

Blaby District Council

Cabinet Executive

Date of Meeting	10 July 2023
Title of Report	Financial Performance 2022/23 This is a Key Decision and is on the Forward Plan.
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report sets out details of the Council's financial performance against the General Fund revenue budget, Business Rates Retention, Council Tax, and the Capital Programme for the year ended 31st March 2023.

2. Recommendation(s) to Cabinet Executive

- 2.1 That the financial performance for 2022/23 is accepted.
- 2.2 That the debts listed in paragraph 4.5 are approved for write-off.
- 2.3 That the "Covid Support Reserve" is redesignated as the "Contractual Losses Support Reserve" and £445,000 of the current balance is transferred to General Fund balances.

3. Reason for Decisions Recommended

- 3.1 The unaudited accounts for 2022/23 were published on 31st May, with Blaby being amongst only 30% of authorities to meet the statutory deadline. Whilst the accounts are still subject to external audit, it is important to give Members early sight of the outturn to assist with the financial planning process.
- 3.2 The debts listed in paragraph 4.5 are considered to be uncollectable and the amounts involved are above the limit up to which they may be written off by the Executive Director (Section 151) and Portfolio Holder.
- 3.3 In response to Scrutiny's recommendations concerning the administration's budget proposals for 2023/24, it was agreed that earmarked reserves would be reviewed at year end to assess whether they are still required or adequately reflect the purpose for which they are held.

4. Matters to consider

4.1 Background

The Council's net expenditure for 2022/23 is summarised by Portfolio in Appendix A, with a more detailed breakdown of the main variances shown below.

When the Quarter 3 budget review report was presented to Cabinet Executive in February 2023, the forecast outturn was that a contribution from balances of £715,058 would be required. This was on the back of various cost pressures arising out of the current economic climate, including increased fuel prices, the war in the Ukraine, spiralling inflation, and various key income streams struggling to recover to pre-pandemic levels. At that point it was recognised that there was a risk that some of the more demand-led income streams could fail to improve by the end of the financial year. By year end, further updates resulted in a slight reduction in the contribution from balances from £715,058 to £652,958.

However, despite this challenging economic environment, the Council has managed to achieve a slight surplus for 2022/23, resulting in a contribution to balances of £20,535. This surplus has arisen due, primarily, to vacant posts during the financial year, and investment income performing significantly better than budgeted as interest rates have continued to rise. Although this is a positive outcome for 2022/23, it should be noted that the economic climate is still creating a great deal of uncertainty and there are a number of ongoing cost pressures that may affect the Council's financial position in 2023/24.

The first of these is that the annual pay award has yet to be agreed for all employees and there is a strong likelihood that the budgeted pay award of 3% will be insufficient. For every 1% that the pay award exceeds the budget, the cost will be approximately £145,000. Whilst vacant posts may reduce the financial impact, they create additional pressure on the rest of the workforce and can affect service delivery standards unless filled quickly.

In addition to this, many of our key income streams, such as planning, building control, and car parking fees, have not returned to pre-pandemic levels. There is also a continuing high demand for temporary accommodation which results in pressure on the Housing Service and, in financial terms, on housing benefit subsidy recoverable.

The most significant variances against the revised budget are set out in the following paragraph.

Expenditure Variances

The variances against the revised budget are detailed below. These have been adjusted to reflect unspent budgets carried forward to 2023/24, and contributions to earmarked reserves.

