

Cheltenham Borough Council

Cabinet – 11 July 2023 & Council 24 July 2023

Financial Outturn 2022/23

Accountable member:

Councillor Peter Jeffries, Cabinet Member for Finance and Assets

Accountable officer:

Gemma Bell, Director of Finance & Assets (Deputy s151 Officer)

Ward(s) affected:

All

Key Decision: No

Executive summary:

In accordance with financial rule A11.3, the Section 151 Officer is responsible for providing regular reports to the Cabinet on the Council's finances and financial performance. This report highlights the Council's financial performance and sets out the General Fund and Housing Revenue Account (HRA) revenue and capital outturn position for 2022/23. The information contained within this report is being used to prepare the Council's Statement of Accounts for 2022/23.

Financial rule B10.1 states that carry forward of planned underspend of revenue budgets into the following financial year will only be allowed with the agreement of the Section 151 Officer, in order to meet the needs of approved service delivery. Financial rule B10.3 states that all other carry forward requests, including budget underspends that have been carried forward in previous financial years, will be subject to full Council approval at the financial outturn meeting held after the year end.

The Council's Treasury Management Policy requires the Section 151 Officer to report to members annually, by the 30 September, on the treasury management activities and treasury management indicators for the previous financial year. This report also seeks to meet this requirement.

Recommendations:

- 1. That Council receives the financial outturn performance position for the General Fund, and notes that in delivering services in 2022/23, after the application of carry forward requests and following the use earmarked reserves, there was an overspend of £101,294 against the 2022/23 revised budget approved by Council on 20 February 2023.**

2. **Notes £859,147 of carry forward approved by the Section 151 Officer under delegated powers at Appendix 5 and approves £72,000 of carry forward requests which require Member approval.**
 3. **Notes the annual treasury management report at Appendix 7 and note the actual 2022/23 prudential and treasury indicators.**
 4. **Notes the capital programme outturn position as detailed in Section 7 of this report and Appendix 8, approve the carry forward of unspent budgets into 2022/23 and the inclusion of two new projects in the 2023/24 capital programme with no additional funding commitment required from the Council.**
 5. **Notes the year end position in respect of Section 106 agreements and partnership funding agreements at Appendix 9.**
 6. **Notes the outturn position in respect of collection rates for council tax and non-domestic rates for 2022/23 in Appendix 10.**
 7. **Receives the financial outturn performance position for the Housing Revenue Account for 2022/23 in Appendix 11 and approves the carry forward of capital budgets from 2022/23 into 2023/24 as set out in Appendix 12.**
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1. Implications

1.1. Financial, Property and Asset implications

As detailed throughout this report.

Signed off by: Gemma Bell, gemma.bell@cheltenham.gov.uk, 01242 264124

1.2. Legal implications

As detailed in the body of the report, the Council has adopted and complied with the CIPFA Code of Practice for Treasury Management in the Public Services. This provides assurance that investments are, and will continue to be, within its legal powers.

Signed off by: One Legal, legalservices@onelegal.org.uk, 01684 272012

1.3. Environmental and climate change implications

Key elements of the budget are aimed at delivering the corporate objectives in the Corporate Plan, including the climate change and net zero carbon priorities. The sustainability of general balances and earmarked reserves is vital to continue to work towards this objective.

Signed off by: Laura Tapping, laura.tapping@cheltenham.gov.uk

1.4. Corporate Plan Priorities

The actions outlined in this outturn report to support general balances, implement savings and grow commercial income will help ensure that the Council can continue to deliver its corporate objectives as set out in the revised Corporate Plan for 2023- 2027.

