

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 5 JULY 2022

Title:

FINANCIAL OUTTURN 2021/22
MEDIUM TERM FINANCIAL PLAN (MTFP) &
HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN MONITORING 2022/23

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Public

1. Purpose and summary

- To report the financial outturn for the year 2021/22 for the General Fund and HRA against revenue and capital budgets.
- To report the outcome of the review of general fund reserves within the scope of the MTFP, as committed to in the budget report to Council in February.
- To alert members to emerging pressures and risks to the 2022/23 budget and the general fund MTFP
- To note the ongoing strategic review of the HRA Business Plan

This report contains the following Annexes:

Annexe 1 – General Fund revenue outturn 2021/22 summary

Annexe 2 – General Fund capital outturn 2021/22 summary

Annexe 3 – HRA revenue outturn 2021/22 summary

Annexe 4 – HRA capital outturn 2021/22 summary

Annexe 5 – Capital Receipts Flexibility 2021/22

Annexe 6 – General Fund reserves within the scope of the MTFP

2. Recommendation

2.1 That the Executive:

- i. note the 2021/22 outturn position for the HRA and General Fund including the agreed budget carry forward amounts
- ii. note the emerging pressures and risks set out in the report and, in the light of these, ask officers to undertake a mid-year review of the MTFP including any reprioritisation of capital schemes, and report to Council in October via overview and scrutiny committee.
- iii. recommend to Council to approve the schedule of reserves in Annexe 6 including the purpose, allowable use and the proposed movements in 2021/22 and to agree a delegation to the S151 officer to agree draw down from the reserves if the use is in line with the approved purpose.

- iv. recommend to Council to make the change to the treasury management strategy threshold for the maximum investment for an individual counterparty as set out in paragraph 8.2.
- v. approve the capital receipt flexibility strategy as detailed in paragraph 9.3 to utilise the extended flexibilities around funding.

3 Reason for the recommendations

3.1 Reporting the financial outturn builds on the quarterly monitoring during the year and shows the extent to which the Council has kept within its income and expenditure budgets, demonstrating transparency and good governance. This report follows up on actions identified in the budget report agreed by Council in February. It should be noted that the HRA business plan strategic review is underway and will be reported to the Executive, via scrutiny committee, in the autumn.

4 Outturn Position 2021/22 – General Fund

4.1 A summary of the General Fund revenue outturn is shown at Annexe 1. In total, there was a net underspend of £452k after allowing for agreed budget carry forwards. The underspend of £452k represents a 3% movement from against the total service budget of £15million. This compares to a figure of £318k reported at Q3.

4.2 The service-by-service outturn analysis was also included in the Q4 performance report to O&S in June accompanied by a summary by the S151 Officer and explanatory text from each Head of Service. A summary of the main variations from the 2021/22 budget are listed below:

Budget item	Variance from latest budget 2021/22 £'000
Staff costs	-126
Other costs	-360
Income from fees and charges	-56
Other income	133
Reserve and grant transfers	-43
Total	-452

4.3 Waverley's Financial Regulations allow for unspent budgets to be carried forward if there is a valid reason, subject to a case being made to the S151 Officer. The approved carry forward items were noted in the Quarter 4 Performance Report and totalled £236k.

4.4 The General Fund capital programme outturn and any budget carry forwards for 2021/22 is summarised at Annexe 2 for noting.

5 Outturn Position 2021/22 – HRA

5.1 A summary of the HRA revenue outturn is shown at Annexe 3. In total, there was a net underspend of £319k after allowing for agreed budget carry forwards. The

underspend of £319k represents a 3% movement from against the total service budget of £12million. This compares to a figure of £41k reported at Q3.

- 5.2 The service-by-service outturn analysis was also included in the Q4 performance report to O&S in June accompanied by narrative from each Head of Service. A summary of the main variations from the 2021/22 budget are listed below:

Budget item	Variance from latest budget 2021/22 £'000
Staff costs	-204
Other costs	-221
Income from fees and charges	-12
Other income	-18
Rent income	136
Total	-319

- 5.3 The approved HRA carry forward items and amounts were noted in the Quarter 4 Performance Report and totalled £65k.
- 5.4 The HRA have repaid £5million PWLB debt in 2021/22 as per business plan.
- 5.5 The HRA capital programme outturn and any budget carry forwards for 2021/22 is summarised at Annexe 4 for noting.

