

Report to: Cabinet

Date: 23 March 2023

Title: Finance update – Performance Quarter 3 2022/23

Report of: Homira Javadi, Director of Finance and Performance

Cabinet member: Councillor Zoe Nicholson, Deputy Leader of Council,
Cabinet Member for Finance and Assets

Wards: All

Purpose of report: To update members on the Council’s financial performance at Quarter 3 2022/23

Decision type: Non-Key

Officer recommendations: Cabinet is recommended to:

- (1) Note the General Fund, HRA and Collection Fund financial performance for the quarter ended December 2022.
- (2) Note the capital programme as set out in Appendix 2.

Reason for recommendations: To enable Cabinet members to consider specific aspects of the Council’s financial performance.

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1 Introduction

- 1.1 It is essential to ensure that the Council has a sound financial base from which to respond to changing activity levels and demand for statutory services and to ensure that, when appropriate, its finances are adjusted in response to reducing income levels and inflationary pressures on expenditure.
- 1.2 A report on the financial performance following the end of each quarter is made to Cabinet to ensure that the financial health of the General Fund, Housing Revenue Account and Capital Programme activities are kept under continual review.
- 1.3 The budget approved by Council in February 2022 was balanced over the medium term and was set based on a number of key assumptions including pay and cost inflation. Inflation had been calculated for premises and transport

related costs including utilities, business rates and fuel based on latest market intelligence and CPI forecasts from Central Government. Whilst there were concerns about the rapidly rising levels of inflation, the advice at that time indicated a short term and sharp spike rise in inflation followed by a return to previously experienced levels by early spring.

The CPI has since nearly tripled which when coupled with the proportion of use and demand for consumables such as utilities, fuel, goods and services has created and continues to give rise to significant budgetary concerns.

UK CPI table

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2022	4.90%	5.50%	6.20%	7.80%	7.90%	8.20%	8.80%	8.60%	8.80%	9.60%	9.30%	9.20%	7.90%
2021	0.90%	0.70%	1.00%	1.60%	2.10%	2.40%	2.10%	3.00%	2.90%	3.80%	4.60%	4.80%	2.49%
2020	1.80%	1.70%	1.50%	0.90%	0.70%	0.80%	1.10%	0.50%	0.70%	0.90%	0.60%	0.80%	1.00%

- 1.4 The Council operates Directorate cash limited budgets and Corporate Management Team/Directors are responsible for ensuring that appropriate action is taken to contain both revenue and capital spending in line with the directorate’s overall budget limit. The challenges facing local residents as a result of the cost-of-living crisis are very real and very urgent. There has been a wave of authorities at every level that have revealed their budget plans are in pieces due to the huge spike in costs since April 2022 and authorities across the country are not immune to the national financial pressures while facing increasing demand and increasing cost pressures.
- 1.5 Various authorities are dealing with a very difficult set of circumstances currently and face a real challenge to balance the budget this year, while forecasting a significant overspend with the main causes being record inflation levels, soaring energy prices, pay deal for staff, etc. This is the reality for councils across the country at the moment and it has been widely reported that inflation, energy costs and other current challenges are predicted to lead to £2.4bn in extra cost pressures to councils this year alone, rising to £3.6bn in 2024-25 and over £7bn by 2025/26.

The budget 2022/23 was revised in light of identified pressures and approved by Full Council in February 2023.

2 General Fund - Revenue

- 2.1 The projected outturn compared to the revised budget for 2022/23, as advised by budget holders as of 31 December 2022, is an overspend of £420,119, as summarised in table 1 below. This shows we are still largely managing the increased cost of housing needs, energy costs and economic down-turn. A number of internal adjustments are to be actioned at year end to target reserves to where they are needed most based on latest projections.

Summary Table 1:

Table 1: Summary of projected out-turn as at Quarter 3	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Corporate Services	5,855,175	92,075	5,855,175	0
Service Delivery	11,056,106	(350,000)	11,452,338	396,232
Regeneration and Planning	2,360,891	(92,075)	2,408,189	47,298
Tourism and Culture	294,201	0	282,500	(11,701)
Recharges to the Housing Revenue Account	(4,049,115)	0	(4,049,115)	0
Net Cost of Service	15,517,258	(350,000)	15,949,086	431,828
Other Operating Income and Expenditure	350,000	0	0	(350,000)
Capital Financing	550,000	0	550,000	0
Net Budget	16,417,258	(350,000)	16,499,086	81,828
Proposed transfer to / (from) reserves	(36,358)	350,000	313,642	350,000
Funding	(16,380,900)	0	(16,392,609)	(11,709)
Funding Available	(16,417,258)	350,000	(16,078,967)	338,291
NET BUDGET POSITION	0	0	420,119	420,119

*transfer from /to reserves subject to final accounts adjustments

The projected out-turn for 2022/23, advised by budget holders as of 31 December 2022 is an overspend against the revised budget of £0.420m.

