1,777	Share of joint services allocated 40:60 to Councils
Total Variance	2,962	840	2,788	

Appendix 4b

Quarter 2 to 3 Movements over £50,000

Service Area	Joint £000s (under)/ over spend	Adur £000s (under)/ over spend	Worthing £000s (under)/ over spend	Description of Significant Variations
Director of Communities				
Community Wellbeing	-	79	95	Grant funded posts to be met from reserves
Parks & Foreshore	55	9	(104)	Joint: Increased cost of Job evaluation regradings of the parks staff as part of the Council commitment to fairer pay. WBC: Additional income from Foreshore Services and savings against expenditure budgets within the Parks Service.
Environmental Services (Refuse & Recycling)	208	-	-	Additional cost of service resourcing (agency costs) and increased vehicle costs.
Environmental Services - Compliance/Management	85	-	(1)	Joint: Increase in resourcing costs and reduced income from external workshop customers due to insufficient capacity.
Cleansing	79	-	-	Joint: Increased forecast for resourcing costs.
Commercial Waste	(5)	(100)	(107)	Adur & Worthing Waste disposal underspend based on invoices to date - retail moving to food & drink resulting in heavier waste and change of service provider to WSCC.
Bereavement Services (Crematorium)	6	-	(50)	WBC: Improvement in forecast income underachievement.
Director of Digital and Resources				
Digital & ICT	(51)	-	-	Forecast underspend within supplies and services.

Revenue and Benefits	85	(38)	30	Use of temporary staff has been extended to deal with the backlog of work created by the Pandemic and subsequent post pandemic support schemes. In Adur the Overpayment income is no longer predicted to meet the budget
Finance	62	30	(29)	JOINT: Reduced saving on inflation
Finance:Treasury Interest	-	(43)	(136)	Increases in investment income due to increased rates in the market following rise in Base Rate in recent months
Director of the Economy				
Major Projects and Investment (Core Estates)	-	34	80	WBC: Impact of works to Buckingham Road car park and the associated compensation to existing tenant.
Major Projects and Investment (Major Projects)	(3)	17	(85)	WBC: Forecast underspend against Major Projects budget.
Planning and Development (Building Control)	14	30	52	Increase in forecast underachievement of income for 2022/23.
Planning and Development (Development Control)	(39)	65	93	Increase in forecast underachievement of income for 2022/23.
Leisure Client	-	-	100	Revenue costs associated with contract dispute settlement associated with the swimming pool. The negotiated settlement has a beneficial impact on the capital programme budget.
Cross Cutting services				
Maintenance	180	91	(36)	JOINT & ADC: Increased demand on reactive budgets and rising costs from suppliers and maintenance providers.