

Report to: Cabinet

Date: 14 September 2023

Title: Revenue and Capital Financial Monitoring Report Quarter 1 2023-24

Report of: Homira Javadi, Director of Finance and Performance

Cabinet member: Councillor Zoe Nicholson, Leader of the Council and Cabinet member for finance, assets and community wealth building

Ward(s): All

Purpose of report: The report provides an assessment of the Council's financial performance against its approved 2023-24 budget, incorporating key financial risks, issues and opportunities identified since 1 April 2023 for the General Fund and the Housing Revenue Account (HRA)

Decision type: Non-Key

Officer recommendation(s): It is recommended that the Cabinet:

- i) Notes the forecast outturn position for 2023-24 and associated risks.
- ii) Delegates authority to the Director of Finance and Performance and the portfolio holder for finance to apply any budget virements required to effectively manage the overall budget.
- iii) Notes Appendices 1 and 2.

Reasons for recommendations: To update members on the financial position of the Council and ensure that the Authority complies with its financial regulations.

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1. Introduction

- 1.1. Lewes District Council provides a range of services to residents and businesses across the area including the collection and disposal of waste, housing and support for the homeless, leisure and community wellbeing, planning and tourism and culture activities.
- 1.2. The Council successfully balanced its 2022-23 budget and published the details in the provisional outturn report that Cabinet considered.
- 1.3. However, the Council, alongside many other local authorities and organisations across the nation, has seen a significant impact on its finances as a result of external factors beyond its control. The main drivers of these cost pressures are highlighted below:
 - Inflationary and cost of living pressures impacting on the cost of providing services.
 - Ongoing financial impact of Covid allied with the withdrawal of significant Covid funding previously received.
 - Demand led and inflationary pressures within housing.
 - Risk of cost of living pay awards are greater than included at the time of setting the budget.
 - The ongoing negative impact of the United Kingdom's withdrawal from the European Union
 - The underlying uncertainty surrounding the cost of energy and utilities in particular gas and electricity.
 - The lack of clarity over Government funding for local government particularly around business rates and a long term settlement to enable planning over the medium term.
- 1.4. As a result of these externally driven financial challenges, Directorate Management Teams continue to be focused on reducing the cost of service delivery in their areas to support the Council to forecast spend closer in line with the budget, while ensuring that services are still delivered and that there isn't a corresponding reduction in service provision.

2. General Fund

- 2.1. The forecast outturn position for 2023-24 as at the 30 June 2023 is an overspend of £651k, as shown in Table 1. There are no previous positions formally reported to Cabinet this year.
- 2.2. This is an initial assessment of the forecast outturn position at the first quarter milestone and follows a more in-depth review than the initial high level key expenditure and income lines undertaken in period 1, which has now included regeneration and planning directorate, homelessness and waste services. More detailed financial monitoring will be undertaken over the coming months to inform the forecast outturn with service teams and reported to Cabinet.

- 2.3. Teams are working on mitigation options for the potential overspend with Service Delivery already highlighting some £1,083.1k of options under development.
- 2.4. The initial main underlying pressures which directorates are seeking to mitigate are as follows:
- Underlying levels of inflation and increased interest costs affecting contracts, operations and running costs.
 - Increase in homelessness and the use of expensive nightly purchase temporary accommodation.
 - Budget pressures associated with staffing and the long term delivery of saving programmes
- 2.5. The detailed forecast variations against budget are set out in section 4.

| Directorate | Net Budget £'000 | Forecast Net Expenditure at 31/03/24 £'000 | P3 Forecast Outturn Variance at 31/03/24 £'000 | Forecast Variance Against Budget % |
|--|---------------------|---|---|---------------------------------------|
| Corporate Services | 6,218 | 6,476 | 258 | 4.1% |
| Service Delivery | 10,869 | 12,329 | 1,460 | 13.4% |
| Regeneration & Planning | 1,367 | 1,592 | 225 | 16.4% |
| Tourism & Culture | 292 | 292 | 0 | 0.0% |
| Recharges to the Housing Revenue Account | (4,111) | (4,111) | 0 | 0.0% |
| Cost of Services | 14,635 | 16,578 | 1,943 | 13.3% |
| Technical/Centrally Controlled Budgets | 968 | 343 | (625) | -64.6% |
| Total Budgeted Expenditure | 15,603 | 16,921 | 1,318 | 8.4% |
| Less Funding | (15,603) | (16,270) | (667) | 4.3% |
| Net Position 2023-24 | 0 | 651 | 651 | -4.2% |

