

CABINET MEETING – 14 JULY 2022

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

First Revenue Budget Review 2022/2023

Author(s):

Executive Director of Corporate Services

Purpose of Report:

To report details of the outcome of the Revenue Budget First Review for 2022/2023

Description of Decision:

Cabinet is recommended to:

- Note the contents of the report; and
- Approve the contingency transfers proposed at Section 3.4.

Is the decision consistent with the Budget/Policy Framework? Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

To respond to variations in expenditure and income which have arisen in 2022/2023 and enable effective budgetary control to be exercised.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed

Impacts analysed;

Equality Privacy Sustainability Crime and Disorder

Is the Decision consistent with the Council's co-operative values? Yes

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

FIRST REVENUE BUDGET REVIEW FOR 2022/2023**Executive Director of Corporate Services****1. Purpose of Report**

- 1.1 This report advises Members of the overall Revenue Budget position following the first review for 2022/2023 including proposed contingency transfers.

2. Description of Decision (Recommendations)

- 2.1 Cabinet is recommended to:

- Note the contents of the report; and
- Approve the contingency transfers proposed at Section 3.4.

3. Revenue Budget Monitoring 2022/2023

- 3.1 Overall Position

- 3.1.1 The budget for 2022/2023 is as approved by Council in March 2022. A full review has been undertaken for each Portfolio, together with contingency allocations proposed for the first quarter.
- 3.1.2 At this early stage in the financial year the forecast outturn position reflects the challenge the Council faces in delivering savings approved by Council in order to balance the budget, known areas of pressure, and the emerging impact of rising inflation which is driving the cost of living crisis. The financial consequences of the latter are factored into the position where known, but a degree of caution should be noted at this early stage in the financial year.
- 3.1.3 The overall forecast outturn position for 2022/2023 is a deficit £3.941m, and is summarised in the table below, with further detail provided within Appendix A, Appendix B, and the remainder of Section 3 below.

Area of Variance	Para reference	Variance Underspend / (Overspend) £m
Delegated Forecast Outturn	3.3	(6.441)
Contingency Transfers	3.4	0.000
Treasury Management Savings	3.6	2.500
Grants		0.000
Forecast Outturn position		(3.941)

- 3.1.4 The Council's financial position is being impacted by pressures of rising inflation which is fuelling the cost of living crisis, and also from the legacy impact from the Covid-19 pandemic. The Council's social care services continue to experience both demand pressures and cost increases from providers looking to mitigate inflationary pressures they are experiencing. Other council services are experiencing pressures as contracts are renewed and inflation is noticeably impacting utility and fuel costs. The local government pay award for 2022/2023 is currently being negotiated, following trades unions lodging a claim for an increase in line with RPI inflation (11.1% April 2022).
- 3.1.5 There is no general Covid related grant funding support from government in 2022/2023 and indications from government are that there will be no further funding provided to councils during 2022/2023 to help manage inflation pressures. Contingencies and reserves will be used to mitigate pressures where possible.
- 3.1.6 It should be noted that the financial impact of the cost of living crisis on the City's residents and businesses could result in a deficit position on the council tax and / or business rates collection funds. Any deficit will not impact on the current year's general fund position, but would need to be taken into account in the budget setting process for 2023/2024.
- 3.1.7 The Council, including through the likes of the Association of North East Councils (ANEC), the Special Interest Group of Municipal Authorities (SIGOMA) and the Local Government Association (LGA), continue to make the case for additional funding to meet the current shortfalls and equally a full and fair financial settlement to address the significant ongoing under funding of Council finances.

3.2 Budget Transfers

- 3.2.1 Following the update of Cabinet Portfolios reported to Council in May, budget transfers have been undertaken at the first review to realign budgets and ensure correct accountability. These are set out in Appendix A.

