

# CABINET

8 December 2022

## QUARTER 2 2022/23 FINANCIAL MONITORING UPDATE

### Report of the Chief Financial Officer

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#### **Recommendation:**

#### **It is recommended that Cabinet:**

- (1) Note the Council's forecast financial position for the year and the revised Medium Term Financial Plan (Appendix A);**
- (2) Note the performance of the Community Investment Programme (Appendix B);**
- (3) Note the performance of Treasury Management (Appendix C);**
- (4) Note the intention of the Chief Executive to conduct a Pay and Progression review.**

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#### **Summary**

This report presents the Council's financial position for the first six months of 2022/23 including a forecast of the financial position for the full year against the rolling budget.

The financial monitoring for the second quarter of 2022/23 is forecasting a total net unfavourable variance against the budget of £360,000 based on best estimates in a changing economic environment. If this were the outturn position, the deficit would be met by the General Fund reserve. Capital expenditure for the first half of the financial year of 2022/23 was £25.7M compared to the rolling budget for the year of £69M representing a 37% spend at the half year.

The Treasury Management Outturn report is attached as Appendix C for approval. This report demonstrates that the Council has complied fully with the approved Treasury Management Strategy for the first six months of 2022/23.

The report contains details of the Chief Executive's intention to carry out a Council wide pay and progression review.

#### **Statutory Powers**

## **Strategic Implications**

1. Regular review of the Council's financial position is key to ensuring delivery against strategic objectives set out in the Council's Corporate Plan 2015-2025, delivery of actions in the Corporate Action Plan 22/23, and contributes to the management of corporate risk.
2. The revised Corporate Plan for 2023-2026 is being developed to reflect the Council's priorities against the anticipated future levels of resourcing and will come to Cabinet for consideration alongside the budget in February.

## **Introduction**

3. The financial monitoring for the first six months of 2022/23 informs councillors on the financial performance of the Council for the current year. Service Managers are accountable for variances and use the information at the half year to estimate expenditure and income for the full year which is shown within this report as the forecast position.
4. The Council's Medium-Term Financial Plan is revised, as attached at Appendix A, and incorporates the knowledge gained from the financial monitoring in this report.
5. The following appendices are referenced within this report:
  - A Monitoring forecast including Medium-Term Financial Plan
  - B Community Investment Programme Monitoring
  - C Treasury Management Half Yearly Report

## **Financial Monitoring**

6. The current monitoring position, shown in the following table, forecasts a net £360,000 overspend. While this figure appears low in the context of the Council's Corporate Continuous Improvement requirement, some of the higher-value income sources currently realised in the Council, such as nitrate credits are temporary in nature, whereas significant inflationary impacts such as the national pay award for 2022/23 are permanent and compounding.

## MONITORING SUMMARY - FORECAST FOR 2022/23 AT HALF YEAR

Portfolio Name	Rolling Budget £'000	Forecast Outturn £'000	Outturn Variance £'000
Area Committees (Net of Gross Cost Adjustment)	1,316	1,316	0
Skills & Business	(188)	(246)	58
Environment	6,034	5,841	193
Health	2,456	2,602	(146)
Planning and Property	(9,037)	(9,867)	831
Social Policy	3,044	3,141	(97)
Transport	(218)	(319)	101
<b>Position on Services</b>	<b>3,408</b>	<b>2,467</b>	<b>941</b>
Non-Service Related Items	(3,439)	(2,137)	(1,301)
<b>Net Position</b>	<b>(31)</b>	<b>329</b>	<b>(360)</b>

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The financial forecasting included within this report is compiled by Executive Heads with reference to performance to date and knowledge of future trends with this information being shared with the relevant Portfolio Leads. The following paragraphs provide detail on the significant variances making up the forecast variance for the year. For this monitoring exercise the Summary Reports have not been completed as the focus has been on achieving the continuous improvement target. Future monitoring reports will include this detail of portfolio financial performance.

