

Report to: **Executive**

Date: **21 September 2023**

Title: **2022/23 Final Revenue and Capital Outturn**

Portfolio Area: **Finance – Cllr J Brazil**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

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**RECOMMENDATION:**

**That the Executive RESOLVES to NOTE the draft Revenue and Capital outturn figures for the 2022/23 financial year including the overall Revenue outturn position of a surplus of £57,000 for 2022/23 (0.5% of the total Budget £10.464 million).**

**1. Executive summary**

- 1.1 This report provides Members with the draft Revenue and Capital Outturn position for 2022/23 and provides a schedule of the Reserve balances at 31 March 2023.
- 1.2 There was a surplus of £57,000 on the outturn position for 2022/23 (0.5% of the net budget of £10.464m), as shown in the Draft Statement of Accounts for 2022/23 published on 30 June 2023.
- 1.3 In accordance with normal accounting practice, this surplus has gone into Unearmarked Reserves, with a view to it being reinvested in our core services and the new Corporate Strategy. Unearmarked Reserves have increased by £57,000 in 2022/23 and total £2.113 million at 31 March 2023.

## 2. Background

- 2.1 The draft Statement of Accounts for 2022/23 were presented to the Audit and Governance Committee on 27 July 2023 and can be found at the following link under Item 5: <https://democracy.swdevon.gov.uk/ieListDocuments.aspx?CIId=148&MIId=1902&Ver=4>. This report gave the background around the timing of the publication of the Accounts and advised that Grant Thornton are unable to complete the audit of the 2022/23 Accounts by the deadline of 30 September 2023 due to their lack of staffing capacity.
- 2.2 As mentioned in a letter received from Lee Rowley MP on 18 July 2023 only 27% of Councils nationally have had their Accounts for 2021/22 signed off by their Auditors. **South Hams District Council are within this 27%, the 2021/22 Accounts were signed off by Grant Thornton on 31 March 2023.**
- 2.3 The SOA is an essential feature of public accountability, since it provides the stewardship report on the use of funds raised from the public. The closing of accounts is also important to the budgetary process since it confirms the availability of reserves and balances for future use.
- 2.4 The statement of accounts and financial records have been closed, balanced and the draft accounts published and will be audited by our external auditors Grant Thornton during the winter months. If any alterations are required the details will be reported to the Audit and Governance Committee with the external audit accounts report in March 2024. Any impact to revenue or capital resources will be brought to Executive in the Month 10 budget monitoring reports planned for 7 March 2024.

## 3. Outcomes/outputs

### Revenue Expenditure

- 3.1 Revenue expenditure represents the ongoing costs of carrying out day-to-day operations, and is financed from council tax, business rates, fees and charges, government grants and interest earned on investment activity.
- 3.2 In 2022/23 the Council incurred additional costs and a shortfall in income of £1.915m (equating to 18% of the Council's net budget of £10.464million). Many of the additional costs were as a result of the current economic climate with high inflation and the cost of living crisis. The extra costs incurred in the year included the impact of the local government pay award (£0.41m) and extra inflation (over the amount budgeted) for the waste contract, utility costs, IT costs and insurance costs totalling (£0.557m). In addition the Council experienced a shortfall in planning income of £0.35m.

- 3.3 These extra costs and shortfall in income were offset by the Council generating additional investment income from treasury management of £1.023m, as a result of the Council realising the opportunity from high interest rates. Overall £1.972m of additional income (equating to 19% of the Council's net budget of £10.464 million) was generated from the extra investment income, additional net income from car parking from extra usage, high occupancy rates and regular rent reviews generating extra income from the Council's employment estates and additional income from the Dartmouth Lower Ferry.
- 3.4 Therefore there was an overall surplus of £57,000 on the outturn position for 2022/23. The 2022/23 budget was £10.464 million and therefore the surplus of £57,000 means that the actual net spend was 0.5% less than the budget. This is essentially a break-even position. This surplus will go into the Council's Unearmarked Reserves which now stand at £2.113 million.
- 3.5 There were exceptional one-off transitional costs of £1.5m in 2022/23 for bringing the waste and recycling service back in house in October 2023. This was referenced in reports to Council on 12<sup>th</sup> July and 22<sup>nd</sup> September 2022 and had the support of the Cross Party Waste Working Group.
- 3.6 A further £1.5m will be spent in 2023/24 on transitional costs. The £3m was funded from the business rates retention reserve which was approved by Council prior to the waste service being brought back in-house in October 2022. In addition a further £0.5m was spent on one-off project implementation costs, with the Council receiving third party funding towards these costs.
- 3.7 There has been a fundamental improvement in performance for the waste and recycling service, such that in February 2023, for the first time in over 3 years, the service achieved the national industry standard performance target of no more than 80 missed bins per 100,000 collections.