3.3 Portfolio Budgets – Overall Summary

- 3.3.1 Details of the forecast major variations for each portfolio, are set out at Appendix A. In overall terms there is currently a forecast delegated net service pressure of £6.441m, inclusive of the savings plan position detailed at Section 3.3.3 below.
- 3.3.2 The removal of pest control fees for Sunderland residents is to be continued for a further 6 months, and will now be in place until the end of March 2023. The forecast additional cost of this extension is £0.170m and will be met from contingencies.
- 3.3.3 Progress in the implementation of the £5.821m approved savings plans for 2022/2023 has continued and overall shows positive progress. The position is positive for this stage of the financial year given the demands and pressures services are experiencing. Portfolio holders and Directors continue to take the necessary action to mitigate any delays in implementation and, as such, the position is expected to improve as the year progresses.
- £4.543m (78%) of the savings have been fully realised to date.
 - £1.055m (18%) of reductions where good progress is being made, with a good prospect that full savings will be achieved.
 - £0.223m (4%) is in respect of areas where delays and issues have been

encountered, hence where corrective actions or alternative options are being considered, which require close attention to ensure a positive outcome and timely delivery of savings. For budget monitoring purposes these are included as a forecast outturn pressure within the delegated budgets if appropriate.

- 3.3.4 Transitional reserves continue to be held to meet any profiling delays in the implementation of the 2022/2023 savings plans and any additional pressures arising.
- 3.3.5 The forecast position for the Local Authority Controlled Companies is included within the delegated budget outturn within the relevant portfolio at Appendix A, and budgetary issues highlighted as required.

3.4 General Contingency Transfers

- 3.4.1 Transfers from the general contingency fund take place on a quarterly basis to reflect expenditure actually incurred in respect of approved provisions. First quarter contingency transfers, totalling £3.645m have been enacted as follows;
 - Adult Social Care Inflation (£2.285m)
Drawdown from provision to meet the impact of inflationary increases from service providers. Some contracts are still to be finalised so the inflationary uplift of these will be drawn down at a future review as required.
 - Pay Award 2021/2022 (£1.371m)
At the time of setting the budget for 2022/2023 the pay award for 2021/2022 was still to be confirmed and as such remained in contingency moving in to 2022/2023. This drawdown from contingencies increases service area employee budgets to reflect the 2021/2022 pay award. Pay negotiations for 2022/2023 are on-going, funding will be drawdown from contingencies at a future review as required.
 - Government Grants £0.011m
Transfer to contingencies for increased Lower Tier Services grant, beyond that assumed at the time of setting budget.
 - 3.4.2 Based on the forecast use of contingencies, at this early stage in the financial year the general contingency provision is anticipated to be fully utilised.
- ### 3.5 Transitional costs
- 3.5.1 The potential need to utilise capital receipt flexibility to fund transitional costs arising in 2022/2023 will be confirmed at outturn, in light of the overall resources position at that time. At this stage, no unbudgeted transitional costs are forecast to be incurred during 2022/2023.
- ### 3.6 Treasury Management Savings
- 3.6.1 Net one-off savings on debt charges and interest on investments of £2.500m are anticipated at this stage. This reflects the position reported in the Capital Programme First Review, elsewhere on the agenda, and investment income generated. It is proposed that any savings at outturn be utilised to support the overall Council position and Capital Programme.

4. Review of Existing Reserves

- 4.1 During the finalisation of the Statement of Accounts amendments between reserves were enacted to comply with technical requirements. These amendments had no impact on the overall balance of reserves but has necessitated a switch between usable capital receipts and unusable capital receipts. The opening balance at Appendix C reflects the position to be reported in the 2021/2022 Statement of Accounts.
- 4.2 Following a full review of planned usage, the Council's reserves are forecast to decrease by £69.453m in 2022/2023 to £146.609m as reserves are utilised for their agreed purpose, including in support of the capital programme and meeting the business rates collection fund 2021/2022 deficit (covid-related impact), which due to the required technical accounting treatment needs to be met in 2022/2023.
- 4.3 With the exception of the General Fund, useable reserves are earmarked for specific purposes and commitments, and are subject to regular review.

5. Collection Fund

- 5.1 **Business Rates**
The budget sets out a Local Business Rate requirement of £29.452m. As reported when setting the budget, a further Retail, Hospitality and Leisure reliefs scheme was announced by Government for 2022/2023, this has reduced the collectable business rates for this year. However, the Council will be fully compensated for this reduction through Section 31 grant. Collection is as expected for this stage in the financial year and a balance budget currently forecast. The position will be kept under review, and further updates provided in future review reports.
- 5.2 **Council Tax**
The budget sets out a Council Tax requirement of element of £114.765m. Based on current forecasts a balanced budget is anticipated. As with Business Rates, should a shortfall arise, this would manifest itself as a deficit to be taken into account in setting the 2023/2024 budget. The position will be kept under review, and further updates provided in future review reports.