	Note	Variance (£)	
<u>Reduced Expenditure</u>			
Establishment	1	(466,299)	
Revenue Funding of Capital Expenditure	2	(145,281)	
Local Plan	3	(59,233)	
Revenues & Benefits IT Costs	4	(54,531)	
Homelessness Costs	5	(54,470)	
Economic Development	6	(40,080)	
Legal Fees	7	(39,913)	
Training Costs	8	(36,281)	
Interest Payable	9	(32,161)	
Planning Consultants Fees	10	(23,064)	
Purchase of Domestic Bins	11	(20,614)	
			(971,927)
<u>Additional Income</u>			
Investment Income		(378,213)	
Building Control Partnership Contributions	12	(115,874)	
New Burdens Funding - Business Grants	13	(101,453)	
New Burdens Funding - Council Tax Energy Rebate	13	(34,288)	
New Burdens Funding - Test and Trace	13	(31,674)	
			(661,502)
<u>Increased Expenditure</u>			
Housing Benefit Payable net of Subsidy	14	315,773	
Enderby Road Industrial Estate	15	134,071	
Bad Debt Provision and Write-offs	16	42,531	
Treasury Management Consultancy – MRP Policy	17	40,000	
Fuel	18	34,849	
			567,224
<u>Reduced Income</u>			
Building Control		215,498	
Planning		95,388	
Car Parks		82,250	
Land Charges		34,111	
			427,247
Other minor variances			34,535
Net Variance			(673,493)

Notes re variances

1. Establishment – in the wake of the pandemic, the Council continues to experience significant turnover in its workforce, although on the whole recruitment difficulties have eased. Nevertheless, vacancies across the board but particularly noticeable in Neighbourhood Services, and Environmental Services, have resulted in a considerable underspend against the establishment budget, even after allowing for the pay award. Additional resource was added to the budget early in the financial year towards the management restructure exercise, but delays in recruiting also contributed to the underspend.
2. Linked to underspends in the capital programme, mainly the Walk and Ride Blaby project funded from the business rates pilot. Funding for these projects is already allowed for in earmarked reserves.

3. Provision for consultancy costs, training, and legal fees not required in year. Funding for these items is held within the Local Plan Reserve and is likely to be needed in future financial years, as the Local Plan is developed.
4. Comprises two elements – sundry IT purchases, and software maintenance. The former was largely brought forward from 2021/22 on the back of additional funding received and in anticipation of additional requirements due to various government schemes in play. Not all of this money was required, and those schemes have now closed. The saving against software maintenance is due to the contract for the new system, including document management system, being finalised later than anticipated.
5. Although bed and breakfast accommodation costs exceeded the budget by £85,000, the Council was able to recover a larger than expected proportion through housing benefit. See also note 14.
6. Budget brought forward from 2021/22 and not needed.
7. Provision for external legal fees not required.
8. Includes approximately £12,000 in respect of corporate training and post entry training provisions, plus various other service-specific training budgets not used.
9. Interest payable fell within budget due to no external borrowing being taken up in year.
10. This budget covers professional support in respect of forestry advice, archaeological and ecological advice, conservation and historic buildings, and various other one-off work in relation to, e.g., planning appeals.
11. The Council makes budget provision for purchasing bins for new properties or to replace lost and damaged bins. The amount required will vary according to demand and growth in the district.
12. See paragraph covering the Leicester Building Control Partnership below.
13. New burdens funding is generally provided by the government to cover administrative costs arising from new initiatives. This has been quite substantial over the last three financial years due to the introduction of various measures during the pandemic and, more recently, the energy bill support scheme. By taking this funding into balances we recognise that internal resource was used to deliver these initiatives, in addition to some low-level external costs. All these schemes are now closed and no further associated costs are anticipated.
14. Linked to homelessness and the provision of bed and breakfast accommodation. There has been considerable pressure on the Housing team to provide temporary accommodation for homeless families and individuals. Whilst we have been quite successful in recovering much of the cost through housing benefit, there is a knock-on impact on our ability to reclaim those costs through housing benefit subsidy. This is because there is a rent cap in place that limits the amount of subsidy recoverable, and as a result in recent years we have seen a widening gap between the amount of benefit paid and the amount that we can recoup from government. This will need to be factored into the budget setting process going forward.

15. Increased costs in relation to the management and maintenance of the industrial estate, in particular when units become vacant. The Council has seen an increase in the number of vacant units in the last year, leading to additional fees payable to the managing agent, business rates payable on vacant units, and unrecoverable repair costs.
16. Based on a review of outstanding debts on 31st March 2023. Most of the balance shown in the table (£36,005) relates to historic rent deposits given to customers to assist them in securing rented accommodation.
17. Fee payable to our treasury advisors, Link, for services rendered in reviewing and putting together a proposal around the calculation of Minimum Revenue Provision (MRP).
18. Additional costs linked to the higher margin payable in respect of HVO.

