Report title	Provisional Outturn report 2022/23
Report author	Amanda Fahey - Assistant Chief Executive (s151)
Department	
Exempt?	No
Exemption type	not applicable
Reasons for exemption	not applicable

Purpose of report:

To resolve

Synopsis of report:

This report provides an overview of the financial position of the Council for the year ending 31 March 2023.

Recommendation(s):

The Corporate Management Committee is recommended to:

i) **Note the provisional financial outturn for 2022/23, and**
ii) **Approve the transfers to and from reserves as set out in the General Fund Summary**

1. Context and background of report

1.1 This report sets out the provisional outturn position for the Council's finances for the year 2022/23, covering Revenue and Capital expenditure and income, and the level of reserves.

1.2 The purpose of the report is to provide an overview of the financial position, with an explanation of the main reasons for differences between actual expenditure and income for the year and the Council's original spending plans, in order to understand the financial performance of the Council during the year.

1.3 This financial performance should be considered in light of the wider economic context and environment in which the Council is operating.

1.4 The outturn should not be considered in isolation as the performance in-year will have an effect on future financial planning. For example, it will affect the level of reserves available to be called upon over the medium term, may highlight areas for action in terms of large budget variances or the necessity to carry forward work to the following year where it was not possible to be delivered within planned timescales.

1.5 It should be noted that the financial information contained in this report is provisional, as at the time of writing this report, the draft (pre-audited) Statement of Accounts is yet to be published. However, the remaining outstanding items to be finalised before publication are the Group Accounts and the Narrative introduction, which will not affect the figures reported here.

1.6 The delay in publishing the draft 2022/23 Accounts is due to a number of factors including staff vacancies in the Finance team, which have now been filled, additional complexity in the accounts and from the continued delays in the external audit of prior-year accounts. Should the audit of the accounts for any of the outstanding years or the eventual audit of the 2022/23 Accounts raise any issues, subsequent changes may need to be made to these figures.

2 Revenue Outturn

2.1 The provisional General Fund Summary is set out at Appendix 1.

2.2 The Summary shows the costs of the day-to-day running of Council services, split between net expenditure on service provision in the top section of the table, followed by various accounting adjustments, transfers to and from reserves, income from investing surplus cash alongside the cost of any borrowing, and income from Council Tax, Business Rates and central government grants. The balance of this expenditure and income results in either a contribution to the Council's General Fund balance (where income exceeds expenditure) or a reduction in the balance, where funding is required to meet a gap due to expenditure exceeding income.

2.3 The original budget for 2022/23 anticipated the need to use around £0.25m of balances to support the revenue budget, which was subsequently revised to show a contribution to balances of almost £0.5m, as budgets were monitored during the year. By the close of 2022/23, further significant in-year underspends resulted in surplus funds of just over £4.9m being available to be set aside to support future pressures and to increase the level of contingency available to mitigate risk.

2.4 As set out in the report to July Corporate Management Committee, which outlines the Council's approach to achieving financial sustainability, a proportion of this in-year underspend is to be set aside to increase the earmarked reserves that were put in place to provide risk mitigation for the fluctuations in income that may occur due to the Council's investment in commercial property. The Council has prudently set up two earmarked reserves to both maintain assets in a lettable condition, and to smooth out fluctuations in income as leases come to an end, due to void costs incurred should premises remain empty for any period of time or the granting of incentives to new tenants such as rent-free periods. While annual transfers to these reserves are included in the current Medium-Term Financial Strategy (MTFS), it is proposed as part of the annual review of the MTFS, to develop a robust model for determining the appropriate level of funds to be held for these purposes. In the meantime, whilst agreed in principle in the report noted above, approval is now expressly sought to transfer £1.005m of the total underspend to these reserves.

2.5 The July report to this Committee also approved the principle of the creation of a Service Transformation Reserve to hold funds to be ring-fenced to pump-prime invest-to-save initiatives, making it easier to monitor and report on the spend over time, alongside the benefits achieved.

