

CABINET

20 June 2023

Title: Provisional Outturn Report for the 2022/23 Financial Year	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
Report Author: Katherine Heffernan and Philippa Farrell, Heads of Service Finance; David Dickinson, Head of Capital and Investments;	Contact Details: E-mail: Katherine.heffernan@lbbd.gov.uk Philippa.farrell@lbbd.gov.uk David.dickinson@lbbd.gov.uk
Accountable Executive Team Director: Philip Gregory, Strategic Director, Finance & Investment	
Summary <p>This report sets out the Council's draft financial position for 2022/23 after the end of the financial year. The position is still being finalised in some areas and should be considered to be provisional until it has been finally signed off by the Council's external auditors which could be some way off. However, the high-level picture is now clear and should inform the Cabinet's assessment of performance and its financial planning for the future.</p> <p>The Council's General Fund final budget for 2022/23 was £180.944m. The final revenue expenditure outturn is £194m after a net transfer to/from reserves of £14.849m, which is an effective overspend against the budget of £27.9m. This is the result of inherent service driven overspends that amount to £8m across the Council and a further £19m of year-end adjustments some of which relate to the Council's subsidiary Barking and Dagenham Trading Partnership Ltd (Co No: 1089284) (BDTP). This is offset by £2.4m additional corporate income making the final variance £25m.</p> <p>The draft outturn for the Housing Revenue Account is not finalised but is expected to be an overspend of £2.4m.</p> <p>The Capital Programme adjusted budget for 2022/23 was £468.8m and the final outturn is £360.4m. The slippage in schemes is partially attributable to COVID-19 and the capacity of partners to deliver in a timely way. The slippage will be carried forward and added to next year's capital programme.</p> <p>Since the budget was approved in March 2022 the Council has faced significant increases in costs as a result of inflation, for example the cost of the Local Government pay award and higher energy costs, as well as increasing demand and costs for social care services.</p> <p>The Council has received no additional funding from government to fund the increased costs and demand placing the burden of meeting these unforeseen costs on the council.</p>	

This is a significant overspend for the year. Key drivers linked to inflation are outside of the control of the Council. We must respond to the market in the same way as any other organisation. This is seen in the cost of provision, energy prices, and the pay award. In addition, a review of the charges between the HRA and GF has seen an impact of a changing balance of costs between the HRA and the General Fund. This has resulted in increased costs being felt within the General Fund.

The overspend can be managed by use of the budget support reserve and the collection fund reserve and other non-ringfenced reserves. However, this does leave the Council with very few available reserves to absorb overspends in 2023/24. The position will continue to be closely monitored and risks and opportunities recognised as soon as certain.

Recommendation(s)

Cabinet is recommended to:

- (i) Note that the General Fund provisional outturn position for 2022/23 was £194.079m, which represented an overspend of £25.509m once movements to and from reserves, income and an increase in corporate funding had been taken into account, as detailed in Appendix A to the report;
- (ii) Agree the transfers from corporate reserves to mitigate the 2022/23 overspend, as detailed in Appendix A to the report;
- (iii) Note that the Housing Revenue Account provisional outturn position for 2022/23 showed an overspend of £2.405m which shall be met from the HRA Reserve, as detailed in Appendix A to the report;
- (iv) Note that the Dedicated Schools Grant (DSG) budget provisional outturn position for 2022/23 showed an overspend of £0.592m which shall be met from the DSG Reserve, as detailed in Appendix A to the report;
- (v) Note that the Capital Programme provisional outturn position for 2022/23 showed an underspend of £92.09m against the revised budget of £467.868m and approve the carry forwards to 2023/24, as detailed in Appendices B and C to the report; and
- (vi) Note the update on progress on the year-end accounts and the work still outstanding, as set out in section 5 of the report;

Reason(s)

As a matter of good financial practice, the Cabinet should be informed about the Council's financial risks, spending performance and budgetary position. This will assist in holding officers to account and inform further financial decisions and support the objective of achieving Value for Money.