Key Income Streams

The following table provides an analysis of the performance of the Council's key income streams during the year:

	Approved Budget (£)	Revised Budget (£)	Actual Income (£)	Variance against Approved Budget (£)	Variance against Revised Budget (£)
Planning Fees	(560,000)	(560,000)	(464,613)	95,388	95,388
Building Control Fees	(1,237,000)	(1,237,000)	(1,021,502)	215,498	215,498
Land Charges	(247,000)	(247,000)	(212,889)	34,111	34,111
External Investment Interest	(100,000)	(400,000)	(778,213)	(678,213)	(378,213)
Refuse and Recycling	(1,691,000)	(1,688,000)	(1,675,049)	15,951	12,951
Car Parks	(160,000)	(245,500)	(163,250)	(3,250)	82,250
Leisure Income	(460,000)	(300,550)	(327,649)	132,351	(27,099)
Total	(4,455,000)	(4,678,050)	(4,643,165)	(188,164)	34,886

NB: brackets indicate excess income.

Some of our key income streams have failed to recover from the pandemic, and this situation has now been exacerbated by the current economic crisis. As inflation reached double figures during 2022/23, the impact was felt on demand for our services with Building Control and Land Charges, which had previously held up well during the pandemic, seeing reduced take-up. Only investment income has significantly outperformed the budget due to the combined effect of higher interest rates and a level of cash flow inflated by on account grant payments from government.

The above table does not show the full picture in respect of the Building Control Partnership or the Car Park Account, further detail on which is provided later in this report.

Carry Forward of Unspent Budgets

As part of the closedown process an exercise has been undertaken to identify where it is reasonable to carry forward unspent budgets from 2022/23 to the new financial year. As a rule, this applies to one-off project related budgets, which are usually externally funded. A total of £3,604,756 has been carried forward to 2023/24, of which £3,255,290 relates specifically to external funding, which is ring fenced and cannot be used for anything other than what it is initially intended for. Included within this amount are two significant grants from DEFRA (Particulates Matter and Let's Go Electric) for £728,822, and the Better Care Fund (Lightbulb Green Grants) for £675,000, as well as unspent UK Shared Prosperity Fund monies.

Leicestershire Building Control Partnership

The table below provides a summary of the partnership account for 2022/23.

	Original Budget £	Final Outturn £	Variance £
Employee Costs	1,219,800	1,166,971	(52,829)
Transport Costs	51,300	50,957	(343)
Supplies and Services	30,800	15,485	(15,315)
Blaby Overheads and Support Services	61,100	61,100	0
Total Expenditure	1,363,000	1,294,512	(68,488)
Total Income	(1,237,000)	(1,021,502)	215,498
Net Expenditure	126,000	273,010	147,010
Partner Contributions	(99,314)	(215,187)	(115,873)
Cost to Blaby	26,686	57,823	31,137

The cost-of-living crisis had a clear impact on demand for the Building Control Partnership's services and, consequently, the income achieved during the year was much reduced compared to the target set in the business plan. The loss in income was offset to some degree by vacancies within the team, and other non-salary related expenses. The agreement that partners signed up to is that any losses will be shared in accordance with the application data from the previous three years. Therefore, although a total loss of £147,010 was returned, Blaby's share of that loss was limited to £31,137.

Car Parking Account

The following table sets out the net position in relation to the car parking account in 2022/23.