2.6 It was agreed that the reserve would support set up costs or short-term resources such as consultancy costs, ICT equipment, vehicle purchase etc. but not on-going costs. Expenditure over £10k would not be released without approval of the full business case by Members, whereas funds below £10k could be released with the approval of the Assistant Chief Executive (s151), aligned with normal virement rules within the Financial Regulations. Use of the Reserve will be scrutinised by the Overview and Scrutiny Select Committee alongside delivery of the savings programme.

2.7 It is proposed to ring-fence £1m for this purpose. This is anticipated to cover initiatives over the medium term and will be regularly reviewed as set out above. Should the programme not require this level of resource then funds would simply be released back to working balances.

2.8 The final adjustment to reserves approved in the July report, was the creation of a Planned Underspend Reserve to improve the monitoring of spend against budgets that are requested to be carried forward from one year to the next, due to works being unable to take place during 2022/23 but which are still required. An earmarked reserve has been set up to hold these budget carry forwards. Once works have been carried out the funding will be released from the reserve, smoothing the effect of these timing differences between years. Appendix 2 sets out a list of the planned underspends for carry forward to 2023/24.

2.9 Following these transfers, £2.1m will still be available to flow into the General Fund working balance (an increase of £1.6m above the £0.5m previously anticipated). This will see balances increase to £20.3m, which is comfortably above the revised minimum threshold of £5m, set in the last MTFS.

2.10 The table below provides a high-level summary of the variances on the General Fund.

Summary of major variances against Probable outturn		**£000s**
Probable Contribution to working balance		**(478)**
Less:		
	Variations in service budgets (see Appendix 3)	(4,852)
	Lower than anticipated increase to the provision for credit loss	(1,392)
Plus:		
	Additional transfers to reserves to support the Council's property portfolio	1,005
	Transfer to Service Transformation Reserve	1.000
	Change in financing and investing income	955
	Transfer to Planned Underspend Reserve	819
	Set aside of funds to support car park improvements, tennis courts, equipment repair and renewals	602
	Other accounting adjustments	229
	Reduction in grant funding	22
Actual Contribution to working balance		**(2,090)**

2.11 A table of the key variances at service level, between budgeted and actual revenue outturn, is included in Appendix 3 of this report. This figure includes the Planned underspends previously referred to, which are then transferred to a reserve for future draw down.

2.12 Other variances of note in the table at 2.10 are the reduction in the provision for credit losses, which fell by nearly £1.4m, and the fall in financing costs and investment income of £0.95m. The former is due to a lower bad debt provision being required, specifically for commercial property, where the anticipated level of additional bad debts has not materialised. The latter is due to a reduction in investment income as rates were slower to rise than first estimated and balances held for investment were reduced as funds were used instead to defer additional and replacement borrowing.

2.13 A £4.1m reduction in net returns for the operation of the Business Rate Retention Scheme has been offset by a draw down from the Business Rates Equalisation Reserve which has previously been set aside to manage major fluctuations in business rates income due to timing differences between receipt and payment of funds which has increased in complexity due to the addition of various rate reliefs which are reimbursed via government grants. The final outturn from business rates can vary significantly over time as businesses become eligible for mandatory or discretionary reliefs and as the tax base alters as businesses open and close.

3 Housing Revenue Account (HRA)

3.1 The Council also maintains a Housing Revenue Account (HRA), a ring-fenced account which contains all income and expenditure relating to the management of a stock of around 2,900 dwellings. Appendix 4 of this report sets out the variances in income and expenditure against budget, and the movement in HRA balances during the year.

3.2 The HRA produced a surplus for the year of £4.7m, compared to the probable £2.6m deficit reported earlier in the year, largely due to a £6.7m reduction in contributions to top up the Major Repairs Reserve (MRR) which now stands at just under £1m. The original budget assumed that progress on repairs work would have been further along its journey than actually occurred therefore the extra call on the MRR was not required.

