

CABINET



Report subject	Financial Outturn Report 2022/23
Meeting date	26 July 2023
Status	Public Report
Executive summary	<p>This report provides the 2022/23 financial outturn information for the general fund, capital programme and housing revenue account (HRA).</p> <p>The general fund outturn has achieved the previously forecast £10.6m surplus used to support the budget for 2023/24. Further revenue savings and asset sales realised as planned has avoided the need for a capitalisation direction to fund elements of the transformation programme in 2022/23.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <p>A) Note the financial outturn position for 2022/23.</p> <p>B) Approve the 2023/24 capital virement to accept a new grant below £1m as set out in Appendix C.</p> <p>It is RECOMMENDED that Council:</p> <p>C) Approve the 2023/24 capital virements to accept new grants above £1m as set out in Appendix C.</p>
Reason for recommendations	To report the financial outturn position for 2022/23 and obtain approval for acceptance of new capital grants for 2023/34 in accordance with the council's financial regulations.
Portfolio Holder(s):	Cllr Mike Cox, Finance
Corporate Director	Ian O'Donnell, Director of Resources
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Wards	Council-wide
Classification	For Decision

Background

1. In February 2022 Council agreed the annual general fund net revenue budget of £272m, a capital programme of £154m and the net use of earmarked reserves to support services of £34.7m. Budgets were also agreed for the housing revenue account (HRA) and the capital programme.
2. Council-wide restrictions on expenditure have been in place for most of the year to manage the unavoidable cost of living pressures from utilities, rising contract costs and general price inflation for supplies and services. Greater control of the staffing establishment was also implemented early in the year and, together with the challenging employment market, there has been a high level of staff vacancies during the year.
3. The impact of the expenditure controls could be seen in the February 2023 quarter three budget monitoring report to Cabinet. This included a projected general fund revenue surplus for the year of £10.1m. This was prior to February Council, and the late notification from government of an increase to business rates income for 2022/23 of £0.5m which moved the anticipated budget surplus to £10.6m. This surplus has been used to support the 2023/24 budget.
4. The financial strategy supporting the 2022/23 financial outturn can be summarised as.
 - Generate as a minimum the £10.6m surplus used to fund the approved budget for 2023/24.
 - Avoid the need for the council to draw down on a “minded to” capitalisation direction to fund either the transformation investment programme or Children’s services improvement expenditure.
 - Mitigate any emerging risks such as the working capital loan facility advanced to BCP FuturePlaces Ltd.
 - Mitigate the level of unidentified transformation savings underpinning the 2023/24 budget.
 - Consider increasing the level of unearmarked reserves as recommended in the corporate peer review.
5. To support this strategy Council in February as part of the 2023/24 Budget agreed to implement a control to strengthen commissioning, procurement, and contract management arrangements. This meant there was a spend control in place for all the final quarter. In addition, all opportunities were taken to support the outturn position including not permitting carry forwards between financial years (in line with a delegation to the Chief Finance Officer under the Financial Regulations).

Revenue outturn 2022/23

6. The forecast revenue outturn of £10.6m at quarter three has been achieved as detailed in Table 1 below.

Table 1 Revenue Outturn Summary table

Directorate	Working Budget £'000	Actual Outturn £'000	Outturn Variance £'000
Adult Social Care	109,343	106,797	(2,545)
Children's Services	75,742	81,456	5,714
Commissioning Centre of Excellence	10,997	10,269	(728)
Operations	58,738	47,402	(11,336)
Resources	62,379	58,862	(3,517)
Transformation	(4,705)	(155)	4,550
Public Health	2,472	1,035	(1,437)
Total Net Cost of Service	314,965	305,667	(9,298)
Corporate Items	(42,922)	(46,047)	(3,125)
Net Budget Requirement	272,043	259,620	(12,423)
Funding			
Council Tax Income	(228,965)	(228,964)	1
Christchurch Parishes / Town Precept / Chartered Trustee	0	0	0
New Homes Bonus	(1,038)	(1,038)	(0)
Revenue Support Grant	(3,122)	(3,122)	(0)
NNDR Net Income	(56,841)	(54,991)	1,850
Lower Tier Service Grant 2022/23	(469)	(479)	(10)
Service Grant	(3,785)	(3,785)	0
Estimated (Surplus) / Deficit on the Collection Fund - NNDR	22,534	22,534	0
Estimated (Surplus) / Deficit on the Collection Fund - CTAX	(357)	(357)	0
Total Funding	(272,043)	(270,201)	1,841
Net Position	0	(10,582)	(10,582)