- 2.2 Some of the provisions from 2021/22 were carried forward due to reprofiling and alignment of budget. Where applicable these have been incorporated into relevant budgets and form part of the revised budget as approved by Full Council in February 2023.
- 2.3 The residual projected overspend of £420k is due to the anticipated impact of price inflation for energy costs, goods and services. The additional cost of the April 2022 pay award agreed recently is incorporated into Service revised budgets.
- 2.4 At the time of preparing this report, more detailed work on business rates shared benefits and retention value was taking place. Any further adjustments required as a result of this work will be reflected in the final accounts report.
- 2.5 Inflation is currently (December 2022) at over 10% and the Bank of England recently (February 2023) increased base rates by 1% to 4%, the 10th successive increase and the highest level since 2008, impacting the cost of borrowing and mortgage interest rates.

- 2.6 The impact on consumer spending power, and bad debts is uncertain, however due to careful planning in 2021/22 we have been able to mitigate against this impact of inflation.
- 2.7 We afforded and set aside reserves as at 2021/22-year end to provide resilience and as a result we have been able to bring into position £1,011.5k of one-off funds to support the 2022/23 position. At the December Cabinet, it was agreed that further work would be undertaken regarding the plan to transfer £0.841m into reserves in 2022/23 and other support to ensure a balanced position for the year. Regeneration will have the support of S31 grants and reserves set aside to fund activity in this year.
- 2.8 The budget includes savings targets of £1.2m, which have been incorporated to the relevant services' budgets.
- 2.9 Key variances are set out in the following tables:
- 2.10 Corporate Services

Corporate Services	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Corporate Management	458,537	0	408,100	(50,437)
Financial Services Team	860,176	0	874,600	14,424
Business Planning & Performance	804,191	0	773,100	(31,091)
Internal Audit and Corporate Fraud	251,519	0	239,200	(12,319)
Corporate Finance	112,400	0	115,800	3,400
Human Resources	350,024	0	379,200	29,176
Information Technology	1,780,292	0	1,760,150	(20,142)
Local Land Charges	(74,850)	0	(74,850)	0
Legal Services	402,881	0	349,100	(53,781)
Democratic Services	810,006	0	838,700	28,694
Recovery and Stabilisation	100,000	0	100,000	0
Internal Adjustments	0	92,075	92,075	92,075
Corporate Services	5,855,175	92,075	5,855,175	(0)

Overall, there is a balanced position for Corporate Services after internal adjustments to be actioned at year-end.

2.11 Service Delivery

Service Delivery	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Head of Customer First	242,933	0	325,933	83,000
Head of Homes First	144,405	0	144,405	0
CFRT Regulatory Services	113,179	0	2,300	(110,879)
Bereavements	(23,250)	0	43,800	67,050
CFRT Income Maximisation & Welfare	1,086,166	0	1,257,000	170,834
Neighbourhood First	1,712,127	0	2,206,801	494,674
CFRT Customer Contact	949,467	0	897,200	(52,267)
Waste & Recycling	3,914,822	0	3,934,693	19,871
Homes First - Housing Property Serv	786,150	0	786,150	0
Homes First - Neighbourhood Manag	887,750	0	887,750	0
Homes First - Customer Experience	165,850	0	165,850	0
Homes First - Housing Needs and St	1,076,507	0	1,150,456	73,949
Internal Adjustments	0	(350,000)	(350,000)	(350,000)
Service Delivery	11,056,106	(350,000)	11,452,338	396,232

The service is predicting overspends against staffing costs, and pressure with cost of placements for homeless, details of which are shown below. These will be mitigated in part by internal adjustments at year-end of £350,000.

- Head of Customer First adverse variation of £83k due to staff pressures
- CFRT Regulatory Services favourable variation of £111k due to an increase in staff costs met by Taxi Account
- Bereavements adverse variation of £67k due to shared service staff costs and reduced Bereavement income.
- CFRT Income Maximisation and Welfare adverse variation of £171k
 - There are rising volumes in the number of Homeless placements (Statutory & Rough Sleeper - 58) and the impact on Housing Benefit payments. However, the £472k pressure of Homeless HB entitlement is offset in part (£213k) by an increase in the subsidy receivable compared to the Mid-Year forecasts as well as a reduction (£238k) in HB claims by Private Tenants.
 - There are also pressures of provision for Overpayment Debt £164k, loss of Council Tax Reduction Scheme preceptor contributions £45k, mitigated by (£59k) staffing savings.

