

Report to: Overview and Scrutiny Committee

Date of Meeting: 29 March 2023

Report Title: Financial Monitoring Report for 2022/23 – to end of December 2022 (Period 9)

Report By: Simon Jones
Deputy Chief Finance Officer

Purpose of Report

To provide a summary of the forecast outturn position for services at the end of December 2022 (excluding recharges).

Recommendation(s)

To note the contents of the report, and the actions within the conclusion and management action section.

Reasons for Recommendations

To assist the Council in understanding the financial position and particularly areas of over and under spend. Early indications of emerging overspends can allow management action to be targeted to those areas. This monitoring assists in identifying areas for review in the production of the 2023/24 budget.

Background

1. As part of the process of continuous improvement, and to provide more comprehensive financial monitoring, the format of the budget monitoring report has now been revised to not only include the monitoring of direct service expenditure but to also include details on debt repayment (Interest and MRP). Capital budgets are also monitored.
2. Further developments are planned for 2023/24 including monitoring and reporting of performance against Treasury Management Prudential indicators on a quarterly basis as required by the revised Prudential Code.
3. In February 2022 the Council agreed a revenue budget for 2022/23 with total expenditure of £16,852,538 funded by government grants, Council Tax, Business Rates and contributions from reserves.
4. The table below shows the forecast outturn position at the end of December 2022 (Period 9).

Table 1: Forecast Revenue Outturn Position

| December 2022 Forecast | 2022/23 Original Budget £ | 2022/23 Forecast Outturn £ | 2022/23 Forecast Variance £ |
|--|--|---|--|
| Directorates | | | |
| Corporate Resources | 2,818,610 | 3,245,341 | 426,731 |
| Operational Services | 10,412,970 | 12,986,707 | 2,573,737 |
| Direct Service Expenditure | 13,231,580 | 16,232,048 | 3,000,468 |
| Contingency Provision (incl. R&R Reserve) | 300,000 | 0 | (300,000) |
| Total Service Expenditure | 13,531,580 | 16,232,048 | 2,700,468 |
| Provision for the Repayment of Principal (MRP) | 1,741,200 | 1,707,046 | (34,154) |
| Net Interest (Earnings) / Payments | 1,579,758 | 985,062 | (594,696) |
| Debt Repayment Costs | 3,320,958 | 2,692,108 | (628,850) |
| Total Expenditure | 16,852,538 | 18,924,156 | 2,071,618 |

5. As can be seen from the table above Total Expenditure is forecast to be £2,071,618 over budget at year end. This is an increase of £663,336 on the position reported at the end of Quarter 2 (end of September).
6. The overspend of £3,000,468 on Direct Service Expenditure is offset in part by savings on contingency, MRP and Net Interest payments. Further details on the different elements are given below.

Direct Service Expenditure

7. The 2022/23 Direct Service Expenditure budget agreed by Council was £13,231,580. These figures exclude the contingency budget (£300,000) which is held separately and recharges.
8. Table 2 below details the current forecast outturn position for Direct service Expenditure.

Table 2: Revenue Direct Service Expenditure Position

| Directorate | 2022/23 Original Budget | 2022/23 Forecast Outturn | Variance | Trf to / (Use) of Reserves | 2022/23 Estimated Outturn Variance |
|----------------------|-------------------------|--------------------------|------------------|----------------------------|------------------------------------|
| | £ | £ | £ | £ | £ |
| Corporate Resources | 2,818,610 | 3,322,413 | 503,803 | (77,072) | 426,731 |
| Operational Services | 10,412,970 | 13,895,264 | 3,482,294 | (908,557) | 2,573,737 |
| Total | 13,231,580 | 17,217,677 | 3,986,097 | (985,629) | 3,000,468 |