7. There is increased surplus at service level compared with the quarter three forecast. This has enabled additional central provisions to be established to balance emerging risks over the final quarter. It has also enabled the capital direction to be avoided.
8. Contributing to the favourable outturn were the on-going expenditure control mechanisms and recruitment difficulties across many service areas, and income streams performing better than previously anticipated over the final quarter. Appendix A provides a summary of general fund outturn variances and narrative detail for each services area.

Transformation

9. The total revenue costs of the transformation programme over 2022/23 were £15.6m, the largest element being the strategic partner costs of £11m. This work included the implementation in early April 2023 of the Microsoft Dynamics finance and operations system for accounting and human resources management. It also included the work to redesign services, such as housing and environment, in preparation for the implementation of the Dynamics customer resource management system and rationalisation of other business applications used by

services. These future developments are being implemented to improve customer interaction with the council as well as drive out savings and efficiencies.

10. The other main element of the revenue transformation costs were internal staff recharges of £4.4m. This includes for staff charged directly to the project to create additional capacity of £1.7m plus apportioned costs of £2.7m (£0.5m less than the quarter three forecast) for those staff working on transformation projects instead of their usual service activities.
11. The revenue costs of the transformation programme are funded by capital receipts using the government's permitted flexible use of capital receipts (FUCR) policy.
12. Transformation savings of £7.1m were delivered in the year as forecast at quarter three, representing a £1.6m shortfall on budget. Savings included those from third party spend (£3.3m), staff savings (£2.5m) and operating from a reduced estate (£1.1m).
13. Appendix A3 provides details of the transformation programme.

Reserves at March 2023

14. Earmarked reserves have been set aside for specific purposes. Table 2 below summarises the projected movement in reserves during the current financial year.

Table 2: Summary of movements in reserves 2022-23

	Balance 1 April 2022	Balance 31 March 2023	Movement
	£m	£m	£m
Un-earmarked reserves	15.3	17.9	2.6
Earmarked reserves*	114.3	68.5	(45.8)
Total reserves	129.6	86.4	(43.2)

These reserves do not include revenue reserves earmarked for capital or school balances.

*Earmarked reserves include:

- £4.8m Homes for Home for Ukraine Grant.

15. Appendix B provides the detail of reserves movements during the year and balances at 31 March 2023.

Dedicated Schools Grant (DSG) Outturn 2022/23

16. The DSG is a ring-fenced grant from the Department for Education, with funding allocated through four expenditure blocks for early years, mainstream schools, pupils with high needs, and to support a small range of central council services.
17. The 2022/23 budgeted high needs funding shortfall was £16.7 million. Other DSG blocks were set with balanced budgets with no surplus available to reduce the overall funding gap.

18. The accumulated deficit was budgeted to increase from £20.3m at 1 April 2022 to £37.0m by the end of the year. The outturn is an accumulated deficit of £35.5m largely from lower expenditure than anticipated for pupils with high needs.

Table 3: Summary position for dedicated schools grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2022	20.3
Budgeted high needs shortfall 2022/23	16.7
In year saving 2022/23	(1.2)
Accumulated deficit 31 March 2023	35.8

19. The deficit is included in a specific unusable (negative) reserve on the council's balance sheet as a statutory override to normal accounting practice has been extended to cover a further three years (to 31 March 2026). This is to ensure that the deficit does not impact on general fund resources.
20. The government has been approached to establish a long term solution to the unsustainable DSG high needs deficit. Appendix B1 is a copy of the letter from the Chief Executive.