6. Reasons for Decision

- 6.1 To respond to variations in expenditure and income which have arisen in 2022/2023 and enable effective budgetary control to be exercised.

7. Alternative Options

- 7.1 No alternative options are proposed.

8. Impact Analysis

- 8.1 Impact assessments of Directorate actions to ensure the achievement of savings targets and a balanced budget position will be undertaken within Directorates as each action is developed.

9. Other Relevant Considerations / Consultations

9.1 None

10. List of Appendices

Appendix A - Major Variations 2022/2023
Appendix B - Overall Position 2022/2023
Appendix C - Major Earmarked Reserves

11. Background Papers

None

**Cabinet Meeting 14th July 2022
Major Variations 2022/2023**

Portfolio	Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Leader	4.846	0.021	(2.161)	2.706	2.756	(0.050)	<ul style="list-style-type: none"> Forecast shortfall in required staff savings (£0.050m).
Deputy Leader and Clean Green City Portfolio Holder	65.126	0.282	(10.795)	54.613	55.110	(0.497)	<ul style="list-style-type: none"> Business and Investment - (£0.062m) Business Centres income shortfall. Port of Sunderland - (£0.350m) income shortfall due to current global issues and uncertainties impacting on Port trading markets. Bereavement - (£0.063m) overspend primarily due to Crematorium repairs. Fleet - forecast shortfall against budget of (£0.893m). (£0.125m) linked to the delay in the ability to achieve savings targets from reduced operational costs. (£0.597m) associated with parts, repairs and insurance pressures. (£0.119m) overspend due to fuel leak repairs/reinstatement. (£0.052m) linked with increased fuel duty as red diesel can no longer be used. Local Services - (£0.076m) unachievable staff savings. Waste Collection and Recycling - forecast overspend of (£0.184m) primarily due to additional staff costs due to interim management arrangements and bin replacement costs. Waste disposal – forecast underspend of £1.159m on Materials Recovery Facility from securing a lower than anticipated renewed contract price and increased income from recycled materials. On-going savings will be factored into future years' medium term financial planning. Public Protection and Regulatory Services (£0.028m) shortfall on income target linked to capital projects.

Appendix A (continued)

Portfolio	Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Cabinet Secretary	21.472	0.667	5.146	27.285	28.345	(1.060)	<ul style="list-style-type: none"> • Civic Buildings (£0.179) overspend due to additional rent and service charge costs, partially offset by additional tenant income. • Asset Management £0.053m underspend due to salary slippage. • Building Services (£0.893m) overspend due to continued inability to meet income targets introduced in 2021/2022 savings plans which were linked to; reductions in back-office staffing and income from re-enablement works following hospital discharge, Housing Renewal Programme and Housing Delivery and Investment Plan. • Corporate Management - underspend of £0.075m on pension enhancements and residuary body payments. • Governance Services (£0.133m) overspend due to the timing of Corporate Services savings delivery. • Information Governance (£0.059m) shortfall in Land charges income. • Legal Services (£0.116m) due to the timing of Corporate Services savings delivery. • Revenues £0.065m underspend on staffing due to vacancies and flexible working. • Strategic and Operational HR (£0.587m) unachievable staffing efficiency and income pressures partially offset by drawdown from Transformation Reserves. • Corporate Services Review Reserve to reflect the timing of the savings delivery plan - £0.900m drawdown. • Numerous variations totalling a net (£0.186m) including unachievable staff turnover savings and income shortfalls.

