

Report to: Cabinet

Date: 8 December 2022

Title: Finance update – Performance Quarter 2 2022/23

Report of: Homira Javadi, Chief Finance Officer

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
in Quarter 2 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 September 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%				
2021	0.70%	0.50%	0.70%	1.50%	2.10%	2.50%	2.00%	3.20%	3.00%	4.10%	5.10%	5.40%	<u>2.60%</u>
2020	1.80%	1.70%	1.50%	0.80%	0.60%	0.60%	1.10%	0.20%	0.60%	0.70%	0.40%	0.60%	<u>0.90%</u>

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.

2 General Fund - Revenue

2.1 The projected outturn for 2022/23, as advised by budget holders as of 30 September 2022, is an overspend of £1,090,966, as shown in table 1 below:

Summary Table 1:

Table 1: Summary of projected out-turn as at Quarter 2	Budget 2022-23	Budget adjustments requested	Pending Revised Budget	Actual & Committed	Projected Outturn	Q2 Projected Variance at year end	Q1 Projected Variance at year end
	£	£	£	£	£	£	£
Corporate Services	4,919,850	99,000	5,018,850	7,145,296	5,138,983	120,133	1,350
Service Delivery	10,533,950	1,050	10,535,000	2,486,681	11,069,054	534,054	479,136
Regeneration and Planning	1,783,450	911,500	2,694,950	1,650,351	3,026,788	331,838	7,824
Tourism and Enterprise	508,950	(50)	508,900	261,338	475,550	(33,350)	(30,250)
Additional cost of payaward	0	0	0	0	500,000	500,000	0
Recharges to the Housing Revenue Account	(4,356,300)	0	(4,356,300)	0	(4,356,300)	0	0
Net Cost of Services	13,389,900	1,011,500	14,401,400	11,543,665	15,854,075	1,452,675	458,060
			0				
Other Operating Income & Expenditure	350,000	0	350,000	0	0	(350,000)	(350,000)
Capital Financing	550,000	0	550,000	(30,247)	550,000	0	0
Transfer to reserves	841,000	0	841,000	0	841,000	0	0
Proposed transfer (from) reserves	0	(1,011,500)	(1,011,500)	0	(1,011,500)	0	0
Net Budget	15,130,900	0	15,130,900	11,513,418	16,233,575	1,102,675	108,060
Financing	(15,130,900)	0	(15,130,900)	1,489,615	(15,142,609)	(11,709)	0
	0	0	0		1,090,966	1,090,966	108,060

- 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. These are for noting at this point and will be formerly updated as part of the mid-year revision and budget setting process.
- 2.3 The residual projected overspend of £1,091k is due to the anticipated impact of price inflation for energy costs and goods and services. The additional cost of the April 2022 pay award agreed recently is estimated at £500k.
- 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 revised budget and quarter 3 monitoring report.
- 2.5 Inflation is currently (September 2022) at over 10% and the Bank of England recently increased base rates by 0.75% from 2.25% to 3%, the highest increase since 1989, 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, this could be offset by the plan to transfer to reserves £841k and further consideration will be proposed at the mid-year revision and budget setting. 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	Budget 2022-23	Budget adjustments requested	Pending Revised Budget	Actual & Committed	Projected Outturn	Q2 Projected Variance at year end	Q1 Projected Variance at year end
	£	£	£	£	£	£	£
Corporate Management	460,250	0	460,250	4,480,368	426,979	(33,271)	(800)
Emergency Planning	40,850	0	40,850	114	40,850	0	2,000
Financial Services Team	838,650	0	838,650	437,619	979,604	140,954	0
Internal Audit and Corporate Fraud	243,400	0	243,400	164,842	250,600	7,200	0
Corporate Finance	42,000	0	42,000	19,740	49,000	7,000	0
Corporate Finance - Pension Costs	70,400	0	70,400	27,366	65,700	(4,700)	0
Human Resources	343,950	0	343,950	112,827	345,900	1,950	0
Information Technology	1,760,150	0	1,760,150	908,746	1,760,150	0	150
Local Land Charges	(74,850)	0	(74,850)	(60,274)	(74,850)	0	0
Legal Services	397,900	0	397,900	539,317	397,900	0	0
Democratic Services	797,150	(1,000)	796,150	423,863	797,150	1,000	0
Recovery and Stabilisation	0	100,000	100,000	90,768	100,000	0	0
Corporate Services	4,919,850	99,000	5,018,850	7,145,296	5,138,983	120,133	1,350