Capital budget outturn 2022-23

21. The capital investment programme includes only approved capital schemes that are supported by robust business cases. It does not include pipeline projects that are awaiting business case development and subsequent approval. It also excludes capital funding that, whilst approved, has not yet been allocated to capital projects.
22. The budget has been updated during the year to include new schemes, inclusion of slippage from 2021/22 and the reprofiling of expenditure into future years. Of the final £119m budget, 64% was spent with the balance carried forward into 2023/24.
23. Increases in raw materials prices, construction and labour costs compounded by delay in supply chains have reduced the ability to deliver the planned capital programme
24. Appendix C summarises capital spend by directorate and how this was funded in 2022/23.

Housing Revenue Account (HRA) monitoring

25. The HRA is a separate account within the council that ring-fences the income and expenditure associated with the council's housing stock. The HRA does not therefore directly impact on the council's wider general fund budget.
26. The revenue account produced a net surplus of £5.0m for the year, which is a shortfall on budget of £1.0m. Increased income of £0.9m for rents and other charges was offset by increased expenditure of £1.9m. There were cost pressures of £2.7m for repairs and maintenance due to inflation for labour and materials as well as increased volume. There was some offset from savings on

management costs (£0.5m) as the two neighbourhoods were brought together under a single management structure from the end of June. In addition, the £0.3m contingency remained unused. The net surplus is added to HRA reserves for future capital expenditure.

27. The capital account was significantly underspent for the year at only 51% of the £63m original budget. Planned maintenance was delivered at 91% but there was significant slippage in major programmes for new housing units. As a result of lower spend no new borrowing was required during the year.

28. Appendix D provides the detail of the HRA revenue and capital outturn

Companies and partner organisations

29. The financial sustainability of the council could also be affected by the performance of partners and subsidiaries in which it has a financial interest. Each of these entities has their own governance framework and arrangements for reporting their financial and operating performance.

30. Appendix E contains a summary of the outturns for these partner and subsidiary organisations. It should be noted that these are provisional figures and are unapproved by the respective boards of directors and are also subject to audit.

Scenarios

31. This is in the main a financial outturn report with different scenarios no longer relevant. Provisions have been calculated according to agreed policies and best estimates used to close the accounts when final charges and income due have not yet been received or notified.

Summary of financial implications

32. This is a financial report with budget implications a key feature of the above paragraphs.

Summary of legal implications

33. The recommendations in this report are to comply with the council's financial regulations with attention drawn to significant budget variances as part of good financial planning to ensure the council remains financially viable over the current year and into the future.

Summary of human resources implications

34. There are no direct human resources implications from the recommendations in this report.

Summary of sustainability impact

35. There are no direct sustainability impacts from the recommendations in this report.

Summary of public health implications

36. The council is seeking to maintain appropriate services for the vulnerable as well as improve the sustainability of services important for the wellbeing of all residents.

Summary of equality implications

37. Budget holders are managing their budgets with due regard to equalities issues.

Summary of risk assessment

38. There are no specific risks to consider other than to recognise that the outturn is prepared based on estimates and assumptions and variations between these and final amounts will impact on the financial outturn for 2023/24. Budget monitoring corporately will continue to be reported quarterly to manage these variances and other significant issues emerging throughout the year.

Background papers

39. The link to the budget monitoring report for quarter three 2022-23 is below:

[http://ced-pri-cms-02.ced.local/documents/s40433/Appendix%205%20-%20202223%20December%20Quarter%203%20Budget%20Monitoring.pdf?\\$LO\\$=1](http://ced-pri-cms-02.ced.local/documents/s40433/Appendix%205%20-%20202223%20December%20Quarter%203%20Budget%20Monitoring.pdf?LO=1)

Appendices

Appendix A	Revenue Outturn Budget Variances Narrative by Service Area
	A1 Revenue Outturn Budget Variances Schedule 2022-23
	A2 Revenue Outturn Summary 2022-23
	A3 Transformation Programme Detail 2022-23
Appendix B	Earmarked Reserves at 31 March 2023
	B1 Letter to the government from the Chief Executive regarding the Dedicated Schools Grant deficit
Appendix C	Capital Outturn 2022-23
Appendix D	HRA Outturn 2022-23
Appendix E	Companies Outturn 2022-23