Appendix A (continued)

Portfolio	Original Budget (Budget Book)	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Children, Learning and Skills	85.799	(0.056)	0.001	85.744	90.045	(4.301)	<ul style="list-style-type: none"> • Together for Children (TfC) - The TfC Board is responsible for monitoring the financial position of the company, with updates provided to the Council through the established contract performance monitoring arrangements. At this early stage in the financial year £4.300m of pressures have been identified. This position will be subject to continuous monitoring and an update provided at the second review.
Dynamic City	8.237	0.214	7.452	15.903	16.396	(0.493)	<ul style="list-style-type: none"> • Infrastructure and Transportation £0.310m underspend linked to increased forecast income of £0.300m from increased Asset and Network Management activity, license fees and bus shelter advertising. Staffing underspend on Highways Gullies team of £0.010m. • Parking Services – forecast shortfall on income collection of (£0.500m) based on recent usage trends and also factoring in known provision changes. • Regeneration Properties – (£0.228m) overspend linked to property holding costs. • Access to Housing – forecast overspend of (£0.075m) from Environmental Health staffing pressures (£0.063m) and other minor overspends of (£0.012m).
Healthy City	105.305	2.463	0.354	108.122	108.176	(0.054)	<ul style="list-style-type: none"> • Adult Social Care - net overspend of (£0.217m) resulting from demand cost pressures of (£0.345m) offset by staffing underspends of £0.128m. • Strategic Commissioning staffing underspends of £0.163m.
Vibrant City	13.385	0.065	0.003	13.453	13.439	0.014	<ul style="list-style-type: none"> • Minor staffing variations on a number of service areas has created a forecast overspend of £0.014m.
Total Service (Delegated) Outturn	304.170	3.656	0.000	307.826	314.267	(6.441)	

Cabinet Meeting 14th July 2022
Overall Position 2022/2023

	Original Budget £m	Contingency Transfers/ Budget Adjustments £m	Current Budget £m	Forecast Outturn £m	Variance Under / (Over) Spend £m
Leader Portfolio	4.846	(2.140)	2.706	2.756	(0.050)
Deputy Leader and Clean Green City Portfolio Holder	65.126	(10.513)	54.613	55.110	(0.497)
Cabinet Secretary Portfolio	21.472	5.813	27.285	28.345	(1.060)
Children, Learning and Skills Portfolio	85.799	(0.055)	85.744	90.045	(4.301)
Vibrant City Portfolio	13.385	0.068	13.453	13.439	0.014
Healthy City Portfolio	105.305	2.817	108.122	108.176	(0.054)
Dynamic City Portfolio	8.237	7.666	15.903	16.396	(0.493)
Total Service (Delegated) Expenditure	304.170	3.656	307.826	314.267	(6.441)
Provision for General Contingencies and other Corporate Budgets	15.209	(3.645)	11.564	11.564	0.000
Capital Financing Costs	26.821	0.000	26.821	24.321	2.500
Transfer to / from Reserves	(17.688)	0.000	(17.688)	(17.688)	0.000
Technical Adjustments	(64.318)	0.000	(64.318)	(64.318)	0.000
Levies	16.109	0.000	16.109	16.109	0.000
Hetton Town Council	0.070	0.000	0.070	0.070	0.000
Less Grants	(63.458)	(0.011)	(63.469)	(63.469)	0.000
Total Net Expenditure	216.915	0.000	216.915	220.856	(3.941)
Revenue Support Grant	(28.974)	0.000	(28.974)	(28.974)	0.000
National Non-Domestic Rates / Retained Business Rates	(29.452)	0.000	(29.452)	(29.452)	0.000
Top Up Grant	(43.724)	0.000	(43.724)	(43.724)	0.000
Council Tax Requirement	(114.765)	0.000	(114.765)	(114.765)	0.000
Forecast Outturn Position	0.000	0.000	0.000	3.941	(3.941)

Cabinet Meeting 14th July 2022
Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2022 £m £m	Forecast Movement in Year £m	Closing Balance 31.03.2023 £m £m	Opening Balance 01.04.2023 £m £m	Forecast Movement in Year £m	Closing Balance 31.03.2024 £m £m	Opening Balance 01.04.2024 £m £m	Forecast Movement in Year £m	Closing Balance 31.03.2025 £m £m
General Fund	General Fund of the Council	12.000	0.000	12.000	12.000	0.000	12.000	12.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	9.782	(4.121)	5.661	5.661	(2.191)	3.470	3.470	(2.000)	1.470
Earmarked General Fund Reserves – Capital										
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.037	(0.389)	8.648	8.648	0.000	8.648	8.648	0.000	8.648
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	7.857	(4.161)	3.696	3.696	(0.027)	3.669	3.669	(3.669)	0.000
Section 106 Reserves	Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.	9.362	(2.006)	7.356	7.356	(2.582)	4.774	4.774	(1.050)	3.724
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	2.461	(1.374)	1.087	1.087	(1.087)	0.000	0.000	0.000	0.000
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	0.884	(0.577)	0.307	0.307	(0.307)	0.000	0.000	0.000	0.000
Culture House	A reserve has been set aside to provide funding for a range of immersive technologies in the new Culture House	3.000	0.000	3.000	3.000	(3.000)	0.000	0.000	0.000	0.000
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.798	(0.319)	1.479	1.479	(0.050)	1.429	1.429	(0.050)	1.379