3.8 A summary of the main variations from budget in 2022/23 is provided in the table below:

<b>ANALYSIS OF VARIATIONS 2022/23</b> (% column shows variation against budget)	<b>£000</b>	<b>% variation</b>	
<b>Additional income generated</b>			
Treasury Management Income – extra investment income on the Council’s investments following the recent successive increases in interest rates to 5% as the Bank of England looks to tackle surging inflation.	(1,023)	831.7%	A
Car parking pay and display income and fine income – additional net income from extra usage, especially in the coastal car parks and extra fine income of £88,000. This equates to 14.5% of the total income budget of £3.162m.	(460)	14.5%	B
Employment estates – additional income due to high occupancy rates and regular rent reviews.	(280)	31.6%	C
Dartmouth Lower Ferry - extra income of £209K (26%) has been achieved against the budgeted income of £0.82m – this has offset additional running costs of the ferry as shown below.	(209)	25.3%	D
<b>Increases in expenditure/reduction in income</b>			
National pay award – the national employer’s pay offer for 2022/23 of £1,925 on all NJC pay points was significantly higher than the budgeted provision of 3%. The pay award resulted in additional salary costs.	410	221.6%	E
Planning income shortfall – Planning income is down by £350,000 (32%) against the budgeted income target of £1.08million.	350	32.3%	F
Additional salary and agency costs (partly in the waste and legal teams). The Council also shares its staffing workforce with West Devon BC. In 2022/23 there was a higher apportionment of staff costs of £86K to South Hams DC due to the Council bringing the waste service back in house from 3 October 2022 (as per the Audit Committee report on 9th March 2023).	220	2.9%	G
Dartmouth Lower Ferry – fleet refurbishment, equipment costs and additional fuel costs – offset by additional ferry income of £0.2m as shown above.	187	166.4%	H
Waste contract inflation – the actual rate of inflation on the contract was 12.2% and was significantly higher than the budgeted provision of 3%. Contract inflation was based on fuel inflation, wage inflation and consumer price index, all of which were higher than when the budget was set.	180	138.5%	I
Waste – additional vehicle repairs and maintenance costs due to an ageing fleet (new vehicles are being purchased in 2023/24).	79	31.9%	J
Higher inflation on utility costs on all Council services – An increase in utility (mainly electricity) prices due to the rise in energy costs and inflationary pressures.	155	54.5%	K

<b>ANALYSIS OF VARIATIONS 2022/23</b> (% column shows variation against budget)	<b>£000</b>	<b>% variation</b>	
Additional Insurance costs – higher insurance costs which are inflation linked and a significant amount is linked to bringing the waste service back in house in Oct.	130	41.4%	L
ICT software and support contracts – additional costs from above inflation increases, increased number of users on the Council’s network, increase in remote working and disability access legislation compliance.	92	16.8%	M
Homelessness costs – additional expenditure on temporary accommodation over and above what is claimable through the DWP subsidy. This is due to a number of factors beyond the Council’s control such as the housing crisis and a lack of accommodation.	90	37.3%	N
Other small variances	22	-	
<b>TOTAL SURPLUS FOR 2022/23</b>	<b>(57)</b>	<b>(0.5%)</b>	

The 2022/23 budget for South Hams was £10.464 million but the actual net spend was 0.5% lower, providing a surplus of £57,000 as shown above.

**Notes**

- A. **Treasury Management income** – investment income is up by 831.7% in 2022/23, which equates to additional income of £1.023 million. This follows the recent successive increases in interest rates to 5% as the Bank of England looks to tackle surging inflation. The rate of return achieved on investments was 4.19% (Link Services March 2023 report).
- B. **Car parking pay and display and fine income** – additional net income of £460,000 has been generated in 2022/23. This is mainly from extra usage especially in the coastal car parks and additional fine income of £88,000. This equates to 14.5% of the total income budget of £3.162m.
- C. **Employment Estates income** – additional income of £280,000 (31.6%) has been generated in 2022/23. This is mainly due to high occupancy rates and regular rent reviews.
- D. **Dartmouth Lower Ferry income** – additional income of £209,000 has been received in 2022/23. This equates to 25.3% of the annual income target for Dartmouth Lower Ferry of £827,000. This income has offset additional running costs of the ferry as shown in note ‘H’ below.
- E. **National pay award** - the impact of the employer’s pay offer for 2022/23 of £1,925 on all NJC pay points, was significantly higher than the budgeted provision of £185,000 (3%). The proposed pay award resulted in additional salary costs of £410,000.

