

TITLE OF REPORT: **Provisional Revenue Outturn 2022/23**

REPORT OF: **Darren Collins, Strategic Director, Resources and Digital**

Purpose of the Report

1. This report sets out the provisional outturn position on the 2022/23 revenue budget which is subject to external audit. Cabinet is asked to
 - i. note the contents of the report,
 - ii. agree budget virements as set out in the report,
 - iii. recommend to Council appropriations to and from reserves consistent with previous decisions, accounting policies, the principles set out in the Medium-Term Financial Strategy (MTFS) and requirements of the Accounting Code of Practice.

Background

2. As part of the Council's budget and policy framework Cabinet receives quarterly reports on the agreed revenue budget so that any variances can be identified and addressed at appropriate pace with Councillor oversight.
3. Council agreed the revenue budget for 2022/23 on 24 February 2022. This was set at £254.3 million. The budgeted use of £29.2 million earmarked reserves in 2022/23 were agreed.
4. Council agreed an HRA balanced budget of £82.3 million without use of the reserve in 2022/23. At the second quarter this was reviewed to include £3 million use of reserves.

Proposal

5. It is proposed that Cabinet notes the provisional outturn, agrees the recommended budget virements and the appropriations to and from reserves as outlined in the report.

Administrative Virements

6. Cabinet is asked to agree that £0.6 million is removed from service budgets in relation to unused budgeted reserves and transferred into contingency so as not to distort service outturn figures. This will then be appropriated back to the original reserve.

Council Provisional Revenue Outturn 2022/23

7. The provisional outturn now indicates that the original revenue budget set has been delivered.
8. The overall provisional 2022/23 revenue outturn position for the Council including non-service budgets and financing results in an overall Council revenue positive balance of £3.4 million. This position is after the application of agreed reserves funding to support financing of the budget and is the net addition to the Council's general fund reserve. The provisional outturn position is shown in appendices 1 to 3 and is subject to external audit.
9. The majority of positive movements are considered one off in nature therefore they will not result in an ongoing budget reduction into next year. The exception to this is the investment income budget that is considered achievable next year and therefore has been included in the budget options for 2023/24.
10. In 2022/23 there has been a net decrease of £9.8 million on earmarked reserves in support of the outturn position.
11. Active budget management and additional scrutiny has taken place during the year in order to help achieve this outturn.
12. The Council have reviewed and included provision where possible of all of the Council's known financial risks so that plans can be put in place to manage financial pressures during 2023/24.

Schools Outturn and Dedicated Schools Grant (DSG) 2022/23

13. The Council-lead DSG budget for 2022/23 was £105.0 million. The outturn for the year was £103.2 million, an underspend of £1.8 million.
14. The DSG reserve opening balance was £2.2 million, which as at 31 March 2023 increased to £3.9 million factoring in the 2022/23 underspend and Early Years clawback of £0.043 million.
15. Schools LMS reserve forms part of the general reserve but is ringfenced for schools. This has decreased at outturn by £0.7 million to £8.3 million. The reduction in balances includes £0.2 million transferred to schools that converted to academies.

Housing Revenue Account

16. Council agreed an HRA balanced budget of £82.3 million without use of the reserve in 2022/23. At the second quarter on 24 November 2022 the Council agreed to an increase in the HRA budget of £ 3million to be met from the HRA reserve to ensure the backlog of repairs could be resolved.
17. The actual outturn position is an overspend of £3.5 million a total requirement from reserves of £6.5 million.
18. The main variance £3.1 million relates to depreciation which unlike the general fund is a real charge to the HRA representing investment in the assets. The depreciation charge is based an upward revaluation on the value of the assets in 2021/22. This will require the business plan to be refreshed to take account of the outturn.