- Neighbourhood First adverse variation of £494k
 - Staff pressures £154k
 - Car Park Contract costs £240k (including unachieved R&S savings of £200k) and reduced penalty notice income £100k
- Customer Contact favourable variation of £52k staffing due to recruitment and retention issues
- Homes First Housing Needs and Standards adverse variation of £74k
 - Staff pressures £204k and increased costs of accommodating the homeless £113k partially offset by (£159k) contribution from reserves.
 - Use of New Homeless Prevention Winter Top up Grant (£84k)

2.12 Regeneration and Planning

Regeneration and Planning	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Estates & Property	298,123	0	339,335	41,212
Wave Leisure	223,550	0	200,000	(23,550)
Solar Panel Trading Account	(74,200)	0	(74,200)	0
Planning	1,027,093	0	1,374,426	347,333
Building Control	65,868	0	94,569	28,701
Regeneration	692,057	0	443,134	(248,923)
North Street Properties	128,400	0	123,000	(5,400)
Internal Adjustments	0	(92,075)	(92,075)	(92,075)
Regeneration and Planning	2,360,891	(92,075)	2,408,189	47,298

This service is anticipating a lot of pressures and the projected out-turn includes reserve movements of £911.5k and internal adjustments of £92,075 to support it, the main variances are as follows:

Estates and Property £41k, overall service has significant pressure including £100k on Marina workshop after funding from reserves of £300k, mitigated by savings on employee costs.

Planning £347k, the local plan is being developed and is partly funded by reserves with additional cost now expected to be £45k. Defending planning appeals partly funded by reserves with additional costs being £244k, £45k legal fees, income pressure of £158k from South Downs National Park offset by savings in recharges of £37k. Emergency work to Lewes Castle wall will now be capitalised providing a revenue saving of £108k.

Regeneration underspend of £249k. This is mainly an underspend on salaries accounting for £190k and is complimented by additional income of £59k which includes £38k from Newhaven Enterprise Centre.

2.13 Tourism and Culture

Tourism and Culture	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Arts Development	5,900	0	3,750	(2,150)
Tourism	288,301	0	278,750	(9,551)
Tourism and Culture	294,201	0	282,500	(11,701)

The positive balance is due to minor savings on staffing costs.

2.14 Other Operating Income, Capital Financing, Reserve movements and Funding.

Other Operating Income and Capital Financing & Reserve movments	Revised Budget 2022-23	Internal Adjustments	Projected Outturn Including Internal Adjustments	Q3 Projected Variance at year end
	£	£	£	£
Contingencies	350,000	0	0	(350,000)
Capital Financing and Interest	550,000	0	550,000	0
				0
Net Contributions to (from) reserves	(36,358)	350,000	313,642	350,000
Funding	(16,380,900)	(1,250,000)	(16,392,609)	(11,709)
Total Funding	(16,417,258)	(900,000)	(16,078,967)	338,291

There are no specific calls on the contingency budget of £350k which has been shown as contributing towards the bottom line.

The internal adjustment on reserves will be actioned at year-end and is the net balance of adjustments on services.

3 Housing Revenue Account (HRA)

3.1 The HRA performance for the quarter is as follows:

HRA Summary Quarter 3	Original Budget £000's	Revised Budget £000's	Projected Outturn £000's	Q3 Variance £000's
Income	(17,752)	(17,670)	(17,729)	(59)
Expenditure	16,047	16,534	16,593	59
Capital Financing	2,031	2,231	2,231	0
Total	326	1,095	1,095	0

A further breakdown is shown at **Appendix 1**.

- 3.2 Following the uplift of the original budget, by £769k to £1,095k, to offset the pressures affecting the service, Lewes HRA is forecasting a balanced position when compared to the revised budget at the end of December.
- 3.3 There are, however, pressures of £164K on Supervision and Management costs which are offset by additional income of £59k, saving on the repairs and maintenance budget of £64k and identified efficiencies of £41k on special services.
- 3.4 A full review of the 30-year Business Plan has been completed which provides a more comprehensive assessment of the overall position for the current and future years. This was reported to Members as part of the budget setting process for 2023/24.

4 Capital Expenditure

4.1 Capital Expenditure – General Fund

- 4.2 The table below shows a General Fund revised capital budget for the year of £26.1m, with expenditure at the end of quarter 3 (Q3) of £6.6m. The Revised Budget is updated for ongoing projects carried over from the previous financial year and projects that will not be completed in 2022/23 and have been re-profiled to 2023/24 and later years. Details of the capital programme are in **Appendix 2**.