9. As part of the annual budget setting process a thorough and detailed analysis of the current year's budget is undertaken. This is then used to inform the future years budget. Previously, as a result of this work the original budget was then revised in line with current and latest available information and forecasts. We are however not proposing producing a revised budget going forward and will be monitoring and reporting throughout the year based on the original budget.
10. Appendix 1 provides a more detailed analysis of each directorate, and this report seeks to provide further narrative on the main variations identified.
11. At the time of writing this report the country and economy is still recovering from the impact of the Covid-19 pandemic and the borough of Hastings is no different. Coupled with this inflation, and in particular energy and salary growth, is now having a substantial impact on the Council's budgets and will lead to significant unavoidable additional expenditure which will need to be offset by savings from elsewhere within the budget or more likely the use of our limited reserves.
12. The figures and estimates contained in this report were produced based on the latest available information, and as such could potentially be subject to further change.
13. The salary costs in the report include the agreed 2022/23 pay increase of £1,925 per Full Time Equivalent (FTE). The salaries budget for 2022/23 had assumed an increase of 1% at a cost of £119k. The agreed pay offer will cost the Council £750k. As only £119k was budgeted for this represents an unbudgeted overspend of £631k. The impact of this increase is offset to some extent by vacancies that have occurred and the current recruitment freeze.

Corporate Resources

14. The service shows a forecast overspend of £426,731 after transfers from reserves.
15. Revenues and Benefits are showing an overspend of £213,360 due to a delay in the planned restructure of the service. This has led to the continuation of the temporary staffing structure and reliance on additional agency members of staff longer than anticipated, coupled with additional demand placed on the team to deal with extra grant schemes throughout the financial year. A full restructure is currently in process and will be concluded in the next financial year.
16. Corporate Expenses is showing £15,000 additional spend on software due to the need to continue with our current service provider in order to take payments over the counter and telephone.
17. Properties and Estates are showing an overspend of £54,400. An overspend of £50,000 is forecast on the repairs budget in order to cover additional works identified. These include repairs to walls at Jackson Hall, Cinque Ports Way, Summerfields Walled Garden and repairs required at Cornwallis Street and the fire doors at Bank Buildings. Insurance excess of £7,200 has been paid. A Small variance of (£2,800) additional income is expected in rental income. The rest of the cost centre is made up of various smaller overs and unders.
18. Finance Other Expenditure and Income is showing an additional (£43,100) due to recovery from an insurance claim paid out in 2021/22.
19. Corporate Management Costs is showing an overspend of £89,400 mainly due to consultancy work undertaken by the Councils Treasury Advisors to perform a review on the current method of calculating Minimum Revenue Provision (MRP) payments and to provide suggested alternative methods. This review has potentially identified in year savings of approximately £787k which have not yet been added to the monitoring pending review and approval for the changes from Full Council. If agreed the savings would show under the "Provision for the Repayment of Principal (MRP)" line in the monitoring.
20. Corporate Policy and Partnerships is showing an underspend of (£20,670) due to salary savings on the Continuous Improvement and Democratic Services Manager post. These savings are being used to fund a Transformation Officer post in the Transformation Team (£31,600). Pay award increases of £10,200 are also showing here.
21. The Transformation Team is showing a £51,430 overspend on salaries as it is using the salary savings mentioned above in Corporate Policy and Partnerships to fund a Transformation Officer post £26,700. Pay award increases of £5,000 and regrade of post of £21,500 are also showing here.
22. The Contact Centre is forecasting an overspend of £18,050, there is an increase of £39,000 for pay awards with (£22,560) identified as savings due to salary slippage on vacant posts.

23. Decorative lighting is showing an overspend of £31,940. Project Costs of £44,280 for the Sticks of Rock project in the Decorative Lighting budget are to be carried forward from 2021/22 and financed from reserves. Works are dependent on ESCC as decorative lights are replaced once ESCC has replaced the whole lamppost. Electricity price increases have meant an increase required of £32,000 in the utilities budget.
24. The remaining balance is made up from various other variances which are shown in Appendix 1.

Operational Services

Environmental Health

25. The service is forecasting an underspend of £17,499 against the 2022/23 original budget.
26. Environmental Management and Admin is forecasting an underspend of £18,968. There are salary savings of (£42,000) from the Senior Management restructure but also an increase of £24,000 expected for the pay award. Additional savings of £1,000 have been identified on travel for 2022/23 only, 2023/24 under review.
27. The remaining balance is made up from various other variances which are shown in Appendix 1.