This pressure relates to consultancy fees for Link Treasury Services and staffing £141k and business transformation £100k pressure which is funded from I.T. carry forward reserve.

2.11 Service Delivery

Service Delivery	Budget 2022-23	Budget adjustments requested	Pending Revised Budget	Actual & Committed	Projected Outturn	Q2 Projected Variance at year end	Q1 Projected Variance at year end
	£	£	£	£	£	£	£
Customer First	200,100	0	200,100	100,050	284,959	84,859	55,165
Homes First	51,850	0	51,850	0	51,850	0	0
Specialist Advisors	397,700	(10,700)	387,000	257,670	761,128	374,128	182,853
Specialist Advisors	870,150	0	870,150	321,846	899,009	28,859	5,057
Specialist Advisors - Building Control	57,600	0	57,600	30,823	70,161	12,561	34,478
Specialist Advisors	20,000	0	20,000	0	20,000	0	0
Account Management	1,109,600	0	1,109,600	480,885	941,558	(168,042)	(14,437)
Case Management	(23,850)	0	(23,850)	0	(23,725)	125	150
Neighbourhood First	765,450	0	765,450	374,856	776,450	11,000	1,000
Customer Contact	943,450	0	943,450	432,394	849,967	(93,483)	(18,159)
Waste & Recycling	3,766,000	(3,700)	3,762,300	381,757	3,827,344	65,044	86,004
Homes First - Housing Property Services	786,150	0	786,150	0	786,150	0	0
Homes First - Neighbourhood Management	887,750	0	887,750	(35,726)	887,750	0	0
Homes First - Customer Experience	165,850	0	165,850	(10,677)	165,850	0	0
Homes First - Housing Needs & Standards	161,000	0	161,000	0	161,000	0	0
Homes First - Housing Needs and Standards	375,150	15,450	390,600	152,802	610,653	220,053	147,025
Service Delivery	10,533,950	1,050	10,535,000	2,486,681	11,070,104	535,104	479,136

The main variances include:

Customer First, £85k due to staff cost pressures.

Specialist Advisors £374k. The majority, £437k, is due to rising volumes in the number of Homeless placements (Statutory & Rough Sleeper) and the impact on housing benefit payments. This is offset in part (£190k) by an increase in the subsidy receivable on Private Tenant housing benefit. There has been a pressure of £45k due to the loss of preceptor contributions and £65k staffing costs.

Account Management / Income Maximisation and Welfare – saving of £168k staffing costs due to recruitment and retention issues.

Customer Contact Centre - saving of £93k staffing costs due to recruitment and retention issues.

Waste and Recycling £65k due to vehicle hire.

Housing Needs & Standards £220k pressure due to £83k of staff agency costs, £55k due to increased costs of accommodating the homeless in peak season and £82k for increased volumes of rough sleepers.

2.12 Regeneration and Planning

Regeneration and Planning	Budget 2022-23 £	Budget adjustments requested £	Pending Revised Budget £	Actual & Committed £	Projected Outturn £	Q2 Projected Variance at year end £	Q1 Projected Variance at year end £
Estates & Property	(125,500)	300,000	174,500	(14,156)	442,083	267,583	94,150
Solar Panel Trading Account	(74,200)	0	(74,200)	40,307	(74,200)	0	0
Planning	531,300	454,000	985,300	688,657	1,193,853	208,553	116,473
Regeneration	529,700	157,500	687,200	336,560	475,360	(211,840)	(202,799)
North Street Properties	128,400	0	128,400	123,392	123,392	(5,008)	0
Business Planning & Performance	793,750	0	793,750	475,591	866,300	72,550	0
Regeneration and Planning	1,783,450	911,500	2,694,950	1,650,351	3,026,788	331,838	7,824

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

Estates and Property £267k, this includes a provision of £300k carried forward reserves for the marine workshop subject to final arrangements and review, reduced car parking income £100k and £50k pressure on parks and cemeteries.