- F. **Planning income** – planning income is down by £350,000 (32.3%) in 2022/23 against the budgeted income target of £1.08 million.
- G. **Salaries** – there are additional salary and agency costs of £220,000 in 2022/23, which equates to 2.9% of the salaries budget. This partly relates to additional staffing costs in the waste and legal teams. The Council shares its staffing workforce with West Devon BC. In 2022/23 there was a higher apportionment of staff costs of £86,000 to South Hams DC due to the Council bringing the waste service back in house from 3 October 2022 (as per the Audit Committee report on 9th March 2023).
- H. **Dartmouth Lower Ferry costs** – The annual fleet refurbishment, equipment costs and fuel costs amounted to £187,000 of additional expenditure in 2022/23. The refurbishment budget for the ferry has historically been lower than the actual costs for a number of years and the 2023/24 budget has addressed this by increasing the annual refurbishment budget by £80,000 per year. The additional costs in 2022/23 have been offset by extra ferry income of £209,000 shown in note 'D' above.
- I. **Waste contract inflation** - the actual rate of inflation on the waste contract for 2022/23 is 12.2%. This is significantly higher than the budgeted provision of £130,000 (3%). This has resulted in additional contract costs of £180,000 in 2022/23 for the six month period covered under the waste contract. Contract inflation is based on published indices for fuel inflation, wage inflation and consumer price index (CPI).
- J. **Waste** – due to the ageing fleet there have been additional vehicle repairs and maintenance costs in 2022/23 amounting to £79,000 (31.9%). New waste vehicles are being purchased in 2023/24 to address this issue.
- K. **Utility costs** – due to the rise in energy costs and inflationary pressures an increase in utility (mainly electricity) prices of £155,000 has been experienced in 2022/23.
- L. **Insurance costs** – additional insurance costs have been experienced in 2022/23. These costs are inflation linked and a significant amount is linked to bringing the waste service back in house in October 2022.
- M. **ICT Support Contracts** - there are additional costs in respect of ICT software and support contracts in 2022/23 mainly due to,
- Above inflation increases, e.g. Microsoft Licensing
  - Additional costs for new licenses, laptops and accessories due to an increase in the number of users on our network
  - The acquisition of remote diagnostics software as a result of the increase in remote working

- Disability Access legislation for the website has required the purchase of tools for monitoring compliance and enhancing access

N. **Homelessness costs** – additional expenditure on temporary accommodation over and above what is claimable through the DWP subsidy has been incurred in 2022/23. This is due to a number of external factors beyond our control,

- the housing crisis and lack of accommodation
- an increased number of properties on Airbnb
- Staycation holidays creating higher demands for hotels in the area and driving up costs
- The Homes for Ukraine Scheme
- More family units presenting as homeless compared to previous years requiring more than one room
- Having to stay longer in the accommodation due to the housing crisis and limited suitable accommodation to move them onto.

## Capital Expenditure

3.9 Capital expenditure represents monies spent on the purchase, construction or major refurbishment of assets. The Council's capital expenditure amounted to £9.379 million in 2022/23. The main areas of expenditure were as follows:

- Dartmouth Health and Wellbeing Hub (£3.83m)
- St Ann's Chapel housing scheme (£1.56m)
- residential renovation grants including disabled facilities grants (£1.14m)
- Green Homes grants (£0.91m)
- Batson Harbour Depot/Commercial Units (£0.78m)
- Affordable Housing (£0.28m)

3.10 **Appendix A** provides a breakdown of Capital expenditure by project for 2022/23 and shows how each scheme has been funded.

3.11 Total expenditure on the St Ann's Chapel Housing scheme for 2022/23 is £2.14m. Of this spend, £1.56m relates to the 8 affordable homes and 2 serviced plots and this expenditure is included above in capital expenditure. The remaining £0.58m relates to the open market units. These are in the process of production for sale and therefore have been classed as Inventories as at 31 March 2023 and are not included in the Property, Plant and Equipment or Capital Expenditure balances as at 31 March 2023.

## Borrowing

3.12 In 2022/23 the long term borrowing of the Council reduced from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. Total borrowing as at 31 March 2023 has reduced from £14,380,000 to £14,284,000. No further external borrowing took place during 2022/23.

## Revenue Reserves

3.13 The Council maintains both capital and revenue reserves. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response to both the Covid pandemic and the current cost of living crisis which will have an impact on the Council's finances as well as the finances of the residents of the District. Key to the authority's financial resilience are our reserves, which are at a prudent level.