GENERAL FUND CAPITAL PROGRAMME	Original Budget 2022/23 £'000	Revised Budget 2022/23 £'000	Actual Spend Q3 2022/23 £'000	Variance to Budget £'000
Housing Support & Disabled Facility Grants	1,487	1,659	432	(1,227)
Loans to Housing Companies	1,000	1,419	-	(419)
Total GF Housing	2,487	2,078	432	(1,646)
Recovery and Stabilisation	430	1,052	184	(868)
Regeneration	16,660	14,625	4,238	(10,387)
Asset Management	1,920	2,373	190	(2,183)
Indoor Leisure Facilities	721	1,183	97	(1,086)
Energy Schemes	2,000	62	38	(24)
Infrastructure Levy (CIL)	900	900	436	(464)

Service Delivery	2,227	1,137	789	(348)
Specialist Projects	296	687	143	(544)
Parks & Pavilions	962	1,006	6	(1,000)
Open Space/Biodiversity	120	220	42	(178)
Information Technology	150	404	54	(350)
Finance Transformation	150	329	-	(329)
Total General Fund	29,023	26,056	6,649	(19,407)

4.3 At the end of Quarter 3, both the HRA and General Fund spend against the 2022/23 revised budget was very low. It is possible that further project expenditure could be deferred to 2023/24 and their total project budget reprofiled. Project team leaders are required to review scheme progress on an ongoing basis throughout the year and advise where there are significant revisions. The programme is under continuous review by the Capital Programme Overview Board (CPOB).

4.4 As per previous monitoring reports, Members are reminded that the construction sector is under pressure from rising prices for materials and labour shortages. It should be noted that the year-end forecasts have been provided against a backdrop of economic uncertainty, regarding supply chain challenges, building cost inflation and other factors outside of the control of those delivering the projects. Consequently, whilst based on best known information at Q3, there are likely to be changes to forecasts in future monitoring reports.

4.5 **Capital Expenditure – Housing Revenue Account (HRA)**

4.6 The table below shows a revised HRA capital budget for the year of £13.3m, with expenditure at the end of quarter 3 of £5.1m. Details of the capital programme are in **Appendix 2**.

HRA CAPITAL PROGRAMME	Original Budget 2022/23	Revised Budget 2022/23	Actual Spend Q3 2022/23	Variance to Budget
	£'000	£'000	£'000	£'000
Construction of Dwellings	9,336	7,593	2,118	(5,475)
Improvements to Stock	3,100	5,035	2,598	(2,437)
Adaptations	415	587	356	(231)
Recreation & Play Areas	50	98	-	(98)
Total HRA	12,901	13,313	5,072	(8,241)

5 **Collection Fund**

5.1 The Collection Fund records all the income from Council Tax and Business Rates and its allocation to precepting authorities. The Collection fund for the year is as follows:

	Council Tax £'000	Business Rates £'000
Actual Balance 1 April 2022 - (Surplus) / Deficit	(3,692)	6,215
(Recovery) / Distribution of Prior Year Deficit or Surplus	2,950	(3,659)
Total Collectable Income for year*	(87,244)	(24,101)
Payments to Preceptors	83,789	24,270
Write offs, provisions for bad debts and appeals	643	583
Estimated Balance 31 March 2023 – (Surplus) / Deficit	(3,554)	3,308
Allocated to:		
Central Government	-	1,654
East Sussex County Council	(2,513)	298
Lewes District Council	(536)	1,323
Sussex Police & Crime Commissioner	(350)	-
East Sussex Fire Authority	(155)	33
Total	(3,554)	3,308

* This represents the latest total amount of income due for the year and allows for changes as a result of discounts, exemptions and reliefs, as well as changes in the Council Tax base and Business Rate yield.

- 5.2 Government regulations determine how payments to preceptors and the recovery or distribution of a prior year deficit or surplus are allocated.
- 5.3 Council Tax has a forecast surplus for the year of £3.554m as at Q3 December (£2.948m Q2 September). The Council's share of the estimated surplus is £0.536m (£0.444m Q2). With the cost of living crisis and the country facing a longer recession, bad debt provisions are currently under review and will be updated at Q4.
- 5.4 Business Rates has a forecast deficit for the year of £3.308m as at Q3 December (£2.803m Q2 September). The Council's share of the estimated deficit is £1.323m (£1.121m Q2). Section 31 grant from central government is received as compensation for some additional reliefs provided.
- 5.5 The estimated year end positions for Council Tax and Business Rates, used for 2023/24 budget setting, were formalised and agreed in January 2023.

6 Financial appraisal

- 6.1 As set out in the report.

7 Legal implications

- 7.1 None associated with the report.

8 Risk management implications

8.1 Continued monitoring of the Council's financial position is essential to ensure it remains within budget and can take necessary action if and when required.

9 Equality analysis

9.1 This Finance update is a routine report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

10 Environmental sustainability implications

10.1 None associated with the report.

11 Appendices

- Appendix 1 – Housing Revenue Account
- Appendix 2 – Capital Programme Information

12 Background papers

None.