Parking Services

28. The Parking Service is showing a shortfall of £213,910 against the 2022/23 original budget.
29. The parking income is currently forecasting reduced income of £186,000 mainly due to lower fee income received at the sport centre car parks £50,000, the closing of Cornwallis car park £70,000 and a reduction in season ticket sales £75,000
30. There is also an increase of £23,000 for the pay award largely offset by (£25,700) in salary slippage for the vacant warden posts which are anticipated to be filled from January. The Fixed Penalty Notices income is showing reduced income of £18,000 due to the lapse in legislation regarding dog related fines. The remaining balance is made up from various other variances.

Waste

31. The service is showing an underspend of (£101,221).
32. The DSO service is showing a saving of (£53,087), this is due to salary slippage and staff turnover, we are currently still in need of filling 3 posts.
33. Greenwaste is showing increased income of (£50,000) due to a larger customer base.

34. The Refuse Collection budget is showing an overspend of £22,000 due to changes in indexation, budgeted at 5% but came in at 5.89%.
35. The Public Convenience budget is showing an underspend of (£29,300) due to the new contractor coming in at a lower rate.
36. The remaining balance is made up from other variances minor variances which are shown in Appendix 1.

Amenities

37. The service is showing additional spend of £112,118 against the 2022/23 budget once carry forwards and transfers from reserves are taken into account.
38. The Open Space Management Team is showing savings of (£12,022). The Parks and Open Spaces Manager reducing from 5 days to 3 days per week is showing a saving of (£23,100). An increase for the pay award of £12,900 is also here.
39. The Cemetery & Crematorium budget is forecasting additional spend of £77,151. Reserve funded stone works to the Chapel of £20,000 have been carried forward from 2021/22. Large increases in gas costs means an additional budget of £93,000 is required. An additional cost of £20,400 is here for the pay award. The Grounds Maintenance indexation for November to March means an additional £5,000 costs. Repairs have also incurred additional spend of £10,000 for replacement of monitoring software on the cremators. Fee income is currently above the profiled budget, an additional (£50,000) has been added to the 2022/23 forecast.
40. Arboriculture is forecast to be £21,589 overspent. There are additional health and safety works required for Ash Dieback this year of £20,000. This is in addition to the £15,250 carry forward required to deal with a backlog of work following damages from the storms in February and March 22. The other variance on this cost centre is the pay award.
41. Parks and Gardens is showing an overspend of £27,870. Additional spend of £220,070 is funded from reserves. This is £50,000 for procurement costs regarding the new contract and £170,070 on the Repairs and Renewals (R&R) reserve for items unfinished in 2021/22 the main ones being Cliff works £43,000, Gensing Gardens Wall £60,000 and Roof Replacement at Bexhill Road Sports Pavilion £34,000. The other R&R items are mainly Health and Safety related. The Grounds Maintenance indexation for November to March means an additional £10,000 costs here. Rents are anticipating a shortfall of £12,000 due to an adjustment for the West Hill Café for dilapidations.
42. Hastings Country Park is forecast to be on budget once reserve movements are taken into account. There are £55,100 of Repairs and Renewals Reserve items from 2021/22 where the works have slipped into 2022/23. The main items being carried forward are Coastguard Lane resurfacing £23,000, Country Park Paths £25,000 and clearance of historic waste at the yard £6,000.

Marketing and Major Projects

43. The service is showing an overspend of £700.
44. Midsummer Fish Festival is overspent by £9,974, there was reduced footfall this year caused by train strikes and adverse weather.
45. Filming has seen an increase in activities (£9,153).

Regeneration

46. The service is showing an underspend variance of (£119,307).
47. Regeneration Activity is showing an underspend of (£14,360), staff member has moved to Towns Fund project
48. Planning Policy is currently showing an underspend of (£36,146) due to a Technician vacancy and the Senior Planner being on Maternity Leave and not forecast at full pay until later in the year.
49. Local Plan is showing an overspend of £12,918 - Housing & Economic Development Needs Assessment (HEDNA) cost more than budgeted and External Resource was brought in to cover the staff positions left vacant from note above.
50. Cultural Activities are showing an underspend of (£17,990) due to a vacant post for Arts & Cultural Regeneration Officer.
51. External Funding Initiatives is showing an underspend of (£9,121) due to a vacant position.
52. Renewable Energy Solutions has an underspend of (£58,274) due to vacancies.
53. The remaining balance is made up from various other minor under and overspends which can be found in Appendix 1.