Signed off by: Ann Wolstencroft, Head of Performance, Projects and Risk

2. Background

- 2.1. On 21 February 2022, Council approved the budget for 2022/23, including setting the Council Tax. The 2022/23 approved budget identified ambitious efficiency savings and additional income of £1.507m and was set at a time of huge financial uncertainty over the long term impact of the pandemic on customer behaviour and the emergence of the Omicron variant in the winter of 2021. It also forecast that in 2022/23 a contribution of £302k would be made to strengthen the general balances.
- 2.2. The 2022/23 economic climate has been more challenging than anyone could have expected. Inflation rose from 6.7% when the final budget was approved to 11.1% and is still at 8.7% in June 2023. The Bank of England's decision to increase interest rates 13 consecutive times over the same period also continues to create a huge financial pressure for the Council who are a net borrower.
- 2.3. Throughout 2022/23, significant budget variances have been reported to Cabinet, most recently in November 2022 it was forecasted that the 2022/23 budget would be overspent by £2.39m. This was predominantly due to the impact of inflation on the annual pay award, energy costs and falling customer demand in some services.
- 2.4. The 2022/23 revised budget which was presented to Council for approval on 20 February 2023 reflected these changes with the proposal to fund the overspend using over £2.505m of general balances. This was possible as a legal settlement received in May 2022 meant the contribution to general balances was increased by £1.889m.
- 2.5. The revised budget forecast for general balances at 31 March 2023 shifted to under £1.5m, very close to the Section 151 Officer's most recent assessment of the optimum level of balances. The net contribution forecast from general balances for 2022/23 was £300k as outlined in Appendix 2 and 3. This is a marked shift from the original budgeted contribution to general balances.
- 2.6. With economic uncertainty expected to be ongoing into 2023/24, we are still in a position where spending commitments need to be reviewed and considered in line with General Fund balances to make sure the Council retains financial stability and is able to deliver the 2023-28 Corporate Plan.
- 2.7. This report draws together the financial outturn position for 2022/23 for the General Fund against the Revised 2022/23 budget. It also summarises the Housing Revenue Account (HRA) revenue and capital budgets, details reserve movements and summarises requests for carry forward of budgets approved by the Section 151 Officer under delegated powers.

3. General Fund Outturn 2022/23

- 3.1. The outturn position at 31 March 2023 reports that £2.606m of general balances was required to balance the budget rather than the forecast £2.505m. This represents an overspend of £101,294 against the revised budget. This is after relevant earmarked reserves have been applied to fund budget overspends as outlined in Appendix 4. The earmarked reserves are within the delegated authority of the Section 151 Officer and many of these will be replenished as part of the 2023/24 budget as outlined in Appendix 6.
- 3.2. A summary of the General Fund outturn position by directorate is contained in Appendix 2 and by service area in Appendix 3. Information is presented in the same format as used in the draft statement of accounts, in accordance with the CIPFA Code of Practice 2022/23.

- 3.3. The 2022/23 budget set an ambitious savings target of £1.507 million. £0.810m of this target was achieved through a variety of methods and work streams. The Council is committed to delivering value for money for its residents, and these savings will help to ensure that essential services can be maintained.
- 3.4. Inflation is currently at a 40-year high, and is expected to remain high over the next 12 months. This has put a significant strain on 2022/23 budgets. The cost of living crisis along with the ongoing war in Ukraine is having a significant impact on expenditure. Key budgets such as energy and supplies and services were significantly impacted and caused overspends in some services. Details of these significant variances are explained further in Appendix 4.
- 3.5. The general balance at 31 March 2023 is £1.398m which is below the optimum level assessed by the Section 151 Officer in the Section 25 report to Council in February 2023. This is after a review of earmarked reserves which has transferred £179k into this balance. Section 8 of this report outlines the medium term strategy to strengthen this position.

4. Budget carry forward requests

- 4.1. At the year end, a number of budget holders requested 'carry forward' of unspent budgets. Requests fall into two categories and have been dealt with as follows:
- Some requests are in respect of goods and services ordered but not received by 31 March 2023.
 - Some relate to items of expenditure not yet incurred due to slippage in work programmes but still planned to be spent in line with the original intention of the budget.
 - Others are amounts of grant funding which have been allocated but not yet been taken up by their intended beneficiaries.
- 4.2. In line with previous practice, these have been reviewed by the Executive Leadership Team and approved by the Section 151 Officer, under delegated powers (financial rule B10.1). A list of the approved carry forward of budgets totalling £859,147, for which expenditure is in line with the original approved purpose, is contained in Appendix 5.
- 4.3. A list of carry forward budgets totalling £72,000 which require member approval, for which expenditure has previously been carried forward or where the purpose of the expenditure is different to the original approved purpose is also contained in Appendix 5
- 4.4. In accordance with the Service Reporting Code of Practice (SeRCOP), a transfer was made to a 'carry forward' reserve in 2022/23 (Appendix 6) and transfers will be made from the 'carry forward' reserve in 2023/24 to the appropriate cost centres in order that members and officers have a clear indication of the total budget, including carry forwards, available for 2023/24.