Planning £208k. The local plan is being developed and is funded in full by reserves of £255k, In addition, there is emergency work to Lewes Castle wall creating an immediate requirement for £130k which is currently funded from reserves in order to fund this essential work. £270k projected cost of defending planning appeals will be partially funded from reserves of £91k.

Regeneration underspend of £211k, this is net of £157.5k anticipated to be funded from reserves carried forward from last year. The £211k positive

variance is an underspend on salaries and will need to be reviewed as part of revised budget and budget setting.

Business Planning and Performance £72k pressure due to Ouse Valley solar farm feasibility costs.

2.13 Tourism and Culture

Tourism and Enterprise	Budget 2022-23 £	Budget adjustments requested £	Pending Revised Budget £	Actual & Committed £	Projected Outturn £	Q2 Projected Variance at year end £	Q1 Projected Variance at year end £
Arts Development	5,900	0	5,900	11,020	3,750	(2,150)	(2,200)
Tourism	279,500	0	279,500	72,961	278,750	(750)	3,500
Leisure Centres and Swimming Pools	121,200	0	121,200	75,727	91,000	(30,200)	(31,200)
Newhaven Fort	102,350	(50)	102,300	101,629	102,000	(300)	(350)
Tourism and Enterprise	508,950	(50)	508,900	261,338	475,500	(33,400)	(30,250)

The positive balance is an anticipated additional income from the solar panels at the swimming pools.

2.14 Other Operating Income and Capital Financing and Reserve movements positive variance of £350,000.

Other Operating Income and Capital Financing & Reserve movements	Budget 2022-23 £	Budget adjustments requested £	Pending Revised Budget £	Actual & Committed £	Projected Outturn £	Q2 Projected Variance at year end £	Q1 Projected Variance at year end £
Contingencies	350,000	0	350,000	0	0	(350,000)	(350,000)
Capital Financing and Interest	550,000	0	550,000	(30,247)	550,000	0	0
Contributions to reserves Earmarked	841,000	0	841,000	0	841,000	0	0
Note contribution from reserves	0	(761,500)	(761,500)	0	(761,500)	0	0

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

3 Housing Revenue Account (HRA)

3.1 The HRA performance for the quarter is as follows:

HRA Summary Quarter 2	Original Budget £000's	Projected Outturn £000's	Variance £000's
Income	(17,752)	(17,660)	92
Expenditure	16,047	15,866	(181)
Capital Financing	2,031	2,051	20
Total	326	257	(69)

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

- 3.2 The position at the end of September shows an overall favourable variance of £69k.
- 3.3 The £92k pressure against income is due to the reduction of income from garages as sites are held vacant with a view for redevelopment. The net underspend on expenditure of £181k results from a change in depreciation charges offsetting an overspend within Repairs and maintenance.
- 3.4 A full review of the 30-year Business Plan is underway and will provide a more comprehensive assessment of the overall position for the current and future years. This will be 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 capital programme provides an analysis of spend for quarter 2 (Q2) compared to the updated Q2 budget for 2022/23 and the total spend for each scheme as at 30 September 2022. The current Q2 expenditure totals £4.2m against the latest programme of £27.3m, which has been updated to take into account ongoing projects that were due to be completed in 2023/24 and the programmes have been reprofiled accordingly. Detailed are provided for each scheme within the attached **Appendix 2**.