Leisure

54. The service is showing an overspend of £31,703 which is due to agreed reduction in rent for Bowls and leisure management fee not requested. Due to the lasting impact of Covid-19 and the large increase in energy costs faced by Freedom Leisure the council has chosen to waive the £30,000 leisure management fee due for 2022/23 to help support Freedom Leisure. The Council is looking at installing PV arrays at Summerfields Leisure Centre to reduce the energy costs faced by Freedom Leisure.

Resort Services

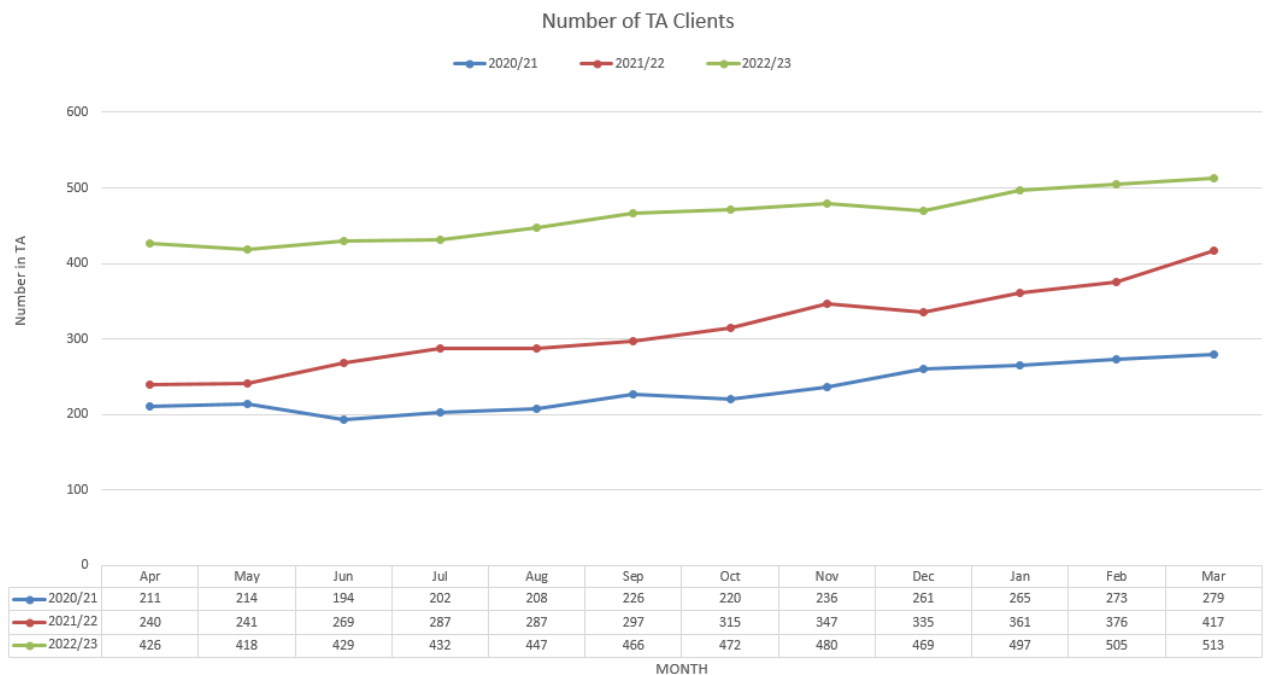
55. The service is showing an underspend of (£83,100).
56. Cliff Railways is showing an underspend of (£67,215). Income to date is more than budgeted, however there are expected repairs that need carrying out on the East