	Revised Budget £	Final Outturn £	Variance £
Premises Costs	103,441	112,019	8,578
Supplies and Services	60,914	37,031	(23,883)
Enforcement Contract	55,186	38,972	(16,214)
Overheads and Support Services	82,814	98,703	15,889
Capital Financing Costs	22,740	22,740	0
Total Expenditure	325,095	309,465	(15,630)
Contributions towards Expenses	(1,500)	0	1,500
Fees and Charges	(245,500)	(163,250)	82,250
Penalty Charge Notices	(30,000)	(21,635)	8,365
Total Income	(277,000)	(184,885)	92,115
Net (Surplus)/Deficit	48,095	124,580	76,485

The car parking account has moved further away from the target of breaking even, largely because of the shortfall in income during 2022/23. Although parking charges were increased from 5th October 2022, and overall income has increased as a result, car park usage has still not returned to the level it was at before the pandemic. Neighbouring authorities are known to have experienced similar reductions in car park income since the pandemic.

Earmarked Reserves

In addition to the General Fund balance the Council also maintains several Earmarked Reserves. Some of these are set aside for specific purposes whilst others have been created to mitigate the uncertainties that still surround local government funding and to support Spend to Save opportunities. A detailed breakdown of the movement on Earmarked Reserves appears at Appendix B. The overall balance on Earmarked Reserves has decreased from £14,080,669 at the beginning of the financial year to £12,735,996 on 31st March 2023. However, it should be noted that £1,516,792 of the year-end balance is technically not available for use. This is the balance set aside, as described in the following paragraph – Business Rates Retention – to mitigate the Collection Fund deficit on 31st March 2023.

As part of the 2023/24 budget setting process, Scrutiny recommended that unspent earmarked reserves are reviewed to determine whether they are all still required. Cabinet's response was that earmarked reserves are routinely reviewed at each year end, when they are assessed to ensure that they are still required and/or they are reflective of the purpose for which they are maintained. This review has been undertaken by the Executive Director (Section 151) and, whilst most reserves are still needed, it is considered that the "Covid Support Reserve" should be repurposed to act as a reserve to mitigate the contractual losses arising from the revised Leisure Management contract, with any balance being returned to General Fund balances.

On 19th July 2022, Council was presented with a report setting out the new contractual arrangements for the management of the leisure centres. This included a revised management fee proposal amounting to £4,413,055 which, when compared to the amount included in the Medium-Term Financial Strategy (MTFS) at that time, resulted in a reduction in contract income of £253,975. Due to positive financial performance for 2022/23, there was no need to support the General Fund from earmarked reserves. However, it is proposed that the “Covid Support Reserve” is redesignated as the “Contractual Losses Support Reserve”, and £255,000 of the current balance is retained to offset future losses against the MTFS. The balance of £445,000 would consequently be returned to General Fund balances.

General Fund Balances

As a result of the outturn referred to above, £20,535 has been added to the General Fund balance. This leaves a year-end balance of £4,619,444, representing 35.91% of the budgeted net revenue expenditure for 2022/23, but only 29.90% when considering planned contributions to support the budget in 2023/24. The Council's upper limit, set as part of its policy on reserves, is 35%.

4.2 Business Rates Retention

When setting the budget for 2022/23 it was expected that business rates income would be approximately £50.3m, of which Blaby's share would be £20.1m (40%). This allowed for ongoing retail relief to certain businesses although at a much-reduced level compared to the two previous years. There was also the COVID-19 Additional Relief Fund (CARF) for which Section 31 grant funding was carried over from 2022/23, and this amounted to £2.3m, which was paid to businesses that met the Council's criteria in 2022/23.

The outturn income from business rates in 2022/23 was £51.2m of which Blaby's share was just under £20.5m. The difference between the budgeted NNDR income and the outturn position flows through the Collection Fund, resulting in a reduction to the deficit. This will then be taken into account when setting the budget for 2024/25. Out of the income share of £20.1m, the Council is required to pay a tariff to central government (£14.5m) and a levy on growth (£2.9m – including an adjustment to the 2020/21 levy), giving a net income from business rates of £2.7m. This is supplemented by Section 31 grant compensation in respect of various reliefs implemented by government (£2.8m). The Council also has to make good its share of the estimated deficit at 31st March 2022, which equates to a further £2.8m, although this is covered by the Section 31 Grant Reserve. A further £0.7m was added to the NNDR Income Reserve to bring the net of all NNDR-related transactions to the £4.7m estimated when the budget was set.