NON-HOUSING CAPITAL PROGRAMME	Original Programme 2022/23	Updated 2022/23 Programme	Q2 Actual Spend 2022-23	Q2 Variance
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	
Recovery and Stabilisation	430	1,052	-	1,052
Regeneration	16,660	13,919	3,336	10,583
Asset Management	1,920	2,251	157	2,094
Indoor Leisure Facilities	721	1,183	66	1,117
Energy Schemes	2,000	2,062	38	2,024
Community Inf. Levy (CIL)	900	1,020	7	1,013
Service Delivery	227	964	547	417
Specialist Projects	136	193	-	193
Coastal Defence Works	160	554	-	554
Parks, Pavilions, Open Space- Biodiversity	3,082	3,362	-	3,362
IT Block Allocation	150	404	23	380
Finance Transformation	150	329	-	329
GENERAL FUND	26,536	27,293	4,174	23,118

- 4.3 As per the previous quarter, 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 Quarter 2, there are likely to be changes to forecasts in the next Capital Programme monitoring report.

4.4 At the end of Quarter 2 the spend against 2022/23 programme was very low and it is too soon to accurately forecast what level of slippage we might anticipate into future years, but it is unlikely that all aspects of the programme will be deliverable this year. This will be kept under continuous review by the Capital Programme Overview Board (CPOB), in the light of the whole capital programme currently being reviewed following Q2 outcome.

4.5 **Capital Expenditure – HRA**

4.6 The detailed HRA capital programme at Appendix 2, provides a summary of spend for quarter 2 compared to the updated programme for 2022/23. The revised budget for the Housing Capital Programme for the year is £14.6m, with expenditure and commitments at the end of Q2 £1.9m. The Capital Programme summary are shown within the table below.

Summary	Original Prog. 2022/23	Updated 2022/23 Prog.	Q2 Actual Spend 2022-23	Q2 Variance
HRA HOUSING	£'000	£'000	£'000	£'000
Housing Investment	12,901	11,597	1,805	9,792
General Fund Housing	1,487	1,659	107	1,552
Housing Companies Loans	1,000	1,419	-	1,419
TOTAL HOUSING	15,388	14,675	1,912	12,763

4.7 Project team leaders will, as with every year, has been encouraged to review scheme progress on an ongoing basis throughout the year and advise where there are significant revisions. Based on this information reprofiling will be undertaken where necessary to reflect these changes within the HRA Capital Programme.

4.8 At the end of Quarter 2 the spend against 2022/23 programme was very low and it is too soon to accurately forecast what level of slippage we might anticipate into future years, but it is unlikely that all aspects of the programme will be deliverable this year. This will be kept under continuous review by the Capital Programme Overview Board (CPOB), in the light of the whole capital programme currently being reviewed following Q2 outcome.

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		
(Recovery) / Distribution of Prior Year Deficit or Surplus	(3,692)	6,357
Total Collectable Income for year*	2,950	(3,659)
Payments to Preceptors	(86,953)	(24,841)
Write offs, provisions for bad debts and appeals	83,789	24,270
	958	676
Estimated Balance 31 March 2023 – (Surplus) / Deficit	(2,948)	2,803
Allocated to:		
Central Government	-	1,402
East Sussex County Council	(2,085)	252
Lewes District Council	(444)	1,121
Sussex Police & Crime Commissioner	(291)	-
East Sussex Fire Authority	(128)	28
Total	(2,948)	2,803

* 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 The allocation to preceptors reflects the operation of the Collection Fund for Council Tax and Business Rates which are distributed on different bases under regulations. The distributions have now been finalised for 2022/23 in line with the above allocations.
- 5.3 Council Tax has a forecast surplus for the year of £2.948m as at Q2 September (£3.583m Q1 June). The Council's share of the estimated surplus is £444k (£540k Q1). 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 Q3.
- 5.4 Business Rates has a forecast deficit for the year of £2.803m as at Q2 September (£2.304m Q1 June). The Council's share of the estimated deficit is £1.121m (£922k Q1). Section 31 grant received from central government, as compensation for additional reliefs provided, can be used to offset the deficit position.
- 5.5 The estimated year end positions for Council Tax and Business Rates, used for budget setting purposes, will be 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

12 Background papers

None.