8. Within the **Skills and Business** portfolio, the main cause of the £58,000 favourable position is income from court costs within Council Tax which has returned to pre-pandemic levels, having recommenced court action this year.
9. The **Environment Portfolio** is forecasting a favourable position of £193,000 for this financial year. The significant variance relates to the Council's renewable energy income, primarily generated by Chalcroft Solar Farm, which has increased by £247,000 in line with the rise in energy prices. Neighbourhood Services are forecasting an underspend of £110,000 when compared to the Rolling Budget. This is primarily due to previously approved driver supplement package not being used. These favourable variances are offset by additional spend of £171,000 within the Environmental Health and Pollution Control teams, although this is funded from grants received from The Contain Outbreak Management Fund (COMF) and other reserves. Due to the one-off nature of this reserve, work is ongoing to ensure these services can be funded from within existing budgets moving forward. The income from these reserves is shown within "Non Service Related Items" in the General Fund Summary table in paragraph 6.
10. The **Health** portfolio is showing an unfavourable position of £146,000, of which £133,000 is due to a reduction in programming and fundraising income within Arts and Culture. Demand has not returned to pre-pandemic levels and the cost-of-living crisis is likely to hinder a quick recovery. The business plan

for Arts and Culture is currently being revised and an updated plan will be brought forward for approval at a later date.

11. The **Planning and Property Portfolio** is forecasting a significant favourable position of £831,000. This final forecast is comprised of several significant areas of income and expenditure. Additional income as part of the Nitrate Credits Scheme of £1.81M is forecast to be received this year. This will be used to directly pay the associated borrowing of the land purchase and is therefore reflected in the variance in non service related expenditure discussed in para 14. Also within the portfolio is an anticipated additional income yield of £104,000 from Fees and Charges in 2022/23, subject to approval of the report elsewhere on this agenda. The Corporate Continuous Improvement target, which is held in this Portfolio until it is achieved by individual services, has been overachieved by £356,000 as discussed from paragraph 16 in this report. These favourable variances are offset by the additional impact of the pay award which was £1.15M in excess of the initial budget estimates due to the higher than anticipated inflation levels and a further inflationary pressure on insurance premiums of £70k in addition to the use of earmarked reserves to fund additional expenditures in the portfolio, including £430,000 for the Council's investment properties.
12. Increased uptake of Universal Credit has meant additional costs of £151,000 relating to the payment of Housing Benefits within the **Social Policy** portfolio. Elsewhere within the Portfolio, this unfavourable position is offset by savings from vacancies in the Customer Service and Local Response teams of £55,000.
13. **Transport** has operated with reduced staffing expenditure in the Parking Service whilst achieving a slight improvement in forecast income from car parks, leading to a £116,000 favourable forecast position, offset by an inflationary increase in the cost of community transport of £15,000.
14. **Non Service Related Items** are those budgets recognising movement in funding from earmarked reserves or corporate costs such as interest and Minimum Revenue Position. These areas are showing a net unfavourable position of £1.3M, consisting of:
  - Interest Payable is reporting an adverse variance of £2.9M. This is due to the interest rates throughout the financial year rising more quickly than the rate budgeted; this will be funded from the interest reserve.
  - Interest Receivable is reporting a favourable variance of £486,000. As with interest payable, the increase in underlying interest rates has led to the Council's investments seeing a higher than budgeted return.
  - Minimum Revenue Position (MRP), which is the amount the Council sets aside each year to repay external debt, is reporting an adverse variance of £1.6M. This is directly linked to the increased income from the sale of Nitrate income as discussed in para 11. This is offset by a slight reduction in forecast MRP due to slippage in the 2021/22 capital

programme delaying the forecast repayment of this borrowing in 2022/23.

- Movements in Earmarked Reserves are reporting a favourable variance of £2.7M which predominantly relates to the increased application of the interest reserve to offset the rise in interest costs, as well as other service reserve movements highlighted in the service paragraphs above.