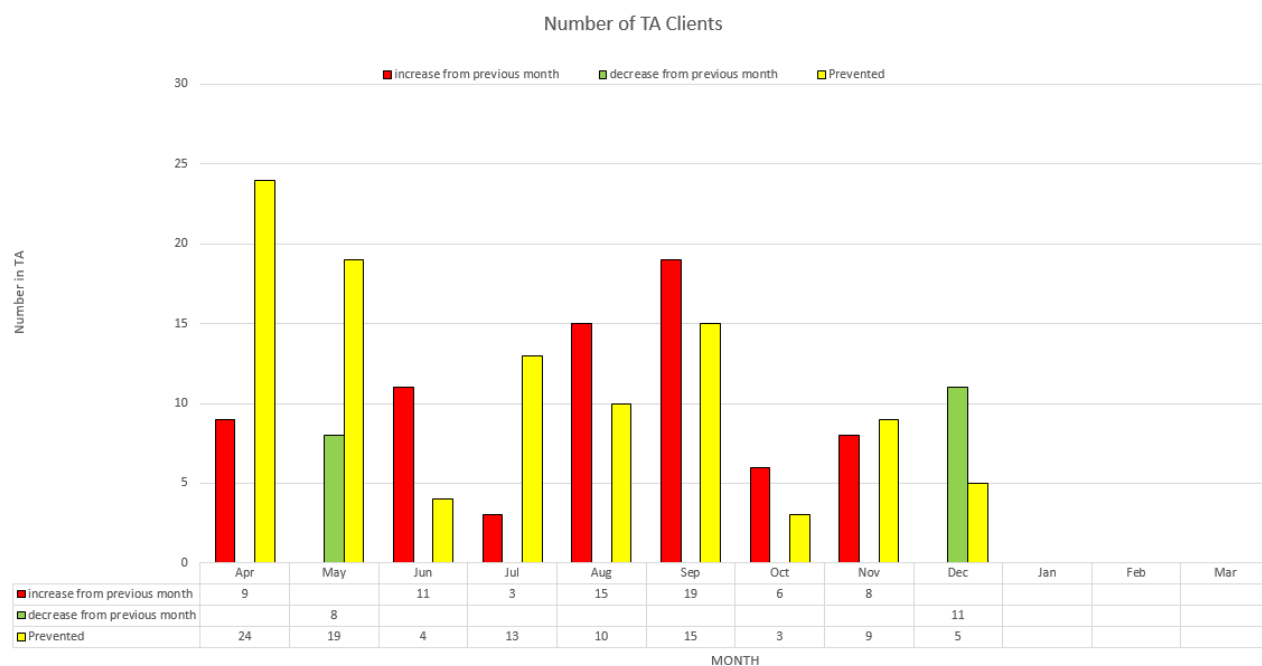
lift later in the year. It is expected that the additional income will cover the period of inactivity.

- 57. The Museum is currently showing an underspend of (£19,824), staffing restructure has taken place, this figure may change once the impact of this change is fully known.
- 58. The remaining balance is made up from various other minor under and overspends which can be found in Appendix 1.

Housing and Built Environment

- 59. The service is showing an overspend of £2.537m against the 2022/23 budget.
- 60. The pay award is now showing overspends in the following areas.
 - Housing Management & Admin (£15k) also Part funded Agency Project worker employed to year end (£15k)
 - Housing Renewal (£17k)
- 61. The Homelessness budget is forecasting an overspend of £2,030,908. This is due to the rising costs of temporary housing coupled with the number of clients presenting as homeless increasing.
- 62. The first graph below demonstrates the growth in the number of Temporary Accommodation clients over the current year and past two years. Estimating an increase of 8 clients per month until the end of the year. The second graph shows successful preventions from entering Temporary Accommodation and the increase/ decrease from the previous month figure.





63. Planning Management & Admin is showing a underspend of (£24,640), this is mainly due to a one-off receipt of £20k for street name and numbering.
64. Development Management is showing an overspend of £323,744. Two additional staff were agreed by CMG (£53k). Agency staff are being used to cover vacant posts (£90k). Income may be under achieved by £147k, this may change if applications are received for major developments.
65. Dangerous Structures work at Battle Road was expected to cost £522,500 to be funded from the General Reserve. £60k was remaining at the end of 2021/22 and requested to be carry forward. With this taken into account there is an adverse variance of £196,205 forecast. Given the potential impact on individuals safety and therefore the Councils obligations, the Council may incur further expenditure in this area this financial year.
66. The remaining balance is made up from various other minor variances which are shown in Appendix 1.

