

# Harborough District Council

## Report to the Cabinet Meeting of 5th December 2022



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| <b>Title:</b>            | <b>2022/23 Financial Performance Report – Outturn Quarter 2 (Year ending 31 March 2023)</b>   |
| <b>Status:</b>           | Public  |
| <b>Key Decision:</b>     | No  |
| <b>Report Author:</b>    | Carolyn Bland, Financial Services Manager   |
| <b>Portfolio Holder:</b> | Cllr James Hallam, Finance  |
| <b>Appendices:</b>       | <b>Appendix 1:</b> Summary Revenue Budgets and Capital Programme for 2022/23 Budget and MTFs (2023/24 to 2026/27).<br><b>Appendix 2:</b> 2022/23 Revenue Forecast Outturn and Variance Analysis by Portfolio & Director Service Categorisation.<br><b>Appendix 3:</b> Commentary on 2022/23 Budget Variances Greater than £25,000, by Director Service Categorisation.<br><b>Appendix 4:</b> General Fund Reserves 31.03.2022.<br><b>Appendix 5:</b> Potential Compounding of Cost/Inflation Pressures.<br><b>Appendix 6:</b> 2022/23 Capital Forecast Outturn and Variance Analysis. |

### Executive Summary

This report sets out the financial position (outturn) for the year ending 31 March 2023, based on information at the end of September for revenue and capital. Based on the financial position as at 30 September 2022, based on known income and expenditure commitments and working assumptions, the forecast:

- Revenue is forecasting an overspend of £810k (quarter 1 £1,041k), a variance of 6.7% to the approved budget.
- Capital is forecasting an underspend of £70k.

### Recommendations

- **That Cabinet considers the financial performance report and comments on the Forecast Outturn (31<sup>st</sup> March 2023) as detailed within the report and associated appendices.**

### Reasons for Recommendations

Good financial governance requires the Cabinet to consider and comment on the forecast financial outturn for 2022/23. Such commentary demonstrates to customers, partners, and stakeholders that the Council is actively considering the financial environment within which the Council is operating.



## 1. Purpose of Report

To update Cabinet in respect of the Quarter 2 forecast outturn for 2022/23 for both revenue, capital and reserves.

## 2. Background

The Council approved the 2022/23 Budget and Medium-Term Financial Strategy (2023/24 to 2026/27) (MTFS); which included the Capital Programme in February 2022. In respect of:

- the **Revenue budget**, the 2022/23 net service expenditure is £11.1m and after capital financing (£506k), the net expenditure for the delivery of services is £11.6m; over the MTFS period, this increases to £13.6m. This is summarised in **Appendix 1**.
- the **Capital Programme**, the 2022/23 programme totals £11.8m, of which £4.3m was brought forward from previous years and £7.5m is in respect of new initiatives for 2022/23 and is financed by £8.1m of external grants and capital receipts, £1.3m of direct revenue funding and £2.4m of unsupported borrowing (minimum revenue provision). Over the MTFS period the capital programme decreases to £860k.
- **Reserves**, Council approved a net contribution to reserves of £1.4m.

## 3. Details

### Revenue Headlines

- 3.1 Providing an accurate forecast outturn based on the financial performance at Quarter 2 can still be challenging as many things can occur between the end of September and the end of the financial year; as the potential impact of the new proposed pay rise has clearly shown. Finance have been working closely with services, acting as a critical friend to value check their forecast outturns, however it must be remembered that the forecast outturns are the responsibility of respective services.
- 3.2 The forecast outturn for the current financial year and the impact over the MTFS is summarised below.
- 3.3 **2022/23**; the original budget of £11.6m has been revised to include the revenue carry forwards from 2021/22 agreed by Cabinet 04 July 2022 [Document.ashx \(harborough.gov.uk\)](#) of £285k and £175k of grants carried forward through the grants reserve (following required accounting practice to carry forward grants). In respect of this updated net expenditure budget of £12m, the forecast outturn is £12.8m, which represents an overspend of the budget by £810k. A “financial” variance analysis based on both Portfolio and Director service categorisation is summarised in **Table 1** below. An accompanying Reserve analysis is shown at **Appendix 2** and the reasons for variances greater than £25k are shown in **Appendix 3**.