Table 1: Quarter 1 Forecast Outturn 2023-24 by Directorate

3. Housing Revenue Account (HRA)

- 3.1. The Housing Revenue Account is a ring-fenced account used to manage the Council's housing stock. The costs of managing and maintaining the properties, collecting rents, and meeting the interest cost of monies borrowed to pay for investment in the housing stock are all charged to the housing revenue account.
- 3.2. The HRA is reporting an overspend (deficit) position of £459k against the original budget, as shown in table 2. This is the first reported position communicated to Cabinet members for the financial year 2023/24.
- 3.3. The forecast overspend has predominately been driven by four main areas:
- Charges for Services – there is a forecast £271k of additional income above the budget set and agreed in February. This is a due to the agreed budget being uplifted by 7% following the same guidance as percentage increases

adopted for Dwelling Rents. However, unlike Dwelling Rents service charges are purely a recharge of the underlying costs being incurred. The income for service charges have therefore increased following the detailed work undertaken on individual charges across the estate and have been affected by the underlying inflationary pressures within the UK economy including areas such as energy and wage pressures. These costs have worked their way through to the charging levels and the Council is only passing the actual costs incurred onward to tenants' charges.

- Dwelling Rents – the forecast reduced income of £232k (1%) is due to two factors; the underlying levels of voids being slightly higher than budgeted and the number of rental days within the fiscal year being reduced by two days as only commencing on the 3 April.
- Repairs and Maintenance – there is a forecast outturn pressure of £357k (6%) associated with repairs and maintenance due to a combination of the following factors:
 - Yearly contractual uplifts increasing higher than in a normal world with due to Covid 19, the war in Ukraine causing increasing labour and material costs.
 - Ageing housing stock with underfunding in major works leading in higher volume responsive repair call outs, with works completed reactively being at higher cost.
 - New development properties in theory should be cheaper to maintain but are actually more expensive due to higher specifications such as green roofs and misting systems.
 - Higher Voids numbers with new developments coming on stream.
 - Legislation changes, example fire, increasing costs required for certified works by certified contractors on fire doors. Compliance increased cost to come for increased inspection regime required for fire compliance.
- Depreciation - the cost of depreciation is forecast to be £134k above budget due to the increase in the value of the Council's housing stock following the valuation work undertaken by the Council's external valuation partners.

| | Original Budget | Projected Outturn | Variance |
|---|-----------------|-------------------|-------------|
| | £000's | £000's | £000's |
| INCOME | | | |
| Dwelling Rents | (17,039) | (16,807) | 232 |
| Non-Dwelling Rents | (351) | (359) | (8) |
| Charges for Services and Facilities | (1,390) | (1,661) | (271) |
| Contributions towards Expenditure | (210) | (157) | 53 |
| GROSS INCOME | (18,990) | (18,984) | 6 |
| EXPENDITURE | | | |
| Repairs and Maintenance | 5,494 | 5,851 | 357 |
| Supervision and Management | 3,710 | 3,717 | 7 |
| Special Services | 1,557 | 1,509 | (47) |
| Rents, Rates, Taxes and Other Charges | 203 | 203 | 0 |
| Increase in Impairment of Debtors | 157 | 157 | 0 |
| Depreciation of Fixed Assets | 5,443 | 5,576 | 134 |
| Amortisation of Intangible Assets | 3 | 3 | 0 |
| Debt Management Costs | 10 | 10 | 0 |
| GROSS EXPENDITURE | 16,576 | 17,027 | 451 |
| NET COST OF HRA SERVICES | (2,414) | (1,957) | 457 |
| HRA share of Corporate and Democratic Core | 140 | 140 | 0 |
| NET OPERATING COST OF HRA | (2,274) | (1,817) | 457 |
| Capital Financing and Interest Charges | | | |
| Interest Payable | 2,376 | 2,376 | 0 |
| Interest Receivable | (143) | (200) | (57) |
| Revenue Contributions to Capital Expenditure | 100 | 100 | 0 |
| Total Capital Financing and Interest Charges | 2,333 | 2,276 | (57) |
| Transfer to (from) Reserves | (60) | 0 | 60 |
| HRA (SURPLUS) / DEFICIT | (0) | 459 | 459 |

Table 2: HRA Quarter 1 Forecast Outturn 2023-24

4. Financial Overview by Directorate

- 4.1. This section of the report provides an update on the forecast variations against the 2023-24 budget focused on individual Directorates. A more detailed tabular presentation of variances by team is available in appendix 1.

Corporate Services

Net Budget - £6,218.0k

Forecast Outturn - £6,475.9k

Forecast Overspend - £257.9k

Variance Percentage – 4.1%

- 4.2. The Corporate Services Directorate delivers services including human resources, financial services, corporate management team, business transformation and legal and democracy support.