Debt Repayment Costs

67. Table 3 below shows the debt repayment costs position. A underspend of £628,850 is forecasts at year end. This is made up of a number of items which are discussed below.

Table 3: Debt Repayment Costs Position

| Net Interest (Earnings) / Payments | Original Budget 2022/23 | Forecast | |
|--|----------------------------|-----------------------------|-------------------------------|
| | | Outturn at P9 (December) | Forecast Year End Variance |
| Gross Interest Payable | 2,137,124 | 1,847,184 | (289,940) |
| Gross Interest Received | (503,366) | (808,372) | (305,006) |
| Net Investment Properties Income | (64,000) | (64,000) | 0 |
| Fees | 10,000 | 10,250 | 250 |
| Net Interest (Earnings) / Payments | 1,579,758 | 985,062 | (594,696) |
| Provision for the Repayment of Principal (MRP) | 1,741,200 | 1,707,046 | (34,154) |
| Total Debt Repayment Costs | 3,320,958 | 2,692,108 | (628,850) |

Gross Interest Payable

68. The Council currently has 22 separate loans with the Public Works Loan Board (PWLB). These loans are a combination of maturity and annuity loans and are all at fixed rates, so the council is protected from any rises in interest rates.
69. When setting the budget for 2022/23 a certain amount of borrow was assumed to fund the capital programme. Due to delays from Covid-19 and changes to plans the Council borrowed less than anticipated. This has resulted in a forecast underspend of £289,940 on expenditure on interest repayments.

Gross Interest Receivable

70. The Council currently has c£30m in investments. At the time of setting the budget interest rates were low and forecast investment returns were minimal. Since the budget was set in February 2022 the Bank of England base rate has increased from 0.5% to 3.5% (as at 15th December 2022) and further increases are forecast. These increases in rates, and hence investment returns, have led to a forecast additional £305,006 in income.

Net Investment Properties Income

71. The Council has a few properties categorised as investment properties. These do not include the various industrial units and retail parks that the Council owns which are categorised as operational assets. The net income (i.e. income after all costs have been deducted) from Investment properties is forecast to be £64,000 which is on budget with no variance.

Fees

72. The £10,250 expenditure on fees is in relation to the fees we pay our treasury management advisors for the advice they give us. This includes guidance on investment and borrowing strategies, interest rate forecasts, counter party risk analysis and many other technically complex areas. A minor variance of £250 is anticipated.

Provision for the Repayment of Principle (MRP)

73. The Council is required to make a Minimum Revenue Provision (MRP) payment in respect of its borrowing – to ensure debt is repaid over an appropriate period.
74. As the actual level of borrowing was less than forecast there has been a savings of £34,154 on the MRP payments that need to be made for 2022/23.
75. As identified earlier in the report the Council has engaged its treasury management advisors to undertake a review for our MRP policy. The review has now been concluded and a new method of calculating MRP has been identified which is not only considered more prudent, fairer to taxpayers and inline with suggested practice from CIPFA but also produces savings in the early years of adoption. It is anticipated that in year savings of £787k can be achieved for 2022/23. Changes to the MRP policy need to be agreed by Full Council and as such the savings identified have not currently been built into the budget monitoring pending approval by Full Council.

Capital Programme

76. The adjusted Capital Budget for 2022/23 is £18,080,000 once carry forwards and budget revisions amounting to (£3,666,000) have been allowed for.
77. As Table 4 below shows, the spend to the end of December is £7.374m with the year end forecast outturn expected to be underspent by £1.081m. Further details are included in Appendix 2.