| Summary of 2022/23 Revenue Budget Variances, by Director Service Categorisation   |                        |                             |                  | Table 1  |
|---|------------------------|-----------------------------|------------------|--|
| Service   | Updated Budget<br>£000 | Forecast<br>Outturn<br>£000 | Variance<br>£000 | Commentary   |
| Interim Chief Executive   | 2,304                  | 2,076                       | (228)            | Agreed and one off savings   |
| Interim Deputy Chief Executive (Finance, ICT & Assets)  | 2,610                  | 3,299                       | 689              | Additional proposed pay increase £279k and savings not achieved less agreed savings of £370k |
| Communities   | 5,915                  | 6,165                       | 250              | Carparking income down   |
| Planning  | 695                    | 877                         | 182              | Savings from shared service proposal not achieved, income down                               |
| <b>Net Direct Cost of Services</b>  | <b>11,524</b>          | <b>12,417</b>               | <b>893</b>       |  |
| Finance & Assets: Capital Financing (*)   | 506                    | 423                         | (83)             | Savings  |
| <b>Net Expenditure</b>  | <b>12,030</b>          | <b>12,840</b>               | <b>810</b>       |  |
| NB.<br>* Finance & Assets are allocated to this item, but this item (Minimum Revenue Provision) is dependent on other services actioning the capital programme. |                        |                             |                  |  |

- 3.4 It should be noted that the categorisation of services by Director is based on the structure used for setting the 2022/23 budget, some responsibilities have temporarily changed, Legal and Democratic Services are currently reporting to the Interim Deputy Chief Executive not the Interim Chief Executive.

### Inflationary and Non-Inflationary Costs

- 3.5 Of the £810k pressures noted in 3.3, some are directly related to inflationary (cost-of-living impacts) whereas others are due to underachievement of savings or variances related to normal operational delivery. A summary of these is shown below and detailed in **Appendix 5**.

- Inflationary variances £385k
- Underachievement of savings £560k less
- Normal operational delivery (net saving) (£135k)

### Inflationary Costs

- 3.6 **Pay Award** It should be noted that included within the 2022/23 forecast estimate is a corporate increase in respect of employees pay. The Council was notified in July that a pay offer of £1,925 on all pay points had been made. Members will recall that as part of the budget they approved the following employee pay indices for 2022/23 and for each year of the MTFS.

- 2022/23: 1.75%
- 2023/24: 2.0%
- 2024/25: 2.0%
- 2025/26: 2.5%
- 2026/27 2.5%

This has now been agreed and will be included in the November pay run. It is estimated this will be an overspend over the budgeted increase of £317k, reduced to £279k after allowing for the cut in NI of 1.25% announced in the “mini budget”.

- 3.7 **Inflation** A review of the impact of inflation on the Council's expenditure has concluded that there will be no impact during 2022/23 on the Council's major revenue contracts, except for energy costs. Because of the increase in energy costs, from a Value for Money point of view the Council had little choice but to withdraw from the Green Electricity Tariff from October (by way of example, for The Symington Building the Council would have seen an increase in cost of £207k). The impact of the Energy Bill Relief Scheme is being modelled and will be reported on in the Quarter 3 monitoring report. Wider impact of the cost-of-living crisis could lead to non-collection of rates and other debts.

### **Underachievement of Savings**

- 3.8 **Senior Management review** The review of the "target operating model" (the way the Council operates) has been delayed because of the Council decision to investigate the sharing of senior management. Savings of £353k were identified in the budget but now only £49k are forecast to be achieved during 2022/23.
- 3.9 **Development Management** At the time the budget was being set the Council was exploring the potential to share services with another Leicestershire District Council which would have generated a saving of £94k; unfortunately, this proposition is no longer being taken forward. However, alternative sharing arrangements are being discussed but it is considered that if this alternative proposition was taken forward it is unlikely any savings would be achieved this financial year.

