Financial Performance Monitoring Review

For the period 1 April 2022 – 31 May 2022

Contents

1. Executive Summary

This report provides members with an overview of financial performance for the two months of 2022/23 in respect of the General Fund, the Housing Revenue Account, and the Capital Programme. The report highlights macro indicators impacting on Council finances and provides indicative projections of year end performance against budget based on macro and local factors known to service managers and the Finance Team.

The UK economy entered 2022 still affected by two major impacts of the path out of Covid – very high inflation, and a very tight labour market with strong pay growth. The bank of England is predicting further inflationary pressures for the immediate future. Inflation is expected to remain at about 10% through the Summer and fall back to 2% by spring 2024.

Recruitment challenges continue to result in staffing underspend, with contractors employed in the most critical areas. The inflationary impacts will also influence the pay deal, with initial indications that a pay award of greater than the current budget assumption of 2% is highly likely. A 1% increase in pay above the budgeted 2% will cost approximately £300k for the direct staffing costs of the General Fund and £120k for the indirect staffing of the Council's Operations partner. Fees and charges have stayed positive in most areas of the general fund revenue budget, with the exception being car parking income which has not returned to pre-covid levels.

The impacts of inflation are currently being managed within existing budgets - utilising savings and capital projects are being re-engineered to deliver similar outcomes on budget.

The Council continues to monitor the economic impact on the collection rates for both Council Tax and Business Rates.

At this early stage of the financial year, this report provides an overview of the potential challenges ahead for 2022/23. As trends in service areas and partner performance develops, a more comprehensive update will be provided at Quarter 2.

2. Economic context

The UK economy entered 2022 still affected by two major impacts of the path out of Covid – very high inflation, and a very tight labour market with strong pay growth[1]. The bank of England is predicting further inflationary pressures for the immediate future. Inflation is expected to rise to about 10% this year and fall back to 2% by spring 2024. The Russian invasion of Ukraine is anticipated to intensify and prolong the surge in inflation and tighten the squeeze on household incomes.

The resulting squeeze on household income later this year and into next year is forecast to reduce disposable income. The Council is likely to experience the impact of supply side inflation most noticeably through those services that are provided in partnership, where increasing labour, fuel, and material prices, combined with labour shortages in some sectors continue to have an increasing impact. Capital projects which require bought in materials are being impacted by inflationary pressures, and although contingent budgets will cover temporary price pressures, in some areas, more significant variation to current estimates may be required. Inflation continues to be a significant risk for the delivery of our strategic initiatives.

3. General Fund

3.1. Service Area Fees and Charges

The boost in economic activities continues to contribute to healthy income levels from the utilisation of operational and investment assets and planning and development activities. Figure 1 below compares the budget with projected income for the first two months in four core areas. The chart shows income is tracking ahead of projection due to various income streams typically received for the whole quarter (and this report is for two months) in areas such as licensing and beach huts.

Most areas of income are forecasted to be on budget by the end of the year, except for parking services that continues to experience low uptake. However, some recovery is anticipated during the Summer. Table 1 outlines key income trends in the Operations service area. The waste management income reflects green waste income levels as expected. However, recycling credit income (also part of waste management) is not yet reflected as the Council's Operations partner has not yet confirmed tonnages required to recognise the income.

[1] Speech of the Deputy Governor for financial sustainability, Bank of England. [Monetary and financial stability and the invasion of Ukraine – speech by Jon Cunliffe (bankofengland.co.uk)]