3.14 The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.

3.15 The movement in the General Fund Balance (Un-Earmarked Reserves) is summarised below. Unearmarked Reserves have increased by £57,000 in 2022/23 and total £2.113million as below.

<b>Unearmarked Revenue Reserves</b>	<b>£000</b>
General Fund Balance (Un-Earmarked Revenue Reserve) at 1 April 2022	(2,056)
<b>Surplus for the 2022/23 financial year</b>	<b>(57)</b>
General Fund Balance (Un-Earmarked Revenue Reserve) at 31 March 2023	(2,113)

3.16 A schedule of Reserves is attached at **Appendix B**, which shows the contributions in and out of each Reserve during the year with both the opening and closing balances for 2022/23.



- 3.17 Earmarked Reserves have reduced by £5.415m in 2022/23 moving from £20.839m on 1 April 2022 to £15.424m at 31 March 2023 as shown below. This follows the application of £3.066 million of the S31 Business Rates compensation grant received in 2020/21 and 2021/22 which was held in the S31 Compensation Grant Business Rates Reserve. This is a technical adjustment as part of the Collection Fund. In addition, the Business Rates Retention Earmarked Reserve has reduced by £2.570 million in 2022/23 partly due to supporting the costs of bringing the Waste and Recycling Service back in house from October 2022 (£1.448 million) and partly to support the Business Rates Collection Fund deficit in 2022/23 (£0.785 million). The movements in Earmarked Reserves are shown in detail in **Appendix B**.

<b>Earmarked Revenue Reserves</b>	£000
Earmarked Revenue Reserves at 1 April 2022	20,839
Additions to Earmarked Reserves	4,686
Actual Spend of Earmarked Reserves in 2022/23	(10,101)
<b>Earmarked Reserve Reserves at 31 March 2023</b>	<b>15,424</b>

- 3.18 The General Fund reserves (which are made up of the General Fund Balance and Earmarked Reserves) have decreased by £5.358m from the preceding year and stand at £17.537 million at 31 March 2023. This is due to a reduction in Earmarked Reserves of £5.415m. Revenue reserves may be used to finance capital or revenue spending plans. The level of Reserves are assessed as adequate for the Council's operations. The Council undertakes a review of the level of its Earmarked Reserves every year as part of the budget setting process.
- 3.19 The total Earmarked Reserves balance at 31 March 2023 of £15.424m includes £1.194m held in the Business Rates s31 Compensation Grant Reserve.
- 3.20 This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the s31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2023/24 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.

## Capital Reserves

- 3.21 The Capital Receipts Reserve (which holds capital receipts which can be used to finance capital projects) has a balance of £2.92m as at 31.3.2023. These are capital receipts that are committed to finance capital projects within the Capital Programme.
- 3.22 The Capital Grants Unapplied Reserve has a balance of £409,000 as at 31 March 2023. This is mainly Disabled Facilities Government Grant which will be utilised in 2023/24.

## Savings and Additional Income

- 3.23 In line with budget monitoring updates this outturn report includes a schedule of the savings and additional income that were identified in the 2022/23 budget setting process and provides a year end position, set out in **Appendix C**.
- 3.24 In 2022/23 £636,000 of savings and additional income were achieved compared to the original target of £404,000. This is mainly due to the additional employment estates rental income generated. Further detail can be found in **Appendix C**.

## 4. Collection Fund balance as at 31.3.2023

4.1 The Collection Fund shows the transactions of the Billing Authority in relation to the collection of council tax and business rates from taxpayers and its distribution to local authorities and the Government. The income from Council Tax totalled £86.382m in 2022/23 and business rates receivable totalled £25.442m for 2022/23. This is shown in Section 4 of the Statement of Accounts for 2022/23.

### Collection Fund balance

2021/22 Business Rates £000	2021/22 Council Tax £000		2022/23 Business Rates £000	2022/23 Council Tax £000
18,106	(28)	Fund balance at 1 April	6,351	(2,743)
(11,755)	(2,715)	Deficit/(surplus) for year	(12,308)	(89)
<b>6,351</b>	<b>(2,743)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(5,957)</b>	<b>(2,832)</b>

The balance on the Collection Fund is split between the preceptors as follows:

2021/22 Business Rates £000	2021/22 Council Tax £000		2022/23 Business Rates £000	2022/23 Council Tax £000
3,175	-	Central Government	(2,978)	-
572	(1,982)	Devon County Council	(536)	(2,045)
-	(312)	Devon and Cornwall Police	-	(324)
64	(118)	Devon and Somerset Fire Authority	(60)	(121)
<b>3,811</b>	<b>(2,412)</b>	<b>Total deficit/(surplus) due to Preceptors</b>	<b>(3,574)</b>	<b>(2,490)</b>
2,540	(331)	South Hams District Council	(2,383)	(342)
<b>6,351</b>	<b>(2,743)</b>	<b>Fund balance as at 31 March – deficit/(surplus)</b>	<b>(5,957)</b>	<b>(2,832)</b>

### Business Rates

4.2 **The Council collected 97.95% of business rates in 2022/23, which was in the second quartile of all Councils nationally.** A new earmarked reserve was created in 2020/21 called the s31 Compensation Grant (Business Rates) Reserve. This was set up to hold the s31 grant received in 2020/21 and 2021/22 totalling £8.73m to offset the business rate reliefs given to businesses during the pandemic and the 2020/21 Tax Income Guarantee s31 grant for Business Rates (£0.79m). Under current Collection Fund accounting rules, the s31 grants received are not discharged against the Collection Fund deficit until the following year. In 2021/22 £5.25m s31 grant was discharged to the Business Rates Collection Fund and a further £3.07m in 2022/23.

4.3 The balance on the Business Rates Collection Fund as at 31 March 2023 has moved from a £6.35m deficit to a £5.96m surplus following the release of this s31 compensation grant to the Collection Fund in 2022/23. This compensation grant (amounting to £1.19m as at 31 March 2023) will continue to be applied to the Collection Fund to smooth the impact of the Business Rates deficit.

### Council Tax

4.4 **The Council collected 98.55% of council tax in 2022/23 which was in the top quartile of all Councils nationally.** This was against a target of 97.5% and this has resulted in an increase in the Council Tax Collection Fund surplus from £2.74m as at 31 March 2022 to £2.83m as at 31 March 2023. The Preceptors' element of this surplus (£342,000 for SHDC) is reflected in the Council Tax Creditor as at 31 March 2023 detailed in note 18 to the Statement of Accounts for 2022/23.

4.5 In the 2022/23 Budget, the Council budgeted for a £181,000 collection fund surplus share for SHDC, with a further £332,000 being budgeted for 2023/24.

## 5. Proposed Way Forward

5.1 Members are advised that the accounts will be audited by our External Auditors, Grant Thornton during the winter months. Following the Audit, the Statement of Accounts will be brought back to the Audit and Governance Committee for approval in March. If any alterations are required the details will be reported to the Audit and Governance Committee with the external audit accounts report in March. Any impact to revenue or capital resources will be brought to Executive in the Month 10 budget monitoring reports planned for 7 March 2024.

## 5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are Section 151 Local Government Act 1972 Section 21 (12), Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015.
Financial implications to include reference to value for money	Y	<p>The report provides the draft Revenue and Capital outturn figures for the 2022/23 financial year including the overall Revenue outturn position of a surplus of £57,000 for 2022/23 (0.5% of the total Budget £10.464 million).</p> <p>As part of Grant Thornton’s external audit of the Statement of Accounts for 2022/2023, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> <li>• Improving economy, efficiency and effectiveness</li> <li>• Financial Sustainability</li> <li>• Governance</li> </ul> <p>The outcome of Grant Thornton’s work in this area will be reported to Members at a future Audit and Governance Committee meeting.</p>

Risk	Y	<p><b>Public Accountability</b> – the accounts have been drawn up in strict accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is recognised by statute as representing proper accounting practice.</p> <p><b>Resource Planning</b> – the Council takes into account any significant issues when developing the Council's Medium Term Financial Strategy.</p>
Supporting Corporate Strategy		The Annual Statement of Accounts supports all of the Thematic Delivery Plans within the Council's strategic vision, 'Better Lives for All'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Climate Change – Carbon / Biodiversity Impact		<p>A report was presented to Council on 17<sup>th</sup> December 2020 'Climate Change and Biodiversity Strategy and Action Plan update'. The report set out the proposed allocation of the £400,000 in the Climate Change Earmarked Reserve.</p> <p>A further £200,000 funding for the Climate Change Action Plan was approved by Council on 11<sup>th</sup> February 2021, as part of the 2021/22 Budget.</p> <p>Further detail is set out in the Council's 'Better Lives for All' strategy.</p>
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

**Appendix A** – Schedule of Capital Programme 2022/23 – Actual expenditure for 2022/23

**Appendix B** – Schedule of Reserves for 2022/23 (Earmarked and Un-Earmarked)

**Appendix C** - Summary of Savings and Additional Income 2022/23

#### **Background Papers:**

None