

Harborough District Council

Report to the Cabinet Meeting of 12 September 2022



Report Number:	1
Title:	2022/23 Financial Performance Report – Outturn Quarter 1 (Year ending 31 March 2023)
Status:	Public
Key Decision:	No
Report Author:	Carolyn Bland, Financial Services Manager
Portfolio Holder:	Cllr James Hallam, Finance
Appendices:	Appendix 1: Summary Revenue Budgets and Capital Programme for 2022/23 Budget and MTFs (2023/24 to 2026/27). Appendix 2: 2022/23 Revenue Forecast Outturn and Variance Analysis by Portfolio & Director Service Categorisation. Appendix 3: Commentary on 2022/23 Budget Variances Greater than £25,000, by Director Service Categorisation. Appendix 4: General Fund Reserves 31.03.2022. Appendix 5: Potential Compounding of Cost/Inflation Pressures. Appendix 6: 2022/23 Capital Forecast Outturn and Variance Analysis. Appendix 7: Disposal of Land at Naseby Square, Market Harborough.

Executive Summary

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

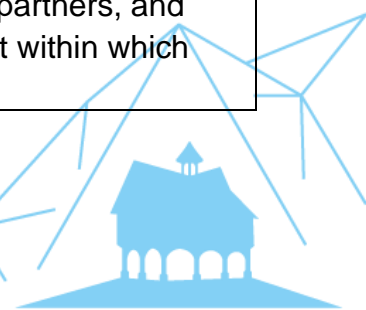
- Revenue is forecasting an overspend of £1,041k, a variance of 8.7% to the approved budget.
- Capital is forecasting an on-budget position.

Recommendations

- **That Cabinet considers the financial performance report and comments on the Forecast Outturn (31st 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 1 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 £11.1m and is financed by £8.1m of external grants and capital receipts, £636k 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 1 can be challenging as many things can occur between the end of June 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**; in respect of the updated net expenditure budget of £12m, the forecast outturn is £13.1m, which represents an overspend of the budget by £1,041k. 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 is 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	2,259	(45)	Savings on post and one off receipt less inflation
Interim Deputy Chief Executive (Finance, ICT & Assets)	2,561	3,295	734	Additional proposed pay increase £317k, corporate savings not achieved £351k plus £45k achieved plus inflation
Communities	5,964	6,250	286	Carparking income down
Planning	695	828	133	Savings from shared service proposal not achieved
Net Direct Cost of Services	11,524	12,632	1,108	
Finance & Assets: Capital Financing (*)	506	439	(67)	MRP saving
Net Expenditure	12,030	13,071	1,041	
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 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 £1m costs 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 £423k
- Underachievement of savings £445k
- Normal operational delivery £173k

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%

If this increase is agreed for local government, the additional cost in 2022/23 is £481k, an overspend over the budgeted increase of £317k. It should be noted that at the time of writing, the union Unite has rejected this proposed offer of £1,925 and the unions GMB and Unison are consulting members.

- 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. An increase of £106k over current budget has been included in the forecast due to gas/electricity volatility. 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 generate 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 £67k in 2022/23 due to reduced capital financing (minimum review 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 £410k over the remaining period of the current MTFS (2023/24 to 2026/27). This will be reported on further as part of the Quarter 2 monitoring.

Budget Setting

- 3.11 The Council has started its budget preparations for 2023/24 and subsequent years. As part of this process, as well as addressing future costs, officers are considering what savings or income generation opportunities exist to help mitigate the current in-year budget pressures. This will be reported further as part of the Quarter 2 financial performance monitoring.

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 £1m (**Appendix 3**). At the 31st 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 a “worst-case scenario” i.e. the Council took no action to address the current £1m budget pressure; it is currently estimated that the pressure would exceed £7m 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 £11.1m, of which £7.9m was brought forward from previous years and £3.2m is in respect of new initiatives for 2022/23. The forecast outturn is in line with budget. 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	11,090	11,090	0	0%	forecast as on budget

Disposal of Land at Naseby Square, Market Harborough

- 3.17 The Council completed on the sale of land at Naseby Square to Platform Housing Group, a social housing provider, on the 25th April 2022 for £1.4m. After the setting off of known costs when the Council was looking to self-develop and the more recent costs of disposal, the net capital receipt is £59k. A detailed analysis is shown in **Appendix 7**.

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.