Figure 1 – Key fees and charges KPIs for April and May 2022

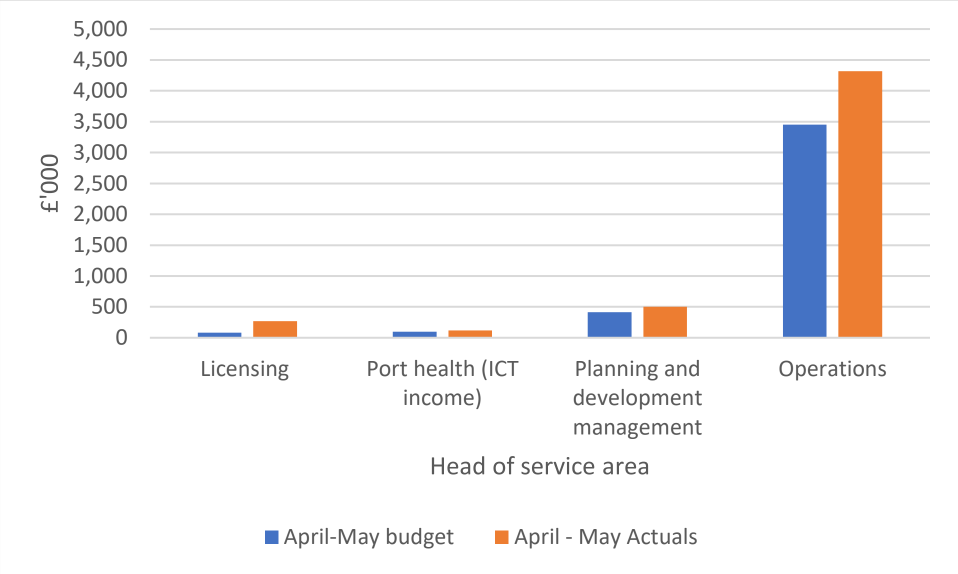


Table 1 – Operations fees and charges compared to budget (April and May 2022)

Operational service name	Budget (April- May 2022) £'000	Actuals (April- May 2022) £'000	Variance (April- May 2022) £'000
Beach Huts and Chalets	(156)	(777)	(621)
Car Parks	(784)	(552)	232
Caravan and Camping Sites	(416)	(583)	(167)
Cemeteries	(50)	(75)	(25)
Concessions	(7)	(35)	(28)
Harbours and Yacht Stations	(65)	(147)	(82)
Indoor Leisure	(25)	(60)	(35)
Industrial Estates	(105)	(261)	(156)
Miscellaneous Land	(25)	(43)	(19)
Miscellaneous Property	(59)	(118)	(59)
Playing Fields and Sports Grounds	(3)	(21)	(18)
Waste Management	(1,743)	(1,636)	107
Others	(12)	(10)	2
Total Operations income	**(3,450)**	**(4,319)**	**(869)**

It is important not to view fees and charges in isolation, as there are typically costs associated with new income levels. Hence the net cost-of-service update is provided in the next section.

3.2. Net cost of service – General Fund

The below table presents the net cost of service for the period April to May 2022.

Figure 3 – Analysis of net cost of service variance

Net Direct Expenditure and Income	**Approved Full Year Budget 2022/23**	**Current Budget (April & May 2022)**	**Actuals (April & May 2022)**	**Variance (April & May 2022)**
	£'000	**£'000**	**£'000**	**£'000**
Expenditure				
Employee Expenses	37,201	6,021	5,652	(370)
Premises Expenses	4,431	460	193	(267)
Transport Expenses	477	76	110	34
Supplies and Services	16,202	2,307	2,965	658
Third Party Payments	18,610	2,943	4,626	1,682
Transfer Payments	(95)	(14)	1	15
Housing Benefit Payments and Rent Rebates Internal Transfers	52,311	-	-	-
Other Expenditure	354	103	17	(86)
Total Expenditure	129,490	11,896	13,562	1,666
Income				
Customer and Client Receipts	(27,188)	(5,759)	(6,169)	(410)
Grants and Contributions	(8,803)	(1,716)	(5,908)	(4,192)
Housing Benefit Subsidy	(50,438)	-	-	-
Internal Transfers	(329)	(37)	(17)	20
Total Income	(86,758)	(7,512)	(12,094)	(4,582)
Direct Expenditure and Income	**42,732**	**4,384**	**1,467**	**(2,916)**

3.2.1. Grants and Contributions income

It is usual for grants for specific purposes to be received in fully. Such grants will be spent on specific initiatives and the balance transferred to reserves at the end of the year to continue to fund future spend on those initiatives. The favourable grants position relates to funding received early in the year for Homelessness Prevention, Free Port East, New Burdens, Coastal Management, and Port Health (related to anticipated Brexit checks).

3.2.2. Staffing

The Council continues to experience difficulties recruiting in some areas, particularly in specialist roles. Work is underway with regard to a recruitment and retention plan. So far, the majority of vacancy savings have been committed to backfill contractors to ensure continued service delivery. Month 1 and 2 budgets are still underspent, and the overall staffing budget continues to be closely monitored to ensure value for money with all appointments.