### **Potential Mitigations**

- 3.10 The Council currently holds considerable capital receipts. In 2021/22 the council used revenue and capital receipts in financing its capital programme in place of internal borrowing. This saved the Council £58k in 2022/23 due to reduced capital financing (minimum revenue provision). Currently it looks likely that capital receipts can be used for financing, in place of borrowing, for 2023/24. It is currently considering applying those receipts to mitigate some of the current revenue capital financing costs. If this is the case, it will save the Council approximately £441k over the remaining period of the current MTFS (2023/24 to 2026/27).
- 3.11 As part of budget preparation for 2023/24 (and subsequent years) and to mitigate the current in-year budget pressures additional ongoing savings have been offered by Service Managers which reduce the £1.041m forecast overspend at Quarter 1 to a forecast of £810k overspent at Quarter 2. This has been achieved by considering both savings and income generation opportunities.

### **Reserves**

- 3.12 Inevitably as the Council progresses through any year its use of reserves will flex depending on:
- the macro and micro economic climate that the Council finds itself, and
  - along with its need to meet its corporate priorities and statutory obligations.
- 3.13 As required by the Reserves Strategy, considering the 2022/23 forecast overspend of the revenue budget, Cabinet is asked to note that through the active management of reserves

that the General Fund (Unallocated) Reserve is maintained at 20%, the approved minimum level of reserves.

- 3.14 Further, members will recall that when the budget was set in February, no contribution from reserves was needed. With the various budget changes noted within this report, including the additional pay award, there is now a “budget gap” of £810k (**Appendix 3**). At the 31<sup>st</sup> March 2022, the Council had revenue reserves totalling £15.7m; however not all these reserves are useable and these are shown in **Appendix 4**. Of these reserves, £6.1m are potentially useable and sufficient to meet the in-year pressure.
- 3.15 However, in an absolute “worst-case scenario” i.e. the Council took no action to address the current £810k budget pressure; it is currently estimated that the pressure would exceed £8m over the medium-term financial strategy (**Appendix 5**). If this is adjusted through reserves, this shows that the Council will have totally depleted its usable reserves during 2026/27 and thus would not meet the budget principle agreed by Cabinet (November 2021):

***To ensure that over the medium term, financial sustainability can be achieved.***

### Capital Programme

- 3.16 The Capital Programme for **2022/23** totals £11.8m, of which £4.3m was brought forward from previous years and £7.5m is in respect of new initiatives for 2022/23. The forecast outturn is an underspend of £70k and proposed slippage of £2,491k to future years. A summary variance analysis is shown in **Table 2**, and a detailed analysis, with associated commentary, is shown in **Appendix 6**.

| Summary of 2022/23 Capital Budget Variance Greater than £25,000 |                        |                          |          |     | Table 2        |
|---|------------------------|--------------------------|----------|-----|----------------|
| Service   | Updated Budget<br>£000 | Forecast Outturn<br>£000 | Variance |     | Commentary     |
|   |                        |                          | £000     | %   |                |
| Capital Projects  | 9,447                  | 9,377                    | (70)     | -1% | Jubilee grants |

## **4. Implications of Decisions**

### **4.1. Corporate Priorities**

The contents of this report are evidence of how the Council monitors issues that may affect the delivery of its Corporate Priorities.

### **4.2. Financial**

This report gives the outturn position for the Council's 2022/23 revenue and capital budgets.

### **4.3. Legal**

The Council is legally required to set and manage a balanced budget.

### **4.4. Policy**

No policy issues arise directly from this report.

### **4.5. Environmental Implications including contributions to achieving a net zero carbon Council by 2030**

No environmental issues arise directly from this report.

### **4.6. Risk Management**

It is important to monitor the position against budget in order to ensure any issues can be addressed appropriately and in a timely manner.

### **4.7. Equalities Impact**

No equalities issues arise directly from this report.

### **4.8. Data Protection**

No data protection issues arise directly from this report.

## **5. Summary of Consultation and Outcome**

Consultation has been undertaken with the Portfolio Holder.

## **6. Alternative Options Considered**

Not applicable.

## **7. Background papers**

None.