Appendix C (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2022 £m	Forecast Movement in Year £m	Closing Balance 31.03.2023 £m	Opening Balance 01.04.2023 £m	Forecast Movement in Year £m	Closing Balance 31.03.2024 £m	Opening Balance 01.04.2024 £m	Forecast Movement in Year £m	Closing Balance 31.03.2025 £m
Earmarked General Fund Reserves – Revenue										
NNDR Covid Retail, Hospitality and Leisure Relief Grant Reserve	Reserve established to manage the requirement to fund Collection Fund deficits in the proceeding financial year. Section 31 Retail, Hospitality and Leisure Relief Grant held to offset deficit in 2021/2022.	8.202	(8.202)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Medium Term Planning Smoothing Reserve	This reserve has been established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government funding uncertainties.	34.601	(5.543)	29.058	29.058	(9.000)	20.058	20.058	(9.000)	11.058
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.747	(1.500)	9.247	9.247	(3.000)	6.247	6.247	(3.000)	3.247
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	5.641	(2.764)	2.877	2.877	(1.630)	1.247	1.247	0.000	1.247
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.470	0.000	5.470	5.470	0.000	5.470	5.470	0.000	5.470
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	4.281	(0.300)	3.981	3.981	(0.500)	3.481	3.481	(0.500)	2.981
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	4.498	(0.500)	3.998	3.998	(0.500)	3.498	3.498	(0.500)	2.998
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.	5.088	(0.520)	4.568	4.568	0.000	4.568	4.568	0.000	4.568
Smart Cities	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless connectivity within the city.	4.000	(0.500)	3.500	3.500	(0.500)	3.000	3.000	(0.500)	2.500
Streetscene and Open Space	A reserve to enhance the city's recovery from the covid pandemic and ensure that the full benefit can be made of the regeneration activities across the city. This reserve will fund a range of streetscene and open space projects.	4.198	(3.319)	0.879	0.879	(0.879)	0.000	0.000	0.000	0.000
HCA Stadium Park	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.109	0.000	3.109	3.109	0.000	3.109	3.109	0.000	3.109

Appendix C (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2022 £m	Forecast Movement in Year £m	Closing Balance 31.03.2023 £m	Opening Balance 01.04.2023 £m	Forecast Movement in Year £m	Closing Balance 31.03.2024 £m	Opening Balance 01.04.2024 £m	Forecast Movement in Year £m	Closing Balance 31.03.2025 £m
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures as the city emerges from the pandemic and MTFP challenges.	2.941	(2.000)	0.941	0.941	(0.941)	0.000	0.000	0.000	0.000
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.079	0.200	2.279	2.279	0.200	2.479	2.479	0.200	2.679
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	2.151	(0.247)	1.904	1.904	(0.267)	1.637	1.637	(0.307)	1.330
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	4.386	(2.000)	2.386	2.386	(2.200)	0.186	0.186	(0.186)	0.000
Children and Young People Recovery	The reserve was established for TfC to deliver a range of activities that will support covid-recovery activities.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.533	0.000	1.533	1.533	0.000	1.533	1.533	0.000	1.533
Covid-19	A reserve established from the Government grant to fund the immediate costs and lost income associated with the Covid-19 pandemic.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.459	(0.250)	1.209	1.209	(0.250)	0.959	0.959	(0.250)	0.709
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	0.000	1.253	1.253	0.000	1.253	1.253	0.000	1.253
Triathlon	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.	1.200	(0.250)	0.950	0.950	(0.600)	0.350	0.350	(0.350)	0.000
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.092	(0.105)	0.987	0.987	(0.104)	0.883	0.883	(0.105)	0.778

Appendix C (continued)

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