Strategic Reserves - Review and Proposal

19. Local authorities need to hold sufficient reserves to deal with known future needs and the financial risks. Therefore, reserve levels are a key measure of the financial sustainability of an authority over the medium-term.
20. At the MTFS and outturn reporting points, general fund balances and strategic earmarked reserves are reviewed to ensure balances are adequate, fit for purpose and contribute to long term financial sustainability.
21. The review undertaken by The Section 151 officer has concluded that a number of financial risks need to be provided for within the earmarked Financial Risk and Resilience Reserve. It is proposed that this reserve is increased by £9.7 million to provide financial sustainability in relation to Insurance, Schools PFI liabilities, commercial risk and to set aside funds from underspends to meet financial challenges in specific areas in the coming financial year.
22. It is proposed that the two Earmarked Pandemic Reserves are merged into the Budget Sustainability reserve to create a combined reserve to support the budget over the MTFS period. The agreed approach to budget will continue to plan to use reserves to allow time to find significant permanent budget savings to achieve financial sustainability.
23. The Council element of the general fund reserve as at 31 March 2023 is £11.9 million. This equates to 4% of 2023/24 net revenue budget and assessed as appropriate in the current climate.
24. The reserve balances following the provisional outturn are shown in Appendix 3 for information.

Recommendations

25. It is recommended that Cabinet
 - i. notes the Council's 2022/23 provisional revenue outturn position as set out in the report and appendices, subject to external audit.
 - ii. notes the outcome of a review of Council reserves as set out in this report and appendices.
 - iii. agrees budget virements as set out in the report.
 - iv. agrees and recommends to Council the appropriations to and from reserves as outlined in the report.

For the following reasons:

To contribute to sound financial management and the long-term financial sustainability of the Council.

CONTACT: Darren Collins

Extension: 3582

APPENDIX 1

Policy Context

1. This report meets the standards required to comply with the Accounts and Audit Regulations 2015 which represent financial management good practice, recommend that councillors should receive regular reports on performance against revenue budgets.
2. It is also consistent with the Council's objectives of making Gateshead a place where everyone thrives by assisting in ensuring a sustainable financial position for the long term.

Background

3. The Accounts and Audit Regulations 2015, which represent financial management good practice, recommend that councillors should receive regular reports on performance against revenue and capital budgets. The frequency of the reports is determined following a risk assessment of the budget, and Cabinet currently receives a report on a quarterly basis with a final outturn position in June each year.

Revenue Outturn 2022/23

4. This report and appendices set out the provisional outturn position on the 2022/23 revenue budget.
5. Appendix 2 details the budget for 2023/24 compared to an assessment of the provisional outturn for the year.
6. The overall provisional 2022/23 revenue outturn position for the Council including non-service budgets and financing results in an overall Council revenue positive balance of £3.4m. This position is after the application of agreed reserves funding to support financing of the budget and is the net addition to the Council's general fund reserve.
7. The position is testament to the collective approach taken by groups and services to keep cost pressures under review within the financial year and ensuring that action was taken in a timely manner to ensure an outturn within budget.
8. Effective financial management has ensured that all covid funding sources and time limited funds have been maximised alongside consideration of setting aside funding for future pressures and lost income.
9. Although the overall outturn is positive, the position masks overspends in some services and includes a number of year-end transactions that have impacted on the final position. The positive outturn remains a significant achievement given the financial pressures faced by the services and enables the Council's sound financial position to be maintained within an extremely challenging economic and financial context.

10. There are several one-off areas of expenditure and income included in this position, most of which have been accounted for in Other Services, these include:

	£m
Release of redundancy provision	(1.1)
Release of Provision Trinity Square agreement	(0.1)
Surplus on the Insurance Fund	(0.9)
Airport Loan Notes	(1.1)
Business Rates Levy Top Slice Funds Returned via Settlement	(0.5)
Reinstatement and increase of Councils bad debt provision	1.5
Appropriation of unspent budgeted reserves in Services	0.6

11. Whilst the overall outturn is positive there are still a number of key financial challenges and items to note these include;

Significant Overspend Variances to budget;