3.3 The overall working balances for the HRA have increased to £37.7m from an anticipated £34.1m, due to the in-year surplus generated, partially offset by the fall in the MRR.

4 Capital Outturn

4.1 The Council's Capital Programme includes all expenditure on the purchase or creation of assets with an economic life of more than one year, or on enhancements to existing assets. Capital spending is funded by the sale of assets, by capital grants and donations, contributions from developers, use of earmarked reserves or via contributions from the Council's Revenue Account.

4.2 Where there is a gap in funding, the Council may borrow to support capital spending; this can be through the use of internal borrowing (using cash reserves until they are needed elsewhere) or through external borrowing (in the private sector or via the Public Works Loan Board). More detail on the Council's borrowing position is contained in the Treasury Management Outturn Report which is reported elsewhere on this agenda.

4.3 Appendix 5 of this report sets out the Capital spending for the year 2022/23 and commentary on key variances. In total the Council has expended £36.4m in capital resources during the year against an original budget of £40.2m. The timing of capital spending, particularly for large projects, is difficult to predict with accuracy and often leads to significant expenditure being slipped to the following year. This is particularly the case where a project is expected to span a number of years as it is not always possible to accurately predict the level of costs that will fall into each period.

4.4 Other major variances have occurred due to projects no longer being progressed or where provisional sums have been set aside but have not been utilised in the year.

4.5 The following table provides a summary of the Capital Programme for 2023/24 and how it has been funded.

Capital Expenditure and Financing Summary	Gross Spend	Funded by: Grants & Contributions	Capital Receipts	Earmarked Reserves	HRA Revenue Reserves	Major Repairs Reserve	Internal / External Borrowing
	£000	£000	£000	£000	£000	£000	£000
Housing Services							
Private Sector Improvement grants	574	574					
Private Sector Housing Improcement Loans	8		8				
Capitalisation of Improvement Works	5,330					5,330	
St Georges Development, Addlestone	70		25		45		
Investment in Energy Eficiency	898	527			371		
Housing Northgate System upgrade	160				160		
Environment & Sustainability							
Depot Vehicle fleet replacement programme:	105			105			
Green Homes - raising energy efficiency	2,777	2,777					
Replacement car parking vehicles							
Grounds Maintenance Vehicles	347		347				
Community Development							
CCTV Equipment Replacement	115			115			
Grants to Local Organisations	2		2				
Corporate & Business Services							
Development Loans to RBCI (Egham Gateway)	11,838		11,838				
ICT Hardware Replacement	135			135			
Telephony system	14		14				
Runnymede Regeneration Programme							
Egham Business Park	- 112		- 112				
Magna Square regeneration scheme	12,256						12,256
Addlestone One refubishment	1,828		1,828				
Total	**36,345**	**3,878**	**13,949**	**355**	**577**	**5,330**	**12,256**

5 Policy Framework

5.1 The provisional outturn report forms part of the budgetary review framework of the Council and its financial and performance management processes. The report will inform the production of the MTFS.

6 Resource Implications

6.1 This report outlines the Council’s financial position at the close of 2022/23.

6.2 In terms of its net Revenue expenditure, the Council has, once again, underspent significantly against its budget. In previous years, this was in part due to the impact of Covid-19 and subsequently to the “living with Covid” phase of the pandemic which resulted in resources being diverted from planned service delivery. The Council now has a new Corporate Business Plan and has set out to align its work programme against the priorities within the plan. It may be however that it was too ambitious in its expectations for delivery in the first year of this plan, as evidenced by the amount of budget carry forward to 2023/24 and the extent of underspend or slippage occurring during the year. As noted in last year’s outturn report, it may take time to fully align budgets with the activity set out in the Plan, and within individual Service Area Plans.