Table 4: Capital Programme (Gross expenditure)

| Directorate | Original Budget 2022/23 | Carry forwards & adjustments | Adjusted Budget | Spend to End December 2022 | Forecast Outturn | Forecast Variance to Adjusted Budget |
|----------------------|-------------------------|------------------------------|-----------------|----------------------------|------------------|--------------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Operational Services | 9,457 | 1,357 | 10,814 | 4,062 | 12,577 | 1,763 |
| Corporate Resources | 12,289 | (5,023) | 7,266 | 3,312 | 4,422 | (2,844) |
| Total | 21,746 | (3,666) | 18,080 | 7,374 | 16,999 | (1,081) |

78. The capital programme is forecasting to underspend by £1.081m. The main underspends are discussed below:
- Disabled Facilities Grant (£250k underspend forecast). This is a demand led service and if fully financed by government grant. Any underspend will be transfer to the DFG earmarked reserve for use in future years where demand is greater than that years grant allocation.

- Empty Homes Strategy (£50k underspend forecast). Expenditure is not likely in this financial year, but the budget will need to be carried forward to the following year.
- Restoration of Pelham Crescent and Arcade (£137k underspend). No expenditure is forecast this year so the budget will be unspent.
- Buckshole and Shornden Reservoirs Statutory Protection Works (overspend of £119k forecast)
- Towns Fund Projects (£2,029m overspend) No budget exists for the projects. At this stage all expenditure is grant funded.
- RSI Mobile Health Unit (£44k overspend forecast). No budget exists for this project. Expenditure is fully funded from Rough Sleeper Initiative funds.
- Conversion of 12/13 York Buildings (£74k underspend). Not all of the unspent budget carried forward from the previous year was required to finish the conversion works.
- Harold Place Restaurant Development (£2.77m underspend forecast). This project has been aborted.

Conclusion and Management Action

79. The revenue forecast outturn is that an additional £2.072m will be spent compared to the original budget this financial year. All service managers, but in particular those predicting a year end overspend have been asked to identify savings to offset the variances where possible. If offsetting savings cannot be found, then reserves will need to be used to balance the budget.
80. The rise of inflation, particularly in relation to energy costs, causes concern for the Council and is likely to have a significant impact on the year end position. The full impact on the year is uncertain and we will need to continue to monitor budgets closely and identify offsetting savings and further possible cost reductions to mitigate the effect.
81. Weekly meetings between members and officers are occurring to identify ways to reduce expenditure in the current year and future year budgets.
82. If it wasn't for the forecast overspend on Homelessness (£2.031m) the council would be broadly on budget with just a small overspend of £41k forecast for the year. The Council has setup the Homelessness Taskforce to cross departmental boundaries and identify and implement solutions to reducing the spiralling costs. This is recognised as a key corporate objective and work continues at pace.
83. At this stage Capital is forecasting to be underspent by £1.081m at year end. There is a high risk for further potential delays and variations in the year given the current climate and inflation increasing costs. Any slippage will be reflected in the Capital Programme Budget as part of the 2023/24 Budget setting process. Slippage on the capital programme could result in lower interest and MRP charges in 2022/23.

84. The further use of any reserves to balance the budget prejudices the potential to use reserves to fund future expenditure and would necessitate greater cuts to services and staff in the next financial year to achieve a balanced budget and restore reserves to minimum recommended levels.
85. Budgets will continue to be closely monitored with mitigating action taken to offset any overspends identified where possible.

Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

| Action | Key milestone | Due date (provisional) | Responsible |
|---|------------------------|------------------------|--|
| Continued quarterly monitoring | Each financial quarter | Relevant CAP meetings | Deputy Chief Finance Officer |
| Further review of 2022/23 under and over spends and setting revised budget. | 2023/24 budget | February 2023 | Chief Finance Officer / Deputy Chief Finance Officer |

Wards Affected

None

Implications

Please identify if this report contains any implications for the following:

| | |
|---------------------------------------|-----|
| Equalities and Community Cohesiveness | No |
| Crime and Fear of Crime (Section 17) | No |
| Risk Management | Yes |
| Environmental Issues | No |
| Economic/Financial Implications | Yes |
| Human Rights Act | No |
| Organisational Consequences | Yes |
| Local People's Views | No |
| Anti-Poverty | No |

Additional Information

Appendix 1 Operational Services and Corporate Resources – Revenue Summary Q3
 Appendix 2 Operational Services and Corporate Resources – Capital Summary Q3

Officer to Contact

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