

Blaby District Council
Audit & Corporate Governance Committee

Date of Meeting 13 July 2023
Title of Report **Unaudited Statement of Accounts 2022/23**
Report Author Finance Group Manager

1. What is this report about?

- 1.1 The report sets out details of the Council's financial performance for 2022/23, covering the General Fund, the Capital Programme, the Collection Fund, and treasury management activities.
- 1.2 It also provides Members with details of the key balance sheet movements that are reflected in the draft Statement of Accounts for 2022/23.

2. Recommendation(s)

- 2.1 That the financial performance for 2022/23 is accepted.

3. Reason for Decision(s) Recommended

- 3.1 To give Members the opportunity to comment and ask questions in respect of the Council's financial performance, and unaudited accounts for 2022/23.

4. Matters to consider

4.1 Background

The Council is required to prepare its annual accounts in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and in line with International Financial reporting Standards (IFRS). The reason for this is to attempt to produce the accounts in a standardised and consistent format across both the public and private sectors, and to give greater transparency to stakeholders.

The Accounts and Audit Regulations require local authorities to publish their audited accounts by 30th September 2023. This means that the public inspection period for 2022/23 must commence on 1st June 2023, meaning that the unaudited accounts had to be signed off by the Executive Director (Section 151) and published on the Council's website by 31st May 2023.

Blaby was one of only 30% of local authorities across England that met the deadline for publishing their unaudited accounts.

To give further context for new Members of the Audit and Corporate Governance Committee, since the onset of Covid-19, local authorities in general have experienced significant delays with the timely completion of the audit of accounts, even though publication dates were relaxed between 2020/21 and 2022/23. These delays have mainly centred around the difficulties that external audit firms have experienced in recruiting suitably qualified public sector auditors, and consequently being unable to adequately resource their audits.

In Blaby's case, the 2019/20 audited accounts were not signed off and published until August 2021, and the audit of the 2020/21 accounts has still not been completed. The consequences of this are that our auditors, Ernst & Young, are not expected to commence the audit of the 2021/22 accounts until later this year, and the 2022/23 audit will probably not take place until mid-2024. Furthermore, until the audits are brought up to date, there is always the possibility that the accounts may need restating due to the passage of time, and this creates uncertainty for the Council when considering its future spending plans.

4.2 General Fund Revenue Account

The Council's net expenditure for 2022/23 is summarised in Appendix A.

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 table below gives a snapshot of the main variances against the revised budget.

	£	
<u>Underspends and Additional Income</u>		
Establishment	(466,299)	Savings arising from vacant posts
Investment income	(378,213)	Due to base rate increases and continued high level of cash
New Burdens Grants	(167,415)	Towards administration of business grants, council tax energy rebate, and test and trace scheme
Revenue funding of Capital Programme	(145,281)	Capital schemes delayed until 2023/24
<u>Overspends and Reduced Income</u>		
Housing Benefit payable net of Subsidy	315,773	Cap on temporary accommodation costs recoverable through subsidy
Enderby Road Industrial Estate	134,071	Costs relating to vacant units
Planning fees	95,388	
Car parking fees and charges	82,250	

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.

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.

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%.

4.3 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.

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's share of the actual deficit on 31st March 2023.

4.4 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.

4.5 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, whilst the table below provides a high-level summary of capital expenditure and financing.

<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.

4.6 Treasury Management

Full details of the Council's treasury activities during 2022/23 are included in the Treasury Outturn report to Cabinet Executive on 10th July 2023.

The following table shows the Council's overall treasury position on 31st March 2023 compared with the position 12 months earlier. This excludes other long-term liabilities such as finance lease arrangements.

	Principal at 31 st March 2022	Rate/ Return	Average Life	Principal at 31 st March 2023	Rate/ Return	Average Life
PWLB Debt	£6,141,780	2.24%	17.1 years	£5,929,939	2.24%	16.1 years
Market Debt	£2,000,000	1.75%	0.8 years	0	n/a	n/a
Total debt	£8,141,780	2.12%	14.8 years	£5,929,939	2.24%	16.1 years
Capital Financing Requirement	£13,965,132			£14,486,025		
Over/(under) borrowing	(£5,823,352)			(£8,556,086)		
Short Term investments	(£35,560,000)	0.36%		(£25,456,000)	3.98%	
Long Term Investments	(£1,093,910)	3.46%		(£844,874)	4.84%	
Net debt	(£28,512,130)			(£34,856,960)		

The interest rates in the table above are based on the loans and investments outstanding at the year end and are not necessarily the same as the average rate payable during the financial year.

During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered. One non-Public Works Loans Board (PWLB) loan of £2m was repaid in January 2023, meaning that the gross debt position fell to £5.9m at the end of the financial year.

4.7 Financial Statements

In 2022/23 there were only minor changes in terms of new accounting standards, none of which had any material effect on the format and content of Blaby's accounts.

The net asset position on the Balance Sheet has increased from £3.921m on 31st March 2022 to £35.151m at 31st March 2023. The main reason for this is due to a reduction in the net pension liability following the triennial

review undertaken by the actuary in March 2022. The data from the triennial review was unavailable to us at the time the 2021/22 accounts were produced, but they now been reflected in the 2022/23 accounts. This may lead to the need to restate the March 2022 Balance Sheet once the 2021/22 audit has taken place, although the result for 2022/23 should be unchanged. The large pension gain in 2022/23 has arisen because of the impact of inflation on the discount rate used to calculate the net liability.

Other significant movements on the Balance Sheet include:

- Short Term Investments/Cash and Cash Equivalents have reduced from £36.957m to £25.829m. This reflects the repayment of government grants paid on account to cover business grant schemes, and various reliefs designed to help businesses during the pandemic.
- Short Term Debtors have reduced from £7.844m to £5.593m. This is primarily due to the government share of the business rates deficit for 2021/22 being cleared.
- Short Term Borrowing – down from £2.244m to £0.241m due to repayment of a maturity loan in January 2023.
- Short Term Creditors have fallen from £29.249m to £18.143m. This is partly due to £5.5m government grant received in advance in 2021/22 to fund the Council Tax Energy Rebate scheme, which was distributed to residents in 2022/23. Also due to repayment of Section 31 grants paid on account.
- Unusable Reserves – these are non-cash backed reserves that reflect adjustments made to bring IFRS-based accounting entries into line with legislative requirements. The Balance Sheet position has changed by £31.231m which is the opposite accounting entry to recognise the movement in the net pension liability.

The Council's borrowing requirement increased by £0.521m in year, which represents the additional capital expenditure incurred in 2022/23 that has yet to be funded by capital receipts, grants and contributions, or revenue resources. Overall borrowing fell by £2.212m leading to an increase in the Council's "under-borrowed" position as internal resources continue to be used as a cheaper form of financing capital expenditure than external borrowing.

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

5.1 Not applicable.

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

6.1

Current Risk	Actions to reduce the risks
That the draft accounts are misstated.	The accounts presented at Appendix D are subject to independent inspection by the Council's external auditors, Ernst & Young (EY). The audit is not expected to commence until Summer 2024.

7. Other options considered

- 7.1 None. It is good practice to give Members an opportunity to review the financial performance and comment on the headline issues affecting the 2022/23 accounts.

8. Other significant issues

- 8.1 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.

9. Appendix

- 9.1 Appendix A – General Fund Revenue Account Summary 2022/23
- 9.2 Appendix B – Earmarked Reserves
- 9.3 Appendix C – Capital Expenditure and Financing 2022/23
- 9.4 Appendix D – Unaudited Statement of Accounts 2022/23

10. Background paper(s)

None.

11. Report author's contact details

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