- 4.3. The Directorate is reporting a forecast outturn position of £257.9k overspend.
- 4.4. Similar to many other local authorities, financial services is experiencing some difficulty in recruiting for some key vacant posts on permanent basis. The reported position includes a projected outturn overspend of £207k against the financial services in respect of the projected cost of interim staff. The vacancy savings are currently being partially offset against the interim costs. The service is actively progressing with its recruitment plans to appoint for the vacant posts.
- 4.5. There are other smaller variances across teams (all below £50k) that make up the remaining £50.9k of forecast variances at Quarter 1.

Service Delivery

Net Budget - £10,868.6k

Forecast Outturn - £12,329.1k

Forecast Overspend - £1,460.5k

Variance Percentage – 13.4%

- 4.6. The Service Delivery Directorate delivers services including housing and support to the homeless, waste and environmental services and maximisation and welfare and regulatory service teams.
- 4.7. The Directorate is reporting a forecast outturn position of £1,460.5k overspend, which is an adverse movement of £673k from the reported position communicated in Period 1.
- 4.8. The reported position includes a projected overspend of £635.4k to meet the current costs of providing homeless support and housing. The Council had budgeted to support approximately 44 homeless households during the year while the current demand is 51 households in emergency accommodation. While the current demand remains high, and the number of households in emergency accommodation in June has decreased, the service is projecting to reduce placements down to 49 by the end of the financial year. This will continue to be monitored and reviewed over the coming months.
- 4.9. There are forecast overspends £275.6k relating to employee costs in the Neighbourhood First Team, against office cleaning and public conveniences as initial R&S savings for both contract business cases remain unrealised. However, the service are looking to resolve these through transformation which may mitigate the impact this financial year depending on delivery timescales.
- 4.10. There is also a forecast overspend of £269.9k relating to car parking contract as the initial R&S savings on the East Sussex County Council contract business case remains unrealised. The service continues to review this and further updates will be provided in coming months.
- 4.11. The Customer First Team are forecasting an overspend of £110.8k against staffing costs as they continue to hold difficult to recruit/fill vacancies which are currently filled by agency workers at higher rates than permanent budget levels.

- 4.12. There is a forecast overspend of £88.0k relating to the cost of the Wellbeing Service which was introduced in 2022-23. The service was funded in 2022-23 through the use of reserve allocations.
- 4.13. The Directorate are also forecasting a pressure of £45.1k due to a reduction in income within CRFT due to the loss of preceptor contributions due to a change in the Council Tax reduction scheme administration. This is currently being renegotiated with the main preceptors.
- 4.14. There are other smaller variances across teams (all below £50k) that make up the remaining £35.7k overspend at period 3.
- 4.15. Additionally, the Service Delivery Directorate have identified £1,083.1k of mitigations which then offset the pressures identified above, these have yet to be built into the above period 3 position and are in various stages of development and consultation. As they come to fruition and implementation, they will be incorporated into the position with Cabinet being informed of the details through the normal governance routes.

Regeneration and Planning

Net Budget – £1,367.4k

Forecast Outturn – £1,592.2k

Forecast Overspend - £224.8k

Variance Percentage – 16.4%

- 4.16. The Regeneration and Planning Directorate delivers services including estates and property estate management and regeneration and planning activity across the area.
- 4.17. The Directorate is reporting a forecast outturn position of £224.8k overspend, which is an adverse movement of £224.8k from the reported position communicated in Period 1.
- 4.18. The reported position includes a projected overspend of £135.0k within the Planning Team due to the procurement of consultants to manage the volume of planning appeals (currently running at 20) compared to the budgeted level which assumes a likely number of appeals of approximately 1-2 per year.
- 4.19. The service is also reporting a reduced income projection of £58.4k against budget, but in line with last year actuals, associated with South Down National Park planning applications.
- 4.20. There are other smaller variances across teams (all below £50k) that make up the remaining £31.4k overspend at period 3.

Tourism and Culture

Net Budget – £292.4k

Forecast Outturn – £292.4k

Forecast Overspend - £nil

Variance Percentage – 0.0%

- 4.21. The Tourism and Culture Directorate delivers a range of cultural activities across the area including leisure and sporting facilities as well as ongoing and one-off yearly events and productions.
- 4.22. The Directorate is reporting a balanced position for the year at period 3 with more detailed reviews to be undertaken over the coming months and reported to Cabinet.