5. Treasury Management / Prudential Indicators

- 5.1. Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Cabinet and Council of an Annual Review Report after the financial year end. The detailed treasury report, as approved by the Treasury Management Panel at its meeting on 6 July 2023, is attached at Appendix 7.

6. Business Rates Retention Scheme (BRRS)

6.1. One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return (NNDR1) which is submitted to the Department for Levelling Up, Housing and Communities (DULHC). The NNDR1 return was submitted to DLUHC by the deadline of 31 January 2023 and the budget was based on the figures within that return.

6.2. The table below reflects the actual performance against the revised budget with an overall variance for the year of £507,368 when taking into account the Gloucestershire Business Rates pooling arrangement.

	2022/23 Original Budget £	2022/23 Revised Budget £	2022/23 Actual £	2022/23 Variance £
Retained business rates	20,219,722	20,219,722	20,217,722	-
Tariff payable to government	(19,244,897)	(19,244,897)	(19,244,897)	-
Grant to compensate for government decisions	3,889,118	4,038,464	3,412,090	(626,374)
Estimated levy payable to government after Pool surplus/deficit	(517,409)	(431,972)	(312,969)	119,003
Net retained business rates	4,346,534	4,581,317	4,073,943	(507,371)
Less Baseline Funding (target level of net retained rates)	(2,841,443)	(2,841,443)	(2,841,443)	-
Net surplus on business rates against baseline funding	1,505,091	1,739,874	1,232,503	(507,371)
Deficit adjustment re 2020/21	(361,769)	(361,769)	(361,769)	-
Deficit Adjustment re 2021/22	(4,903,766)	(5,937,118)	(5,937,115)	3
Total One-off adjustments re previous years' deficits	(5,265,535)	(6,298,887)	(6,298,884)	3
Net retained business rates (after one-off deficit adjustments & LIGS)	(919,001)	(1,717,570)	(2,224,938)	(507,368)
Transfer to/(from) BRR earmarked reserve	5,308,695	5,908,740	5,908,740	0
Net income included in outturn	4,389,694	4,191,170	3,683,802	(507,368)

6.3. A transfer of £5.9m has been made from the Business Rates Retention (BRR) earmarked reserve at

year end as per revised budget agreed at February 2023 Full Council.

- 6.4. The Government's policy of phasing out revenue support grant and in due course allowing councils to benefit from a higher share of business rates created a need for this Council to develop a long-term strategy which was significantly different from that followed in past years. Since 2013 the Council has had a direct financial interest in economic and business growth in the borough, and will have a larger stake in it under the Government's proposals for reforming business rates.

7. Capital Outturn 2022/23

- 7.1. The outturn position in respect of General Fund capital programme is contained in Appendix 8. Members are asked to note the outturn position and, where there is slippage, approve the carry forwards into 2022/23 requested by officers.
- 7.2. Since the approval of the 2023/24 budget in February 2023, funding for two new projects has been requested.
- 7.3. The projects are outlined below:

Leisure @ EVO Project –

In 2022/23 an application was made to BEIS for SALIX funding for the leisure centre to substitute the heating and air handling unit power systems with a unique solution which uses both ground and air source heat pumps. We have been notified that this could be the first example of this technology being used in this way in the leisure sector so this is a fantastic opportunity to put Cheltenham on the map for innovation. The bid was made because regardless of whether the application was successful, an upgrade of the system is required to improve energy efficiency and maintenance costs.

It was confirmed in February 2023 that the application had been successful and we have been awarded £287,546 towards the project. The remaining total project cost of £59,956 will be met by the existing carbon neutral capital budget. Planning and design for the project will be carried out in 2023/24 with delivery in 2024/25 in line with the Government grant award letter.

Replacement of Lifeline Equipment

The lifelines team were notified in 2022/23 that they have been awarded £280,370 by the County Council Strategic Housing Partnership to facilitate the funding and installation of new digital lifeline equipment in readiness for the 2025 Digital Switchover. The decision notice to accept this funding has been published by the Council and it will be used to procure new digital lifeline equipment to replace to 1,058 existing analogue units currently used by our customers.