The following table below shows the main variances between the estimated position on the NNDR1 return, and the final outturn.

	NNDR 1 £	NNDR 3 £	Variance £
Gross Rates Payable	(59,956,228)	(57,555,344)	2,400,884
Transitional Arrangements	0	(276,095)	(276,095)
Mandatory Reliefs	2,699,337	2,882,614	183,277
Discretionary Reliefs	84,694	88,028	3,334
Unoccupied Property	1,500,000	688,322	(811,678)
Discretionary Relief funded by S31 Grant	1,786,317	3,028,994	1,242,677
Net Rates Payable	(53,885,880)	(51,143,481)	2,742,399
Provision for Bad Debts/Write-offs	539,000	(234,917)	(773,917)
Provision for Appeals	2,964,000	(155,000)	(3,119,000)
Transitional Protection Payments	0	276,095	276,095
Cost of Collection Allowance	104,065	102,129	(1,936)
Non-Domestic Rating Income	(50,278,815)	(51,155,174)	(876,359)

Gross rates payable were £2.4m lower than forecast but this was largely due to the impact of the CARF applied to the accounts of eligible businesses. This is reflected in the amount of discretionary relief funded by S31 grant in the table above. Caution was exercised when completing the NNDR1 return in respect of the potential for businesses to close due to the pressures of the cost-of-living crisis. Ultimately, though, this did not materialise to the extent that was expected. The bad debt provision for arrears was reduced at year end, in light of the collection experience during the year, and the level of arrears outstanding at year end. Similarly, a review of outstanding appeals at 31st March 2023, together with the threat of potential appeals coming forward, concluded that the existing provision was broadly sufficient given that a new rating list was introduced on 1st April 2023.

In overall terms, the Business Rates Collection Fund has moved from a deficit of £11,035,638 on 31st March 2022 to a reduced deficit of £3,238,781 on 31st March 2023. Blaby's share of that deficit is £1,295,511 (£4,414,254 on 31st March 2022).

Due to the way in which local authorities are required to account for business rates income, the year-end deficit will not be felt until 2023/24 and beyond. The Council has already allowed for an estimated deficit of £1,313,331, when setting the 2023/24 budget; the difference between the estimated deficit and actual deficit will be brought into account in the 2024/25 budget setting process. There is a balance of £1,516,792 remaining in the Section 31 Grant Reserve, which will cover Blaby' share of the actual deficit on 31st March 2023.

4.3 Council Tax

The Council Tax Collection Fund has moved from a deficit of £730,652 on 31st March 2022 to a deficit of £829,079 at the end of 2022/23. This represents an in-year deficit of £98,427. The outturn position was not as good as than anticipated when setting the 2023/24 budget (£453,150). This is because the net debit was lower than expected, and bad debts written off in the last quarter also had a negative impact on the final position.

Blaby's share of the deficit on 31st March 2023 is £117,574 compared with the previous year deficit share of £104,874.

Accounting for council tax is similar to NNDR, in that any difference between the estimated income and the outturn income flows through the Collection Fund in the form of a surplus or deficit. That surplus or deficit will then be factored in when setting the 2024/25 budget.

4.4 The Capital Programme

In 2022/23 the Council spent £2,331,693 on Capital schemes, compared with the latest Capital Programme budget of £7,781,175. This represents an underspend of £5,449,482 or 70.04% against planned capital expenditure, of which £5,439,203 has been carried forward to 2023/24 to enable the schemes to be completed.

Appendix C shows expenditure against the budget by scheme.