6.3 The Council has faced difficulties with recruitment and retention of staff, again in part due to the “great resignation” stemming from the pandemic, which has seen people re-evaluate their work/life balance. Fewer staffing resources, or continued high turnover, will likely cause delays to projects and impact on the spending plans of the Council. It is notable that the largest variance reported in the General Fund is an underspend on salary and wages and further investigation is to be undertaken, as set out in the MTFS, to improve understanding of the reasons for long-term vacancies, and to assess the cost of any alternative arrangements that have been put in place, e.g., agency staff/consultancy. Budgets will be re-aligned to a refreshed establishment list to ensure services are not carrying posts that are no longer required for delivery of the service.

6.4 While the ability to increase both unallocated and earmarked reserves, to mitigate against known risks and to take forward invest-to-save initiatives, is welcome, the Council should not be complacent that this increase in reserves is sufficient to weather the financial challenges likely to be faced over the next few years.

6.5 High levels of inflation, for example, will continue to put pressure on the Council’s budget over the medium term and anticipated increases in pay awards, energy costs and general inflation that were previously incorporated into the last Medium-Term Financial Forecast (MTFF), may well require upward revision.

6.6 Other significant on-going pressures and risks will shape the next iteration of the MTFF and while this additional contingency may be used to support short-term increases in costs or reductions in income, it cannot be used to meet an on-going budget gap. This will require structural changes to the budget in order to make permanent reductions in costs or to increase income streams. Stronger balances will provide the Council with a buffer that will allow time to put these measures in place.

6.7 The HRA produced a surplus at the year-end due largely to reduced spending on repairs. What will be critical moving forward is whether those anticipated repairs were simply not required or whether it is the timing of works that has slipped back. If the latter, then the resources will still need to be spent in the future. The HRA 30-year business plan demonstrates a reduction in balances to around £2.8m over the next few years, which will be in some part alleviated by the additional surplus produced in 2022/23. Given the necessity to ensure the Council’s Housing stock reaches Decent Homes standards, plans for Social Housing Decarbonisation, replacement of aging stock and ambitions to increase stock, it will be essential moving forward to maximise use of external grant funding and to work with partners where possible, to adequately resource these major works.

6.8 The Capital Programme ran slightly below budget during 2022/23 but will be constrained in future by the lack of available capital receipts, potential restrictions on borrowing as the Capital Financing framework is tightened by government, and the lack of headroom in the General Fund to support borrowing costs or direct capital contributions.

6.9 In summary, the underspend in all areas of the Council’s budget is welcome news, in that it provides an additional buffer against scarcity of resources. The Council recognises the financial risks that it faces and has made good progress in defining actions to mitigate this risk, which will feed into the next MTFS.

7 Legal Implications

7.1 Section 28 of the Local Government Act 2003 requires authorities to monitor their income and expenditure against their budget and be ready to take action if overspending or shortfalls in income emerge. The provisional outturn report is a summarised version of the information produced for the Statement of Accounts which is governed by the Accounts and Audit Regulations 2015, as amended.

8 Equality Implications

8.1 There are no specific equality implications of this report, other than an acknowledgement of the importance of equality matters and how they are addressed when service provision is changed, new services are provided, or new capital schemes are assessed.

9 Environmental/Sustainability/Biodiversity implications

9.1 Again, while there are no specific environmental, sustainability or biodiversity implications contained within this report, the delivery of sustainable outcomes lies at the core of the Council's vision and the next iteration of the Medium-Term Financial Strategy, and future budgets, will be aligned with the Corporate Business Plan, which includes the Council's Climate Change Strategy.

10. Background papers

- Approach to Financial Sustainability – Savings, Income Generation and Efficiency - Corporate Management Committee July 2023
- Medium-Term Financial Strategy – Corporate Management Committee – December 2022
- HRA Business Plan - Housing Committee – March 2023

11. Appendices

- Appendix 1 – General Fund Summary – Revenue Account
- Appendix 2 – Planned Underspends
- Appendix 3 – Variations in Service Budgets
- Appendix 4 – HRA Balances, Planned Underspends and Budget variances
- Appendix 5 – Capital Expenditure 2022/23