8. Reserves and Section 151 Officer Advice

- 8.1. The Section 151 Officer has, under delegated powers (financial rule B11.4), authority to make transfers to and from these operational reserves in accordance with the intention of the reserve as determined by the Council's Reserves Policy and Protocol. The transfers approved by the Section 151 Officer for 2022/23 are set out in the outturn performance position schedules at Appendix 2 and 3.
- 8.2. Appendix 6 also details the reserves held by the Council, states their purpose and indicates the balance at 31 March 2023. In setting the budget for 2023/24 a review of reserves was undertaken to assess whether the levels were appropriate and in line with the policy for reserves and Page 7 of 13 balances; and also whether they took into account the needs and risks of the organisation and the prevailing economic conditions as we continue to be in a cost of living crisis.
- 8.3. In assessing the adequacy of reserves and balances for 2023/24 the Section 151 Officer used a risk based approach to assess the appropriate level of general balances which calculated the optimum level to be £1.527m. At the year end, the General Fund Balance stands at £1.398m and therefore is below the optimum level recommended by the Section 151 Officer at year end – an impact of the pressures experienced through 2022/23 as the economy continues to go through a cost of living crisis with rising interest rates. As set out in Appendix 6 based on the current 2023/24 budget we expect

general balances to increase to £1.550m by the 31st March 2024 however this is contingent on delivering the £1.3m of approved savings in 2023/24.

8.4. Members will need to be mindful that there will be an expectation to further strengthen these reserves in order that the Council is robustly covered against further financial pressures which may emerge through recovery or future changes to local government financial support. With diminishing central government support in the form of direct grant and New Homes Bonus, uncertainty over the long term impact of the cost of living crisis, and the impact on individual’s ability to pay council tax or business rates, it may be the case that that some difficult choices need to be made in respect of service provision.

9. Section 106 Receipts

9.1. A position statement in respect of the activity of Section 106 receipts is contained in Appendix 9.

9.2. The following summarises the activity in respect of Section 106 for 2022/23, compared to 2021/22.

	2021/22	2022/23
Balance of unused Section 106 receipts	1,685,454	1,182,703
Net additional receipts in year	18,237	1,150,798
Receipts used to finance projects in year	(520,988)	(199,038)
Balance outstanding at year end	1,182,703	2,134,463

9.3. In 2022/23, there were two large s106 contributions received for the Starvehall Farm and Pate Court developments. Both of these contributions are in relation to affordable housing and will be used to support the achievement of the Council’s Corporate Priority to increase the number of affordable homes in our town.

10. Council tax and Business Rates Collection and Support

10.1. The monitoring report for the collection of council tax and business rates (NNDR) income is shown in Appendix 10. This shows the position at the end of March 2023. The collection rate for council tax has fallen slightly to 98.23% in 2022/23 from 98.31% in 2021/22. The cost of living crisis is having an impact on households and the team continue to work with any customers who are struggling to pay. The collection rate for business rates collection has increased from 97.43% to 98.31% in the same period as businesses continue to recover from the pandemic.

11. Housing Revenue Account (HRA)

HRA Income and Expenditure

1.1 The HRA revised forecast for 2022/23 financial year, based on performance to December 2022, anticipated an operating surplus of £351,400. After appropriating revenue contributions of £1,174,400 towards capital, it was expected that there would be a remaining balance of £1,500,000 in revenue reserves at 31st March 2023.

1.2 The outturn statement, as presented in Appendix 11, shows a significant improvement (an increase of £438,800) with an operating surplus of £790,200 for the year. Revenue contributions to capital were increased to £1,613,600 leaving a balance of £1,500,000 in revenue reserves at year end.

1.3 Below is an explanation of variances exceeding £50,000:

Detail	Forecast £'000	Actual £'000	Variation £'000	Explanation
Repairs & maintenance	5,005	4,861	144	Demand slightly lower than forecast partially offset by higher void costs
Bad debts	225	53	172	Income recovery above target
Depreciation of other Assets	309	257	52	Changes to asset valuation & classification
Other variations less than £50,000 - net			71	
Increase in Operating Surplus			439	

Major Repairs Reserve

1.4 In accordance with regulations this reserve is funded by sums equivalent to the depreciation provision and has been used to finance HRA capital expenditure.