1. Introduction and Background

- 1.1 This is the provisional outturn report to Cabinet for the 2022/23 financial year. There was a net £9.4m of growth added to the budget for 2022/23 as part of the Council's budget setting process in February and March in order to meet the then known pressures, especially those in Care and Support. This was funded from Council Tax increases, commercial returns and Government grants.
- 1.2 The final budget for the year was £180.943m – this differs from the budget reported earlier in the year of £183m. This is due to two specific lines of income being reclassified as service income rather than corporate funding. These were £1.5m Investment income and £0.616 Adult Social Care grant. The monies have been received but have been coded directly to the services reducing net expenditure rather than being held corporately.
- 1.3 The time since Covid has been a difficult period for Local Government as a sector and for LBBB in particular. We have experienced a high level of financial risk including inflation and the cost-of-living crisis, the ongoing impact of the Covid pandemic and its aftermath, the potential impacts of Brexit, which have all compounded the long-standing pressures that impact across the Local Government sector. These risk factors are beyond the Council's control and are being felt across all Local Authorities but they are at risk of impacting LBBB more significantly as a result of the high levels of deprivation and disadvantage that already existed for residents of the Borough.
- 1.4 As part of our ongoing improvement programme, a new financial system and budget monitoring process was introduced in April 2022. This has resulted in some changes to the format of the budget monitoring report. This report is a high-level summary with key information and action points with more detail being contained within the appendices.
- 1.5 The implementation of the new finance system empowers budget holders to own their financial information and to work alongside finance. This has resulted in several deep dives and data cleanses, particularly within the area of People and Resilience creating a more robust data position from which to forecast and is allowing greater analysis of trends.

2. Overall Financial Position

- 2.1 As **Appendix A** shows, the expenditure forecast is £194.079m after planned transfers to and from reserves of £14.849m, so effectively an overspend variance of £27.9m. In mitigation, there is an overachievement in income from additional section 31 grants of £2.475m giving a final variance of £25.5m. The service driven variance is £8m but there were a further £17.4m of year-end items including bad debt and the impact of the Council's subsidiaries.
- 2.2 In addition there is a forecast overspend of £2.4m on the Housing Revenue Account, mostly driven by inflation on energy and the costs of compliance and safety works. There is also a shortfall on rent income from voids and dwellings being taken out of use as part of the Council's estate renewal programme. This is partly offset by underspends in repairs where there have been delays in recruiting additional workers to the DLO.

3. Use of Reserves

- 3.1 The Council does not normally allow services to carry forward general underspends. However, the reserves may be used to move monies between financial years in order to deliver specific projects and objectives. This applies to both external grant funding and monies given by the Council itself for specific projects. Full details of all such requests are given in Appendix A.
- 3.2 In addition, the Council has had to use reserves to cover the level of financial pressure that has been experienced this year. This includes using the collection fund smoothing reserve not only to cover the fund deficit but also to support broader Council overspending. We have also drawn down from the budget support reserve, the welfare reform reserve and the levies reserves. This has enabled us to manage the position in the short term but in the longer term exposes the Council to more risk.

4. Capital Programme

- 4.1 Outturn expenditure on the 2022/23 capital programme was £375m out of a total budget of £467.9m, resulting in an underspend of £92.9m. Approx. £59m (64%) of the variance was on the Investment Strategy, £25m (27%) on the General Fund and £7.4m (8%) on the HRA. At Period 11 the forecast position on the programme was an underspend of £89.4m. The final outturn was an underspend of £92.9m, which is an increase of £3.5m.
- 4.2 There has been a net increase of £2.965m to the capital programme budget since the Quarter 3 report to Cabinet in March, from £464.904m to £467.868m. This comprises the following schemes:

Programme	Scheme	Adjustment £'000	Funding source
Inclusive Growth	UK Shared Prosperity Fund	143	GLA grant
CIL	Box Up Crime	300	Stock condition
TFL	Cycle Routes and Valence Ave	221	Transport for London grant
IT	Customer Services channel shift	64	correction of negative budget
Culture and Heritage	Woodward Arts and Culture Centre	278	Arts Council grant
Parks Commissioning	Old Dagenham Park	48	DLUHC grant
Parks Commissioning	Central Park Pavilion	125	Stock condition, Parks programme, borrowing
Parks Commissioning	Tennis Courts development	75	Parks programme, s106
Parks Commissioning	Parks programme	(50)	contributions from Parks programme
Parks Commissioning	Decontamination	(159)	Transfer to finance revenue expenditure
My Place	Healthy Streets	200	Parking Reserve
My Place	Habitat for Humanity	169	Stock condition
My Place	Highways Programme	231	TFL, s278 developer contribution
My Place	Stock Condition	(520)	contributions from stock condition
My Place	Dispersed Working	320	Budget correction, funded from borrowing
IAS Residential	Gascoigne West Phase 3	1,224	Borrowing
Transformation	Transformation	297	Capital receipts
		2,965	