- **Children's Social Care** £3.7m over budget.
Significant budget pressures have been seen in Children's Social Care relating to high Looked after Children (LAC) numbers and increasing placement costs. The overspend mainly relates to Independent Fostering Agencies £1.7m and external residential placements £2m.
- **Education, Schools & Inclusion** £0.9m over budget
Cost pressures mainly in relation to in Home to School Transport £0.7m
- **Leisure Services** £1.4m over budget
£1.2m unachieved income, utilities overspend £0.4m alongside £0.6m undelivered savings which is partially offset by underspend on salaries (£0.6m).
- **EIG - Planning Policy, Climate Change and Strategic Transport** £0.5m over budget This is largely due to an under achievement of planning income, licensing £0.1m, and building control income.

Significant Under Budget Variances;

- **Adult Social Care** (£1.3m) under budget
Assessments (£1m) in relation to additional income and vacant positions being held for savings.
Provider Services was (£1.5m) under arising from increased funding contributions, CHC and S117 and vacant positions being held.
- **Highways and Waste** (£3.6m) under budget
Waste Services are (£3m) under budget due to several areas including (£1.2m) underspend on the material recycling contract, (£0.8m) under on Residual Waste Partnership (In relation to energy refunds 2021/22 & reduced tonnage over achievement of traded income as well as over achievement of traded income.
Highways transport is (£0.5m) under spend on staffing and addition income.
- **EIG – Business, Employment & Skills** (£0.6m) under budget
This is in relation to rental income alongside vacancies not being filled and cost transfer to grants
Underspend on staffing (£0.3m) and increased income (£0.3m)

- **Contingencies** (£2m) under budget
Following the full utilisation of contingency in 2022, Cabinet agreed at the third quarter to transfer a top up budget for the remainder of the year. This has not been required in full.

Also note any unspent budgeted reserves have been transferred into contingency so as to not distort the Service monitoring. This budget totalled £0.6m and is in relation to Local Plan and Climate change not spending to full allocation.

- **Capital Financing** £2.5m under budget
Due to slippage in the programme in 2021/22 between quarter 2 and outturn (IT and Fleet related). This then impacted on the Minimum Revenue Provision (revenue charge for capital spend) for 2022/23.
- **Trading and Investment Income** (£3.1m) over-achieved income
Increased Investment income (£1.7m) as well as Scape income (£0.1m)
Newcastle Airport loans interest (£1.1m)
Release of provisions no longer needed into revenue position

Unachieved Savings

- The following savings remain unachieved and are carried into 2023;
 - Public Health and Wellbeing Leisure Services £0.600m
 - Contract Analysis £0.150m
- Cabinet agreed £13m of savings in the 2023/24 revenue budget which will be challenging, financial control and monitoring of budgets is crucial.

Earmarked Reserves

- Transfers from** earmarked reserves at outturn are as follows:

Reserve	£m
Financial Risk and Resilience	0.3
Thrive	1.5
Budget Sustainability	5.8
Pandemic Collection Fund	12.9
Pandemic Services Impact*	31.3
Unapplied revenue grants (ringfenced)	0.3
Developer contributions (ringfenced)	0.6
Public Health (ringfenced)	0.3

*includes a transfer to Budget Sustainability

15. **Transfers to** earmarked reserves at outturn are as follows:

Reserve	£m
Financial Risk and Resilience	10.0
Thrive	0.6
Budget Sustainability	22.5
Pandemic Services	5.7
Unapplied revenue grants	0.3
Developer contributions (ringfenced)	0.7
Public Health reserve (ringfenced)	1.5
Dedicated Schools Grant (DSG) reserve (ringfenced)	1.7

16. At the MTFS and outturn reporting points, general fund balances and strategic earmarked reserves are reviewed to ensure balances are adequate, fit for purpose and contribute to long term financial sustainability.
17. The review undertaken by The Section 151 officer has concluded that a number of financial risks need to be provided for within the earmarked Financial Risk and Resilience Reserve. It is proposed that this reserve is increased by £9.7m to provide financial sustainability in relation to Insurance, Schools PFI liabilities, commercial risk and set aside funds to meet financial challenges in specific areas in the coming financial year.
18. It is proposed that the two Earmarked Pandemic Reserves are merged into the Budget Sustainability reserve to create a combined reserve to support the budget over the MTFS period. The reserves following outturn are shown at appendix 3.