It is anticipated that pay deal negotiations will seek a pay award which is greater than the Council's current assumption of 2% for each year of the MTFS. The impact will depend how much buffer vacancies can provide against a pay award more than current assumptions. A 1% increase in pay is approximately £300k for the direct staffing costs of the General Fund and £120k for the indirect staffing of the Council's Operations partner.

3.2.3. Premises expenses

At the time of writing, utility costs for April and May have not yet been received. The lower utilisation of the office accommodation due to hybrid working is expected to offset the higher costs of energy initially and will be closely monitored. Actual spent on responsive and planned maintenance is also behind the budget profile due to timings.

3.2.4. Supplies and services

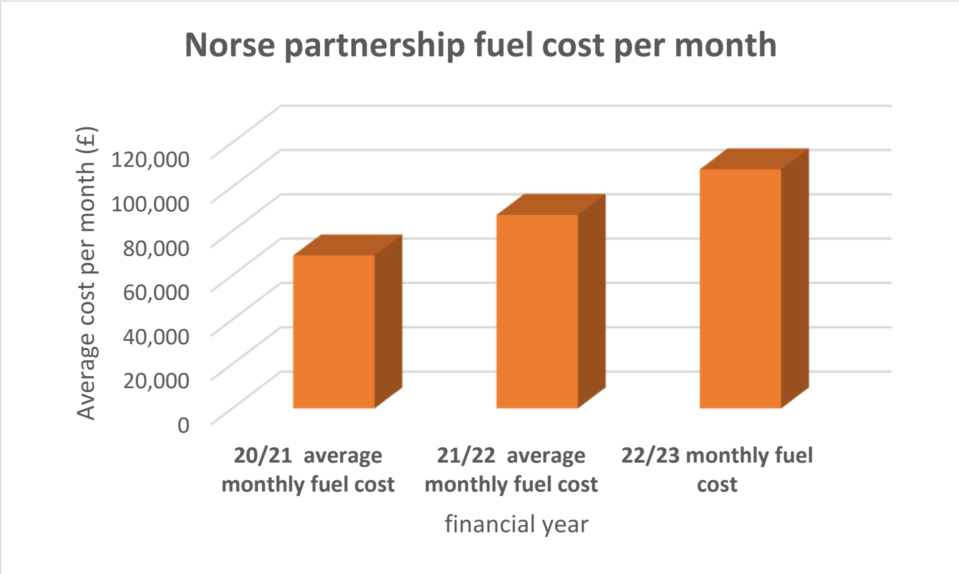
The main reason for actuals being ahead of budget on supplies and services is due to ICT maintenance costs paid annual in advance.

3.2.5. Third party payments

Operations

Third party payments appear ahead of budget due to early invoicing from the Council's Operations partner (a month in advance) running key customer facing services such as waste and street cleansing. The biggest impact from fuel inflation will come through the Council's Operations partnership. To put this into perspective, Figure 4 shows the trend in average fuel costs over the last few years. For every ten pence increase in the fuel price, it could cost the partnership an additional £6.5k per month which would be passed on to the Council. The early fuel price increases have so far been covered by a timely reduction in waste disposal costs. Waste disposal cost reduction is driven by a combination of an increased demand for recyclate due to the green agenda and a reduction in residual waste tonnages. Recycling demand has remained abnormally high and how long this will last is uncertain, but while it does, costs are kept low.

Figure 4 – Partner cost pressures



Leisure

The Council's greatest exposure to rising utility costs is via the indoor leisure operations. The Council works close with its leisure operators and costs are currently being managed within existing budgets.

UK Active are also making representations to the Government to support swimming pools with the increased utility costs.

4. Housing Revenue Account

The Housing Revenue Account, being a ring-fenced account is designed to be self-sufficient in its operation and financing of social housing. All its revenues are reinvested back into the housing stock.

The HRA income base is expected to change following the outcome of the ongoing forensic review into a rent charging inconsistency. Rents and other charges will be reviewed based on the outcome of the review and an update will be provided at Quarter 2.

Whilst there is no overspend in the HRA at present, the cost of maintaining our housing stock could be impacted by the rising cost of building materials which could limit the ambition on investing in further social housing. The expenditure is being monitored closely.

5. General Fund Capital Programme

The General Fund capital programme is progressing as planned. There remains a risk that some projects will cost more because of the ongoing materials shortage. Officers are working to manage exposure to this risk. A revised capital programme will be brought to Cabinet and Full Council later in the year and an update provided at Quarter 2.