15. Appendix A to this report represents a revised Medium-Term Financial Plan (MTFP) incorporating the impacts of the forecast variances identified as part of the half year monitoring. The MTFP will continue to be reviewed, particularly in light of the national economic context. In recent weeks financial markets have improved with bond yields steadying and interest rate expectations looking to be easing. However, the Office for Budget Responsibility (OBR) has forecast a UK recession for 2023, alongside high inflation throughout next year.

### **Corporate Continuous Improvement**

16. The report to Cabinet in October 2022 set out the financial challenged facing the Council, alongside an updated Continuous Improvement Target for the life of the Medium-Term Financial Plan (MTFP) to ensure the Council can continue to set a balanced budget into the future.
17. To date progress against the Continuous Improvement Targets has been positive. The original target for 2022/23 of £500k has been exceeded by 71%, and it is anticipated that the 2023/24 target will be achieved.
18. The table below shows the 2022/23 Continuous Improvement achievements to date:

<b>Corporate Continuous Improvement</b>	<b>22/23 Achieved</b>
	<b>£000</b>
Organisational Transformation	404
Spending Money Wisely	176
Financial Management	276
<b>Total Efficiency</b>	<b>856</b>

19. To ensure that 2023/24 and Continuous Improvement targets for future years are met, work is ongoing within the Council as detailed in the following paragraphs:

### **Organisational Transformation**

20. The Council recognises that it will need to operate in future with a leaner structure which focuses on the Council's priorities. Within the Corporate Continuous Improvement programme, the Organisational Transformation initiatives look to resolve ensure that services are provided in the most effective way, to enable the delivery of the Corporate Plan.

21. In the short-term, action is being taken to review how services can be delivered whilst minimising the impact to staff wherever possible. An ongoing saving of £404,000 has been achieved, predominantly from the removal of vacant posts from within the current structure. Staff restructures are currently underway in a number of areas, beginning with the Executive Team, which will lead to more focused service provision alongside cost savings.

### **Pay and Progression Review**

22. The long-term health and resilience of the Council depends not just on financial sustainability but also on a qualified, motivated and engaged workforce. The Council has historically been able to attract excellent recruits to all roles despite paying sometimes below-average salaries, partly because of a strong cultural and career development offer, but also because of a labour market that provided a steady stream of talent and incentivised long and loyal service. The labour market has shifted substantially in the last few years, with significant numbers of vacancies not able to be filled and a scarcity of available candidates for some roles. Where the Council pays below average, it is becoming increasingly difficult to attract appropriately qualified and experienced staff, and the Council's non-financial attractiveness no longer tips the balance.
23. Retention of staff is also an increasing difficulty, with numerous recent examples of highly valued staff being able to command higher pay in some neighbouring councils, and a performance-related pay system that was not effective and meant it may be hard to progress through the Council's agreed salary bands. The nature of employment relationships has also changed following the covid pandemic, with hybrid working increasingly the norm but very wide variation in personal working preferences and increasing evidence that a hybrid organisation needs to work to recapture some of the professional, social and psychological benefits of working in close proximity with colleagues.
24. Given all this contextual change, the Chief Executive has initiated a Pay and Progression review. The outcome of the review will take effect after the completion of the current round of efficiencies and have the effect of reinvesting some planned future savings in attracting, training and retaining the Council's workforce. The starting position for the review is that Eastleigh Borough Council should be a mid-market payer with excellent non-financial benefits including a good flexible working offer, an outstanding record on career development, including for young people, and a reputation for being an interesting and enjoyable place to work (a 'badge of pride'). The Council will be committed to supporting its staff through professional qualifications, in-house training, a secondments programme, and literacy, maths and IT provision for relevant staff. Those who join the Council at the bottom of a salary band will understand clearly what they need to do to rise to the top and gain promotion or new career opportunities. Eastleigh is an attractive work location for staff beginning their careers, being relatively affordable compared to some surrounding districts, with fine schools, an excellent further education college, outstanding leisure facilities and unusually good transport links.