Schools Outturn and Dedicated Schools Grant (DSG) 2022/23

19. The Council-lead DSG budget for 2022/23 was £105.0m. The outturn for the year was £103.2m, an underspend of £1.8m.
20. The DSG reserve opening balance was £2.2m, which as at 31 March 2023 increased to £3.9m factoring in the 2022/23 underspend and Early Years clawback of £0.043 million.
21. Schools LMS reserve forms part of the general reserve but is ringfenced for schools. This has decreased at outturn by £0.7 million to £8.3m. The reduction in balances includes £0.2m transferred to schools that converted to academies.
22. Whilst most school's outturns were positive for 31 March 2023, during 2022/23 15 schools are in deficit, 5 schools have increased their deficit and 5 schools have decreased their deficit. Schools in deficit will be supported to complete and keep under review a deficit recovery plan.
23. 4 schools transferred to Academy status 1 May 2022 St Mary's, St Mary and St Thomas, St Agnes and St Wilfred's.

Housing Revenue Account

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25. The actual outturn position is an overspend of £3.5m a total requirement from reserves of £6.5m.
26. The main variance £3.1m relates to depreciation which unlike the general fund is a real charge to the HRA representing investment in the assets. The depreciation charge is based on an upward revaluation on the value of the assets in 2021/22.
27. There is an ongoing impact from the increased depreciation charge. The business plan needs to be recast to take account of this but also consideration needs to be given to how inflation is applied as this can skew significantly the potential impact. Expert advice will be sought in relation to this.

Consultation

28. The Leader of the Council has been consulted on this report.

Alternative Options

29. There are no alternative options proposed.

Implications of Recommended Option

30. **Resources:**

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms these are as set out in the report and appendices.
- b) **Human Resources Implications** – There are no direct Human Resource implications as a consequence of this report. Budget savings proposals will be subject to separate reporting.
- c) **Property Implications** - There are no direct property implications as a consequence of this report. Budget savings proposals will be subject to separate reporting.

Risk Management Implication -

31. Effective budget monitoring and the associated action planning that arise from this activity assists in reducing the risk of the Council overspending its agreed budget. This enables effective financial planning which allows the Council to deploy resources in line with priorities.
32. **Equality and Diversity Implications** - Nil
33. **Crime and Disorder Implications** – Nil
34. **Health Implications** - Nil

35. **Climate Emergency and Sustainability Implications** - Nil
36. **Human Rights Implications** - Nil
37. **Ward Implications** - Revenue spending supports the delivery of services across the whole of Gateshead.
38. **Background Information**
- Budget and Council Tax Level 2022/23, 22 February 2022
 - Revenue Budget – First Quarter Review 2022/23, 19 July 2022
 - Revenue Budget – Second Quarter Review 2022/23, 22 November 2022
 - Revenue Budget – Third Quarter Review 2022/23, 24 January 2023