<u>Capital Expenditure:</u>	Approved Budget £	Revised Budget £	Actual Outturn £	(Under)/ Overspend £
Invest to Save Schemes	0	2,721,917	199,175	(2,522,742)
Essential/Contractual Schemes	1,690,500	2,738,108	1,159,610	(1,578,498)
Desirable Schemes	0	220,000	20,000	(200,000)
Externally Funded Schemes	700,000	2,071,531	952,908	(1,118,623)
Other Schemes	12,000	7,685	0	(7,685)
Contingency Budget	50,000	21,934	0	(21,934)
Total Capital Expenditure	2,452,500	7,781,175	2,331,693	(5,449,482)
<u>Financed by:</u>				
Borrowing	1,118,500	4,665,760	910,265	(3,755,495)
Capital Receipts	534,000	387,495	135,837	(251,658)
Earmarked Reserves	0	264,714	224,514	(40,200)
Revenue Contributions	100,000	153,171	43,005	(110,166)
External Funding	700,000	2,310,035	1,018,072	(1,291,963)
Total Capital Financing	2,452,500	7,781,175	2,331,693	(5,449,482)

The main variances against budget are as follows:

- Regeneration Property - £2,500,000 approved by Council in November 2022. No appropriate opportunities for investment arose during 2022/23.
- Disabled Facilities Grants (DFGs) – Underspend of £758,526. Expenditure has increased in comparison to recent years, but this is largely due to the impact of inflation on labour and materials prices. There is still a waiting list with Adult Social Care occupational therapists to undertake assessments.
- Refurbishment of vacant units at industrial estate - £450,000. Planned to commence in March 2023 to let the units to a prospective new tenant by 1st April. Discussions with the prospective tenant continued and agreement

made for the start date to be extended so that more extensive works could be undertaken to make the units fit for purpose before letting.

- Section 106 Contributions - £289,617: A total of £243,715 was carried forward from 2021/22 with additional contributions to the value of £125,194 being allocated to various community projects during the financial year. Projects to the value of £79,292 were completed by 31st March 2023 with the remaining balance being carried forward for completion in 2023/24.
- Replacement Boiler at the Council Offices - £234,838: Delayed whilst the specification was reviewed to try to reduce costs. This proved to be unsuccessful, and works are now underway.
- Bouskell Park Car Park Improvements - £200,000: Latest estimates suggest that the proposed works would cost double the amount budgeted. To be deferred pending the outcome of the Parks and Open Spaces Strategy.

4.5 Irrecoverable Debts

The following debts are presented for write-off subject to the approval of Cabinet Executive. None of the debt is considered to be recoverable for the reasons set out below.

Debt Category	Amount (£)	Reason for Write-off
Council Tax	64,104	Whitegate Stables: site closed
Council Tax	9,927	Individual Voluntary Arrangement awarded
Council Tax	9,166	Debt Relief Order granted
Council Tax	39,061	Recovery action exhausted
Business Rates	8,303	Business in liquidation
HB Overpayment	28,813	Declared bankrupt
HB Overpayment	2,267	Local Authority error
Total	161,641	

All of the above debts have been taken into account when setting the bad debt provision as at 31st March 2023.

Council tax and business rate write-offs are charged to the Collection Fund and will flow through the surplus or deficit for the year. Blaby's share of the cost of writing off the debt is approximately 12% for council tax and 40% for business rates. These debts are already provided for within the Collection Fund bad debt provisions.

Housing benefit overpayments, when written-off, are charged against the bad debt provision in place.

5. What will it cost and are there opportunities for savings?

5.1 Financial implications are detailed in the main body of this report.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
That the unaudited accounts are misstated and require amendment	The accounts are subject to independent examination by the Council's external auditors, Ernst & Young (EY). Due to delays in the audit process, the accounts for 2020/21 and 2021/22 have not yet been concluded. Any revisions to those years accounts may have a corresponding impact on the 2022/23 accounts. The Council are awaiting confirmation of the date that the audit of the 2021/22 and 2022/23 accounts will take place. The deadline for publication of the audited accounts is by 30 th September 2023. If any amendments are required as a result of the audit, financial implications will be reported back to Cabinet Executive at the earliest opportunity following publication.

7. Other options considered

7.1 None.

8. Environmental impact

8.1 No direct impact arising from this report.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – General Fund Revenue Account: Performance against Budget

10.2 Appendix B – Earmarked Reserves

10.3 Appendix C – Capital Expenditure against Budget

11. Background paper(s)

11.1 None.

12. Report author's contact details

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