

Harborough District Council



Report to Cabinet Meeting of 6 March 2023

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

Summary

- i. This report sets out the financial position (outturn) for the year ending 31 March 2023, based on information at the end of December for revenue and capital. Based on the financial position as at 31 December 2022, given known income and expenditure commitments and working assumptions:
- a. Revenue is forecasting an overspend of £578k (quarter 2 £810k), a variance of 4.8% to the approved budget.
 - b. Capital is forecasting an underspend of £300k.

Recommendations

- ii. **That Cabinet consider the financial performance report and comments on the Forecast Outturn (31 March 2023) as detailed within the report and associated appendices.**

Reasons for Recommendations

- iii. The council is required to set and maintain a balanced budget every year. It is responsible for the prudent and lawful management of its financial resources to deliver statutory services to the people of the Harborough district. Although the budget is set by Council, Cabinet is responsible for exercising strong financial oversight of the revenue and capital expenditure against that budget and addressing any variances proactively.
- iv. Good financial governance requires the Cabinet to consider financial performance information on a regular basis. This provides assurance that it is actively monitoring and considering the financial environment within which the Council is operating and allows early identification, and mitigation, of any issues of concern.
- v. The quarter 3 performance information indicates a potential revenue overspend due to inflationary costs and underachievement of planned savings, however appropriate mitigation measures are in place to address this variance against the budget by the end of the financial year.
- vi. The predicted capital underspend is as a result of conscious delays to certain planned expenditure.

1. Purpose of Report

- 1.1 To update Cabinet in respect of the Quarter 3 forecast outturn for 2022/23 for both revenue, capital and reserves.

2. Background

- 2.1 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:
 - 2.1.1 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**.
 - 2.1.2 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.
 - 2.1.3 **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 3 can still be challenging as things can occur between the end of December and the end of the financial year. 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 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 £12.6m, which represents an overspend of the budget by £578k. 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 £000	Forecast Outturn £000	Variance £000	Commentary
Interim Chief Executive	2,304	2,252	(52)	Increased income HIC, one off Land Charges grant, savings in post less drop of income in Market and increased costs in Legal
Interim Deputy Chief Executive (Finance, ICT & Assets)	2,610	2,684	74	Savings not achieved less increase in interest received due to increasing interest rates
Communities	5,915	6,069	154	Carparking income down plus call centre costs
Planning	695	1,180	485	Savings from shared service proposal not achieved, income down
Net Direct Cost of Services	11,524	12,185	661	
Finance & Assets: Capital Financing (*)	506	423	(83)	Savings
Net Expenditure	12,030	12,608	578	
NB. * 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 organisation structure used for setting the 2022/23 budget. Some line management arrangements have changed since then with Legal and Corporate Services now reporting to the Interim Deputy Chief Executive, and Economy & Business reporting to the Director for Communities and Wellbeing.

Inflationary and Non-Inflationary Costs

- 3.5 Of the £578k 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**:

3.5.1	Inflationary variances	£321k
3.5.2	Underachievement of savings	£564k
	Less	
3.5.3	Normal operational delivery (saving)	£307k

Inflationary Costs

3.6 **Pay Award** The agreed increase of a flat £1,925 across all spinal points was paid (year to date) in the November pay run, for a grade 2 post this represents an increase of 9.6% whereas for the Chief Executive this represents 1.6%. This was above the budgeted provision by £279k, 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%

Given the current high inflation economic environment, the draft budget for 2023/24 and future years will use increased pay indices.

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, where an increase of 20% has been included. 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) was 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, although alternatives are being investigated.

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 setting for 2023/24 (and subsequent years) and to mitigate the current in-year budget pressures additional ongoing savings were offered by Service Managers which reduced the £1.041m forecast overspend at Quarter 1 to a forecast of £810k overspend at Quarter 2. This was achieved by considering both savings and income generation opportunities. The forecast overspend at Quarter 2 has reduced to £578k at Quarter 3 mostly because of increased investment income due to increasing interest rates.

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 in and its need to meet 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, Cabinet will recall that when the budget was set in February 2022, 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 £578k (**Appendix 3**). At 31 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 In a worst-case scenario if the Council took no action to address this £578k budget pressure, it is estimated the pressure would exceed £6m over the MTFs, a reduction of £2m from Quarter 2, see **Appendix 5**, and deplete the usable reserves.

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 £300k and proposed slippage of £5,997k 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 £000	Forecast Outturn £000	Variance		Commentary
			£000	%	
Capital Projects	5,868	5,568	(300)	-5%	Welland Park toilet refurbishment (£129k), ICT Channel shift projects (£98k), LADS energy efficiency schemes (£73k)

4. Implications of Decisions

Corporate Priorities

- 4.1 The contents of this report evidence that the Council is delivering the corporate priorities identified in the Corporate Plan 2022 – 2031.

Financial

- 4.2 This report gives the outturn position for the council’s 2022/23 revenue and capital budgets, and provides assurance that the financial health of the organisation is being actively managed.

Legal

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

Policy

- 4.4 No policy issues arise directly from this report.

Environment

4.4 No environmental issues arise directly from this report.

Risk Management

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

Equalities Impact

4.6 No equalities issues arise directly from this report.

Data Protection

4.7 No data protection issues arise directly from this report.

Summary of Consultation and Outcome

4.8 Consultation has been undertaken with the Portfolio Holder.

5. Alternative Options Considered

5.1 Not applicable.

6. Background papers

6.1 None.