25. The following scope is proposed for the review:
- Pay market positioning & benchmarking
  - Salary bands
  - Progression within bands
  - Market supplements
  - Career development planning including apprenticeships
  - Pay incentivisation
  - Additional redundancy contribution
  - Annual leave strategy
  - Other financial benefits e.g. interest-free loans
26. Consultation will take place during December and January with staff, trade unions, Councillors and local partners including Eastleigh College. The aim is to bring a final report to Cabinet alongside the Budget in the new year. Some of the issues in scope may be subject to negotiation with trade unions and this could affect the timetable for completion. Cabinet will be kept informed.

### **Spending Money Wisely**

27. Inflationary pressures are heavily impacting services and will continue to do so as contracts are renewed. Furthermore, long-term changes to baseline demand for Council services including for theatres and parking highlight a need to reprioritise resource and ensure current business models remain viable.
28. Given an adjustment to the corporate strategy, services have reviewed current expenditure to ensure it aligns with anticipated future priorities and will continue to challenge expenditure through the year. This activity has identified £176k of savings, through contract reviews and the removal of service provision budgets no longer required.
29. Over the medium-term, more comprehensive reviews will take place to consider how the Council subsidises services and spends its money. This will include supporting trading services to develop robust and sustainable business plans, as well as a consideration of our procurement processes.

### **Financial Management**

30. As volatility has risen in the current economic climate, the need for strong financial management has come to the fore. Within this is the need to ensure financial resilience through adequate and prudent use of reserves, and initiatives to deliver efficiencies.
31. Given the Council now owns Chalcroft Solar Park and receives ongoing revenue income from the sale of electricity, the Council has seen income rise in this area as energy costs have risen globally. Additional income of £276,000 will therefore be realised in the General Fund and utilised to offset the pressures faced by inflation in other areas of the Council.

### **Community Investment Programme (CIP) Monitoring**





to local authority borrowing market has continued to prove to be a liquid and secure marketplace for the authority to meet its borrowing requirement.

40. Appendix C provides the Treasury Management Half Yearly Report, providing detail on the performance of Treasury Management for the first six months of 2022/23. Further recommendations on Treasury Strategy will be brought for approval to Council in February, alongside the Capital and Investment Strategies.

## **Risk Assessment**

41. Accurate and timely Financial Monitoring plays an integral role in ensuring the Council's Medium Term Financial Plan is deliverable within known resources. There remain risks around the national economic picture, primarily around inflation and interest rates, however the assumptions contained within this report are based on prudent estimates in conjunction with independent advisors. The Corporate Risk Register has been updated following recent national economic events and is regularly reviewed.

## **Equality and Diversity Implications**

42. The Equality Act is not relevant to the decision in this report because the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. Therefore, it is considered that for this decision the Equality Duty does not need to be addressed and an Equality Impact Assessment (EqIA) has not been carried out.

## **Climate Change and Environmental Implications**

43. There is no direct impact, positive or negative, to climate change or the environment arising from this report. However, it is possible that the formation and implementation of a revised continuous improvement plan may have an impact on the pace of delivery of the Climate Change Programme. This will be reported to councillors as plans are developed and implications fully analysed.

## **Conclusion**

44. The financial monitoring position for the first half of 2022/23 forecasts a small overspend when compared to the rolling budget which can be contained within General Fund reserves. The achievement of the Continuous Improvement Plan is vital to enable the continued financial stability of the Council and to date the performance against the revised increased targets is positive. The delivery of the Chief Executive's Pay and Progression strategy will enable a resilient and well-motivated workforce to support the Council in delivering against ambitions into the future.

45. The Treasury Management appendix within this report demonstrates that the Council's treasury management activities are well controlled and accord with the Council's Treasury Management Strategy.

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Appendices Attached: 3

### **LOCAL GOVERNMENT ACT 1972 - SECTION 100D**

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

None.