6 Review of Reserves within the scope of the MTFP

- 6.1 This section of the report focuses on the review of General Fund reserves that are in scope of the MTFP. The budget report approved by Council in February recognised the considerable uncertainty facing Waverley's finances and it requested a review of the reserves that support the MTFP. The HRA reserves were reviewed alongside the HRA business plan in February and will be part of the strategic review currently underway.
- 6.2 Annexe 6 builds on the table presented to Council in February alongside the budget report. Officers have reviewed the purpose, approved use and justification for the balance held for each reserve which Members are asked to consider and approve. In approving Annexe 6, the Council will be agreeing the use of each reserve for its stated purpose and agreeing to the proposed transfers between reserves in 2021/22. Projections for the next 4 years are also shown for each reserve based on best information. This will be reviewed as part of the mid-year MTFP review in Autumn 2022.
- 6.3 As agreed by Council in the budget report, Waverley set aside a £2m contingency for Covid impact on costs and income, with £1m to cover 2021/22 and £1m 2022/23. The favourable outturn position in 2021/22 has been achieved without the need to draw on the contingency therefore, as agreed by Council, this will be returned to its original source reserves, this is reflected in Annexe 6. Council also agreed to keep the second £1m allocation to help mitigate the impact of rising inflation and economic revenue impacts on Waverley's 2022/23 general fund budget. This has been assumed in Annexe 6 but the position will be monitored

closely throughout the year, more detail on inflation risk is included later in this report.

6.4 The most notable changes proposed in Annexe 6 are listed below:

- General Fund working balance – it is considered that the £3.2million minimum balance is sufficient, particularly in light of the £1m inflation contingency. It is therefore proposed that the 2021/22 underspend of £452k is transferred to the ‘invest to save’ reserve to meet one-off costs such as IT, redundancy, professional services to support transformation projects including the WBC/GBC collaboration, subject to business case and payback.
- Insurance reserve – these General Fund reserves are intended to cover un-insured losses, including policy excesses. The Head of Finance has reviewed the balance in light of claims experience and the new insurance policies and has concluded that a significant transfer of £504k from these funds can be made. It is proposed to transfer the over-provision to the Invest to Save reserve detailed above.
- Business rates equalisation reserve – this is a discretionary reserve set up when the new ‘retained business rates’ funding system was introduced by Government in 2013. It has three main purposes which are to mitigate the impact of reductions in rateable value across the borough, increases in appeals and reductions in retained business rate core funding. This balance has been reviewed and in light of other current economic pressures it is proposed to transfer £1m to a Capital Cost contingency reserve to support inflation and other capital budget risks, and £44k to the Invest to Save reserve detailed above to make this balance up to £1m.
- Investment Advisory Board reserve – it is proposed to rename ‘strategic investment reserve’ and broaden the allowable uses so that officers can utilise the funds for researching and developing potential investment schemes, further details are shown in Annexe 6.
- Local Plan Reserve – this fund smooths across financial years the significant expenditure associated with the Local Plan process, including LPP2 and the requirement to review LPP2 within the MTFP period. Following an evaluation of estimated current and future activity, Annexe 6 includes a proposal to top up this reserve.

6.5 The Commercial Property provision will be removed from the list of reserves in scope of the MTFP in future reports as this is money set aside for the specific risks relating to the Council’s ownership and operation of commercial property such as void periods. This is consistent with other specific provisions such as bad debts.

7 2022/23 Budget and emerging pressures on the MTFP & HRA business plan

7.1 The MTFP and HRA business plan includes a forward look over the next four years to anticipate the spending pressures faced by Waverley. Planning now to meet known changes in the future provides greater opportunity to mitigate the impact. Good preparation will mean that Waverley has sufficient funds to meet

unexpected costs and that limited financial resources are targeted to Waverley's residents' highest priorities.

7.2 It is four months since the Council set its 2022/23 budget so officers have reviewed the latest position and considered emerging pressures on the longer term outlook for Waverley's financial plans. These updates are summarised below:

- Cost of living and its economic impact on Waverley's community, businesses and residents – this is leading to higher demand for services, the need for closer monitoring of debts and greater demand for hardship funds, both Waverley and Government funded. An Executive working group for the Cost of Living was set up in June 2022 to investigate the impact of cost of living on the council and residents of Waverley.
- Inflation on Waverley's budgets – pay, contracts, IT, utilities – currently £110k adverse variance projected in 2022/23 for General Fund but offset by buoyant income in car parks and treasury yield plus robust management of staff costs in Q1. There will also be impacts in the HRA, particularly on utility costs. This will have further negative impact in future years as inflation compounds.
- Constraints on income – council tax, planning, land charges, building control, licensing, housing rents
- Capital schemes – affordability and deliverability of capital schemes – need to reassess and reprioritise
- External funding – Waverley approved a new post to support the generation of new funding for revenue and capital across all services. This post is currently being advertised.
- Leisure Centres – 2022/23 management fee will be challenging to achieve with some activities still at only 70% of pre-covid levels. Early indications are that the new contract starting in July 2023 following the major tender exercise could be £0.5m worse in overall management fee in the early years. This is before the planned capital improvements which will help to offset this. The mid-year MTFP review will consider this in more detail.
- Recruitment and retention – impact on services and cost of agency cover
- Other national economic factors – including heightened cybercrime risk and increasing volatility in economic markets

7.3 Housing rent constraints, inflation on costs and affordability will be a key consideration in the ongoing HRA business plan strategic review which will be reported to members in the autumn.