Appendix 2- Draft Revenue Outturn 2022/23

Group / Service	Budget £'000	Draft Outturn £'000	Variance £'000
<u>Office of the Chief Executive</u>	922	890	(32)
<u>Integrated Adults and Social Care Services</u>			
Adult Social Care	75,346	74,000	(1,346)
Quality Assurance & Commissioning	5,926	5,824	(102)
<u>Children's Social Care and Lifelong Learning</u>			
Children's Social Care	42,261	45,970	3,709
Education, Schools and Inclusion	4,981	5,838	857
<u>Public Health & Wellbeing</u>			
Public Health	17,225	17,225	0
Wellbeing	3,378	4,657	1,279
<u>Housing, Environment & Healthy Communities</u>			
Gateshead Construction Services	427	785	358
Property & Assets	3,158	3,093	(65)
Locality Services & Housing	1,182	1,027	(155)
Strategic Services & Residential Growth	1,189	1,445	256
Highways and Waste	17,552	13,890	(3,662)
Environment & Fleet Management	3,649	4,022	373
<u>Economy, Innovation and Growth</u>			
Business, Employment & Skills	1,372	807	(565)
Planning Policy, Climate Change and Strategic Transport	3,124	3,642	518
Major Projects	(523)	(203)	320
<u>Corporate Services & Governance</u>			
Legal & Democratic Services	4,292	4,325	33
Human Resources & Workforce Development	1,724	1,551	(173)
Corporate Commissioning & Procurement	634	554	(80)
Public Service Reform	406	149	(257)
<u>Resources and Digital</u>			
Financial Management	2,558	2,663	105
Customer Experience & Digital	3,730	3,392	(338)
Housing Benefits	200	(173)	(373)
IT	4,336	4,739	403
Commercialisation and Improvement	2,373	2,127	(246)
School Meals & Catering	739	127	(612)
Other Services , Contingencies, Covid	12,906	10,717	(2,189)
Capital Financing Costs	33,116	30,663	(2,453)
Traded & Investment Income	(3,710)	(6,816)	(3,106)
Expenditure Passed outside the General Fund	(1,855)	(1,521)	334
Levies	11,686	11,686	0
NET BUDGET	254,304	247,095	(7,209)
<u>Financed By</u>			
Settlement Funding Assessment (SFA)	(56,907)	(56,709)	198
Other Grants	(47,235)	(49,938)	(2,703)
Public Health	(17,225)	(17,225)	0
Council Tax	(103,856)	(103,856)	0
Collection Fund Deficit	159	159	0
Earmarked Reserves - to support retained rates	(12,675)	(12,675)	0
Earmarked Reserves	(16,565)	(10,224)	6,341
TOTAL FUNDING	(254,304)	(250,468)	3,836
Addition to General Fund Reserve	(0)	(3,373)	(3,373)

	Opening Balance Mar-22 £000s	Revenue Outturn 2022/23 £000s	Balance Mar-23 £000s
General Reserves			
Total General Fund	(17,446)	(2,707)	(20,153)
General Reserve	(8,500)	(3,373)	(11,873)
LMS Budget Share (Schools) Reserve*	(8,946)	666	(8,280)
Strategic Earmarked Reserves			
Financial Risk and Resilience	(9,394)	(9,769)	(19,163)
Insurance Reserve	(2,000)	(2,000)	(4,000)
Grant Clawback	(3,000)	0	(3,000)
Workforce Development	(2,612)	(915)	(3,527)
Commercial Risk	(1,456)	(1,100)	(2,556)
Budget Flexibility	(326)	(169)	(495)
Schools PFI		(3,774)	(3,774)
ASC Direct Payments		(811)	(811)
Highways Maintenance		(600)	(600)
Volunteering and community capacity		(400)	(400)
Thrive	(8,444)	931	(7,513)
Economic Housing and Environmental Investment	(3,903)	606	(3,297)
Poverty Health & Equality Investment	(4,098)	365	(3,733)
Discretionary Social fund	(443)	(40)	(483)
Budget Sustainability	(20,015)	(16,685)	(36,700)
Pandemic Services Impact	(25,581)	25,581	0
Pandemic Collection Fund Impact	(12,866)	12,866	0
Ring Fenced Reserves*			
Developers' Contributions*	(2,019)	(161)	(2,180)
Unapplied revenue grants*	(1,390)	(5)	(1,395)
Public Health Reserve*	(2,607)	(1,212)	(3,819)
Dedicated Schools Grant Reserve*	(2,255)	(1,709)	(3,964)
Total Earmarked Reserves	(84,571)	9,837	(74,734)
Total Reserves	(102,016)	7,130	(94,886)

Figures Subject to external audit