Recharges to the Housing Revenue Account (HRA)

Net Budget – £4,111.2k
Forecast Outturn – £4,111.2k
Forecast Overspend - £nil
Variance Percentage – 0.0%

- 4.23. The recharge to the HRA is the budgeted charge from the General Fund (GF) account to the HRA to recover costs which have been incurred within the GF but which the HRA has benefitted. This will include, but not limited to, the provision of back office functions as information technology, legal advice, procurement advice and support with regard to financial services.
- 4.24. The reported forecast outturn for the financial year at period 3 is a balanced position with more detailed reviews to be undertaken over the coming months and reported to Cabinet.

Technical and Central Controlled Budgets

Net Budget – £967.0k
Forecast Outturn – £343.0k
Forecast Underspend – (£625.0k)
Variance Percentage – 64.5%

- 4.25. Technical and centrally controlled budgets include the treasury budgets, capital financing and contingency budgets. This area will also include any Council wide corporate cross cutting issues and/or opportunities.
- 4.26. The Council is reporting a projected a forecast outturn position of £343k representing an underspend of £624k for the year at Q1.
- 4.27. The underspend is due to higher than budgeted investment interest payments due to the significant increase in interest rates that has occurred since the original budget was approved by Council in February 2023.
- 4.28. The reported budget of centrally controlled budgets for 2023-24 has been updated from the position reported as part of the budget setting process taken through and agreed by Cabinet and Full Council in February 2023. This flows the allocation/distribution of budgets to services and team budgets which was agreed to be delegated to the Director of Finance and Performance.

4.29. The budget reported in February for centrally controlled budgets totalled £1,302.9k with the budget now sitting at £967.8k, a movement of £335.1k. The movement of £335.1k follows the distribution of the following budget proposals to service budgets:

| Proposal Code | Proposal Description | Budget £ |
|---------------------------------------|--|----------------|
| LDC2324001 | 2021/22 Base Budget Pay Inflation Adjustment | (93,648) |
| LDC2324002 | 2022/23 Base Budget NI Adjustment | (36,274) |
| LDC2324003 | 2022/23 Pay Award Adjustment | 529,497 |
| LDC2324006 | External Audit Fees | 55,500 |
| LDC2324050 | General review of LDC Fees & Charges | (120,000) |
| Budget Distribution/Allocation | | 335,075 |

4.30. Further updates and will be provided to Cabinet as the year progresses and as financial monitoring is reported.

5. Capital Expenditure

5.1. Capital Expenditure - General Fund

5.2. The capital programme at Appendix 2 provides a detailed analysis of revised allocations for 2023/24. The Capital Programme including slippages from 2022/23) for 2023/24 totals £69.2m compared to the original Capital Programme approved by Council in February 2023 of £52.6m. The summary of the General Fund Capital Programme is shown in the following table.

| General Fund Capital Programme | Original Budget 2023-24 | 2022/23 Budget B/F | Other Variation | Revised Budget 2023-24 |
|--------------------------------|----------------------------|-----------------------|--------------------|---------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| General Fund Housing | 1,135 | 351 | - | 1,486 |
| Loans to Housing Companies | 2,000 | 419 | - | 2,419 |
| Recovery and Stabilisation | 20 | 858 | - | 878 |
| Regeneration | 35,223 | 8,665 | 400 | 44,288 |
| Asset Management | 2,930 | 1,889 | 150 | 4,969 |
| Indoor Leisure Facilities | 2,159 | 1,056 | - | 3,215 |
| Energy Schemes | 500 | 24 | - | 524 |
| Community Infrastructure | 900 | 586 | - | 1,487 |
| Service Delivery | 6,331 | 276 | - | 6,607 |
| Specialist Projects | 136 | 69 | - | 205 |
| Coastal Defence Works | 100 | 400 | - | 500 |
| Parks & Pavilions | 200 | 853 | - | 1,053 |
| Open Spaces - Biodiversity | 610 | 114 | - | 724 |
| IT Block Allocation | 213 | 184 | - | 397 |
| Finance Transformation | 150 | 304 | - | 454 |
| General Fund | 52,607 | 16,048 | 550 | 69,206 |

Table 4: General Fund Capital Programme Summary Table 2023-24

5.3 At the end of Quarter 1 the spend against year 1 of the programme was below expectation for the period and whilst it is too soon to forecast what level of slippage we might anticipate into future years; it is unlikely that all aspects of the programme will be deliverable this year. As a result, a review of the existing capital programme and prior year slippages by the Capital programme Overview Board is due to take place during Q2 and it is anticipated that the current programme will be reduced.