HRA Capital Programme

1.5 Actual expenditure for the year was £14,601,700, an underspend of £2,366,100 compared with the forecast of £16,967,800.

1.6 The programme includes projects where expenditure plans span more than one financial year and are delivered through more than one contract. Where delays occur, for example through extended consultation with leaseholders or procurement issues, Cheltenham Borough Homes seek opportunities for advancing other projects within overall funding. Costs are controlled at both contract and project level. During 2022/23 the completion dates for a number of projects have been extended to reflect material and resourcing challenges being experienced by contractors.

1.7 Significant project variations from forecast (exceeding £250,000) are shown below:-

Project	Forecast £'000	Actual £'000	Variation £'000	Explanation
Major void refurbishment	1,082	1,405	(323)	Increased proportion of higher value void work
External Improvements	1,952	2,386	(434)	Works brought forward from 2023/24 to offset delays in other projects
Acquisitions	2,699	2,433	266	Market conditions have made the acquisition of financially viable properties more difficult
New Build Schemes	3,301	1,245	2,056	Challenges in progressing new schemes due to material and labour supply shortages and higher interest rates impacting the financial viability of developer owned sites

Other net variances below £250,000			801	Primarily arising from extended delivery targets (see 1.6 above)
Total variance to forecast			2,366	

11.1. Changes to the projected financing of the capital programme have primarily arisen from the reduction in overall spend (£2.366m.) and the availability of additional capital receipts and revenue contributions.

12. Consultation

12.1. Appropriate members and officers were consulted in the process of preparing the outturn position and associated reports and accounts. The report was also presented for discussion at the Budget Scrutiny Working Group on 4 July 2023.

13. Key risks

13.1. As outlined in Appendix 1.

Report author:

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Appendices:

1. Risk Assessment
2. Summary Outturn Performance Position – General Fund
3. Service Level Outturn Performance Position – General Fund
4. Significant Variances
5. Carry Forward Requests
6. Movement on Earmarked Reserves and General Balances
7. Annual Treasury Management review
8. Capital Programme – General Fund
9. Section 106 Receipts Statement
10. Council Tax and NNDR collection
11. HRA Operating Account
12. HRA Capital Programme and Major Repairs Reserve

Background information:

- Final Budget Proposal for 2022/23 – Council 21 February 2022
- Section 25 Report – Council 20 February 2023
- Final Budget Proposals including the Revised budget for 2022/23 – Council 20 February 2023

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
347	If energy costs keep rising / fluctuating as per the current market then it impacts on our ability to accurately budget/forecast expenditure and may impact on our the investments we can make in projects / programmes whilst still being able to achieve our MTFS	Gemma Bell, Director of Finance and Assets	4	4	16	Reduce	This policy and the associated action plans.	Gemma Bell, Director of Finance and Assets	Ongoing
	If the Council is unable to come up with long term solutions which close the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision.	Cabinet	5	3	15	Reduce	The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	If the Budget Strategy (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Section 151 Officer in the council's Medium Term Financial Strategy	ED Finance and Assets	5	4	20	Reduce	The MTFs is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2020/21 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever possible.	ED Finance and Assets	Ongoing
	If income streams from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained	ED Finance and Assets	5	4	20	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	ability to grow the business rates in the town then the MTFS budget gap may increase.						<p>The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p>		
	If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.	ED Finance and Assets	4	4	16	Reduce	<p>Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and</p>	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							income generation will be prioritised to mitigate the risk of income fluctuations.		
	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.	ED Finance and Assets	5	3	15	Reduce	Work with Publica and countywide CFO's to monitor changes to local government financing regime including responding to government consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.	ED Finance and Assets	Ongoing
	If government support to compensate this Council for the impact of COVID-19 is insufficient, greater reliance will be placed on the use of reserves, service reduction and	ED Finance and Assets	5	3	15	Reduce	The Council will continue to lobby for additional resource, as promised by Central Government from the outset of the pandemic.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	asset sales.						Work programmes are underway to review service provision, capital programmes and rationalisation of assets.		