8 Capital Strategy and Treasury Management

8.1 As mentioned above, one of the mitigations of rising inflation costs on Waverley's budget is to generate more income. Treasury income from cash deposits placed as per Waverley's approved Strategy is one way to achieve this, particularly as

interest rates are starting to increase. On February Council approved the Capital Strategy for 2022/23 which included a range of self-imposed operating boundaries for treasury investment which reflect Waverley's risk appetite. There is no suggestion that the security of deposit thresholds should be changed in terms of minimum credit ratings and limits on investment terms. However, the total value of cash holdings has increased significantly in recent years, yet the maximum deposit per individual specified counterparty has remained at £10m for a number of years. Officers are proposing to increase this to £15m. Each deposit will continue to be subject to diligence prior to completion. This will provide officers more flexibility to secure better returns.

8.2 The proposed changes to the para 3.8 of the approved Treasury Management Strategy 2022/23 are as follows:

-£10 15 million is the maximum deposit in any single specified organisation* at any one time.

-£20 million is the total deposit with any group - £10 15m the maximum with any single member of that group.

*Para 3.7 Specified investments - are those held in sterling with a maturity of no more than a year and must be with the UK Government, UK local authorities or "high" credit rated institutions.

9 Flexible use of capital receipts

9.1 In 2015 the Government introduced flexibility regarding the use of capital receipts from sale of non-housing assets to fund revenue costs of service reform. In the 2021/22 Budget Waverley utilised this flexibility to support costs of digital transformation and service reconfiguration.

9.2 Annex 5 details the project expenditure that has been funded from capital receipts flexibly, and the savings realised to date from these projects.

9.3 The government has recently announced a continuation of flexibility but with a new scheme. It is Waverley's proposed strategy for 2022/23 to use capital receipts for certain revenue costs where these directly lead to the delivery of an ongoing revenue budget saving or efficiency gain, including Business Transformation and collaboration activity and projects.

10 Risk

10.1 There are a range of risks associated with the delivery of the 2022/23 budget and forward financial plan aims. This includes the achievement of the various saving/efficiency programmes in place to address the budget shortfall, these are particularly important to identify given the uncertainty in the estimates and local economy caused by the pandemic and rising costs. A summary of the risks to Waverley's finances is included below:

10.2 Impact of high and rising inflation of the Council's finances, service demand and the community. It is proposed to set up a special task force to monitor this impact throughout the year, details elsewhere on this agenda

10.3 Achieving savings targets:

- the uncertainty in the estimates and local economy caused by the pandemic
- investment in commercial property needed, with new borrowing restrictions in place. Government policy change has affected the Council's ability to undertake prudent 'yield' investments
- Major change programmes underway including transformation of customer services across the council and the collaboration with Guildford Borough Council.

10.4 We do not have significant non earmarked reserves

- Limited ability to fund change in the Corporate plan, zero carbon, structural deficit
- One off adverse impacts such as planning appeals, judicial reviews

10.5 Adequacy of reserves:

- Business rates – under the current retention system we carry some of the cost of appeals, including backdated refunds, plus reducing total rateable value in the Borough, for example the impact of permitted development on commercial premises
- Impact of Government's business rate funding review and Fair Funding review is likely to reduced retained business rates and increase risk
- Housing benefit overpayment recovery – will be limited in future due to Universal Credit
- Investment property voids – this is an increasingly important revenue stream

10.6 Negative Government grant:

- Still on the agenda – decision deferred to upcoming Fair Funding Review

10.7 Further constraints on income:

- Reliance on Council Tax increase, Planning, Building Control and rents income – affected by Government policy, economy and local political decision making
- The unknown economic impact on inflation and interest rates

11 Relationship to the Corporate Strategy and Service Plan(s)

11.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan. A new Corporate Strategy was approved by Council in December 2020 and the MTFP and HRA business plan is at the heart of its delivery.

12 Implications of decision(s)

Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources.

Risk management

Detailed in Section 11 above.

Legal

The report meets the duty to report on the robustness of the estimates provided, the adequacy of the financial reserves in place and the monitoring arrangements in line with

Section 25 of the Local Government Act 2003. It is critical that the overall financial plans to deliver the Council's aims and objectives, and the proposals included in this report support this aim.

Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments of the detailed budget proposals will be carried out to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

Climate emergency declaration

There are no direct implications arising from this report. The annual budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan delivery plus a one-off £100k contribution in 2022/23 to the Climate Change fund to support further pump priming of Climate Change projects.

Consultation and engagement

The Resources Overview and Scrutiny Committee scrutinised the budget at its meeting on 25 January, following an informal briefing on the detailed budget proposals.

Other options considered

Set out within the papers.

Governance journey

The detailed budget proposals and revised MTFP and HRA business plan were reported to Resources Overview and Scrutiny in January ahead of consideration by Executive and Council in February. The outturn summary is included in the Q4 performance report which will be considered by O&S in June. The MTFP and HRA Business Plan reviews will be reported to O&S in September.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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