5.4 Capital Expenditure – HRA

5.5 The detailed HRA capital programme at Appendix 2, again provides a detailed analysis of revised allocations for 2023/24. r 2023/24. The HRA Capital Programme (including slippages from 2022/23) for 2023/24 totals £20.5m compared to the original Capital Programme approved by Council in February 2023 of £16.5m.

5.6 A summary of the HRA Capital Programme is shown in the following table. Capital budgets from the previous year have been carried forward to 2023/24, relating to the maintenance of the Council’s housing stock, and the New Build programme.

| LDC Capital | Original Budget 2023-24 | 2022/23 Budget B/F | Other Variation | Revised Budget 2023-24 |
|---|----------------------------|-----------------------|--------------------|---------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Construction of New Dwellings | 11,501 | 4,246 | - | 15,747 |
| Improvements to Stock | 4,583 | - | 176 | 4,407 |
| Adaptations for Disabled Tenants | 415 | - | 209 | 206 |
| Housing Estates Recreation and Play Areas | 50 | 99 | - | 149 |
| Total HRA | 16,549 | 3,960 | - | 20,508 |

Table 5: HRA Capital Programme Summary Table 2023-24

5.7 Expenditure and commitments at the end of Quarter 1 is £1.0m.

5.8 As with the General Fund, the level of expenditure against the HRA Capital Programme was below expectation for the period and whilst it is also too soon to forecast what level of slippage we might anticipate into future years, the review of the existing capital programme and prior year slippages by the Capital programme Overview Board will also consider the HRA programme in line with the 30-year HRA Business Plan.

5.9 The existing 30-year HRA business plan is currently under review and as part of that process the HRA Capital Programme will also be assessed to ensure that the programme is both deliverable and affordable. Members will be advised where there are significant revisions. Based on the review reprofiling will be undertaken where necessary to reflect these changes within the HRA Capital Programme.

6. Funding

- 6.1. The Council's net service budget is funded from the following areas: Council Tax income, Business Rates income, Government grants and reserves. A breakdown of the funding budget is detailed below.
- 6.2. Council Tax income is forecast at £8,918k, as additional £67k on the budget of £8,831k. The Retained Business Rates income amount of £4,900k includes NNDR income, Tariff, s31 grant, previous year deficit, levy, pooling redistribution and a £900k transfer from the Equalisation Reserve. As a result, there is an projected to be an additional income of £262k from these sources.
- 6.3. Better Care Fund (BCF) conversion is also forecast to increase by £338k compared to budget due to an increase in the agreed amount due in 2023/24.

| Financing Budgets P3 Forecast Outturn at 31/03/24 | Net Budget £'000 | Forecast Net Expenditure at 31/03/24 £'000 | P3 Forecast Outturn Variance at 31/03/24 £'000 | Forecast Variance Against Budget % |
|--|-----------------------------|---|---|---|
| Council Tax | (8,831) | (8,898) | (67) | 0.8% |
| Retained Business Rates | (4,900) | (5,162) | (262) | 5.3% |
| Government Grants | (742) | (742) | 0 | 0.0% |
| New Homes Bonus | (393) | (393) | 0 | 0.0% |
| Better Care Fund (BCF) Conversion | (508) | (846) | (338) | 66.5% |
| Transfer from Reserves | (229) | (229) | 0 | 0.0% |
| | | | | |
| Net Position | (15,603) | (16,270) | (667) | 4.3% |

Table 3: Financing Quarter 1 Forecast Outturn 2023-24

- 6.4. The Council is reporting an over-recovery of income totalling £667k for the year as at 30 June 2023 with more detailed reviews and updates to be provided over the coming months and reported to Cabinet.

7. Financial appraisal

- 7.1 The report reflects the position at a particular as at 31 June 2023. Period 4 analysis to the end of July is already showing an improved position. Services have an early awareness of their pressures and as a result can take positive steps to mitigate the overspend in this area. As such the Quarter 2 position as at 30 September 2023 should give a much better indication of where we are likely to land at the end of the financial year.
- 7.2 The capital programme will also be reviewed prior to the Q2 position being confirmed, with particular emphasis on the prior year slippage that is routinely added to the Original Budget to ensure that only those amounts required are allocated within the revised Capital Programme going forward.

8. Legal implications

8.1 There are no legal implications arising directly from this report.

9. Risk management implications

9.1 There are no risk management implications arising directly from this report.

10. Equality analysis

10.1 There are no environmental sustainability implications arising directly from this report.

11. Appendices

- Appendix 1 – LDC Revenue Finance Monitoring – Directorate Tables Q1 2023-24
- Appendix 2 – LDC Capital Programme Monitoring Q1 2023-24

12. Background Papers

12.1 LDC General Fund Revenue Budget 2023/24 and Capital Programme