- 4.3 The capital programme is financed from several sources, including grant, borrowing, CIL, s106 contributions and revenue contributions. Overall, 86% of the programme is financed from borrowing. The table below provides a breakdown of sources of funding.

	Grant £'000	s106 £'000	CIL £'000	Capital Receipts £'000	HRA resources £'000	Revenue £'000	Borrowing £'000	Total £'000
General Fund	22,581	558	739	0	0	77	8,116	32,071
Transformation	0	0	0	2,106	0	0	0	2,106
HRA	1,234	0	0	198	23,268	0	0	24,700
Investment Strategy	0	0	0	0	0	0	316,089	316,089
Total	23,815	558	739	2,304	23,268	77	324,205	374,966

4.4 Most underspends will be carried forward into 2023/24. The total carry forwards amount to £92.661m. This will be added to the existing capital programme budget for 2023/24 to give an updated budget of £496.684m. In the few instances where individual schemes have overspent in 2022/23, the overspends will be deducted from the capital programme budget for 2023/24.

5. Update on Audit Issues

5.1 The statutory date for publishing draft accounts for Local Authorities is 31st May. However, this is a challenging target and has widely not been achieved. Less than half of London Boroughs met the deadline and potentially only 30% of all Councils did so. LBBDD were not able to publish.

5.2 The year end closure process is a complex one for the Council as a result of the number of companies and subsidiaries that it has. The process is nearly finished but there are still some outstanding items including the following:

- Final agreement with the Reside companies and LLPs of payments due to and from the Council and return on investment;
- Final agreement with BDTP of payments due to and from the Council;
- Final settlement and financing of the capital programme;
- Final reconciliation of the Housing Revenue Account;
- Final approval of previous years accounts and the balances brought forward.

5.3 In addition, the draft final accounts will be subject to external audit and cannot be regarded as final until the auditors have issued their opinion. The deadline for completion of the audit is November 2023 although this is likely to be considerably delayed as the audits for the previous three years (2019/20, 2020/21 and 2021/22) are still outstanding. The Audit and Standards Committee continues to hold our external auditors, BDO, to account for their performance.

6. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

6.1 This report is one of a series of regular updates to Cabinet about the Council's financial position. As the report makes clear the Council's financial position is challenging and there are significant risks and pressures that will require urgent attention.

7. Legal Implications

Implications completed by: Dr Paul Feild, Senior Standards & Governance Lawyer

7.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and

ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

- 7.2 Nevertheless, the unique situation of the aftermath of Covid 19 combined with the continuing hostilities between the Russian Federation and the Ukraine presents the prospect of the need to purchase supplies and services with heavy competition for the same resources together with logistic challenges which is causing scarcity and inflationary rising costs. However, value for money and the legal duties to achieve best value still apply. There is also the issue of the Councils existing suppliers and service providers facing issues of pressure on supply chains and labour availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained. The Council must continue careful tracking of these costs and itemise and document the reasoning for procurement choices to facilitate grounds for seeking such additional support funds as the Authority may be able to access.
- 7.3 As stated in the body of the report, the local audit for three years has yet to be published and on current trend the audit for 2022/23 is inevitably going to be late too. The performance of External Auditors carrying out the Audit matters, as it is a vital component in providing an external perspective in the governance and assurance of a local authority.

Public Background Papers used in preparation of this report

- The Council's MTFs and budget setting report, Assembly 2 March 2022
<https://modgov.lbbd.gov.uk/Internet/documents/s152346/BF%202022-23%20Report.pdf>

List of appendices:

- **Appendix A:** Revenue Outturn for GF, DSG, HRA and reserves transfers (Period 10)
- **Appendix B:** Capital Programme Outturn
- **Appendix C:** Capital Programme Carry Forward