

## 2022/23 Financial and Treasury Management Outturn Reports

Date: 17 July 2023

Report of: Head of Democratic Services

Report to: Scrutiny Board (Strategy and Resources)

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

### Brief summary

Executive Functions that fall within the remit of the Scrutiny Board (Strategy and Resources) include:

- Ensuring and administering effective financial management and controls
- Setting, supporting and monitoring the Council's policies and procedures for budgets

For this reason, the Scrutiny Board has a standing commitment to monitor financial health and performance throughout the financial year, to identify emerging issues and to bring forward any appropriate recommendations to the Executive in this regard.

As part of this function the Scrutiny Board receives the annual Financial Outturn and Treasury Management Outturn reports, as provided to the Executive Board at its June meeting. These are provided as Appendix 1 and 2 to this report.

In previous years the Board has identified the robustness and long-term sustainability of the Council's revenue budget as key priorities for consideration and these items provide an end of year view on this for the 2022/23 municipal year. The Scrutiny Board's ongoing review will be supported by consideration of financial health monitoring reports during 2023/24 and of the Medium-Term Financial Strategy and the 2024/25 budget proposals..

### Recommendations

Members are asked to:

- a) Note the content of the Financial and Treasury Management Outturn reports for 2022/23.
- b) Consider how the priorities highlighted in the Scrutiny Board's discussion might inform decisions about future work programming.

## What is this report about?

- 1 This item provides the Board with the outturn position for the 2022/23 financial year covering the General Fund revenue budget and the Housing Revenue Account (HRA) at Appendix 1 and the treasury management position at Appendix 2.
- 2 All scrutiny boards consider the proposed budget for the next financial year (2024/25) in January and make comment and recommendations to Executive Board as part of the budget setting process. Given the specific functions that fall within the remit of Strategy and Resources Scrutiny Board consideration is given to the previous year's performance with a view to understanding the challenges faced and to make any observations as deemed to be appropriate.

### General Fund Outturn

- 3 The budget setting process targets resources against the Council's policies and priorities as set out in the Best City Ambition. The net budget for the general fund in 2022/23 was set at £521.9m with general fund reserves at £33.2m. The general fund reserve was not utilised in 2022/23 and therefore remained unchanged at 31 March 2023.
- 4 At Outturn an overspend of £12.4m is reported across directorates (2.4% of the Council's Net Revenue Budget). This position incorporates the national employers pay offer for 2022/23, increased energy costs and other inflation costs linked to the rising cost of living that has been experienced throughout the last financial year both by the local authority and Leeds residents. At its June meeting the Executive Board agreed to the use of the Strategic Contingency Reserve to balance this overspend.
- 5 The HRA position at outturn also reported an overspend of £6.8m which Executive Board agreed to use HRA Reserves to balance, again at its June meeting.
- 6 The budget for 2022/23 required the delivery of £16.5m in savings through budget action plans. At the June meeting of Strategy and Resources Scrutiny Board members expressed an interest in the progress of budget action plans that are aimed at delivering savings throughout the course of the financial year. More detail is provided in Appendix 1 but at Outturn the majority of the action plans have been delivered in full through the identified saving plans or through mitigating actions identified by each Directorate. The exceptions to this are as follows:
  - Children & Families – £0.575m shortfall to expected savings on Passenger Transport and Diversifying Children's Residential Provision.
  - Resources – £2.522m shortfall to expected savings due to: £2.046m shortfall in the anticipated level of procurement savings within PACS, £155k shortfall in the expected catering income, £135k shortfall in BSC Shared Cost Additional Voluntary Contributions impacted by cost of living and £186k shortfall in the BSC Salary Sacrifice Schemes because of delays in rollout and upfront costs.
- 7 The impact of inflation on the council's financial position can not be underestimated and with CPI inflation still at 8.7% (May 2023) these challenges appear set to continue. In January 2023 CPI inflation was at 10.1%, that position reflected a slight reduction on the October 2022 peak of 11.1%.
- 8 The impact of inflation is perhaps best exemplified through analysis of energy costs which increased significantly in 2022/23. The 2022/23 budget of £14.36m allowed for a 5% increase in energy costs for gas and electricity. In addition, the Council set aside £3.9m of energy contingency funding. The reported position at Outturn reflects General Fund expenditure on energy of £18.9m plus the requirement to make a provision of £0.4m in relation to energy costs at properties where heat pumps have been installed. The resulting pressure of £4.9m has been

met by applying the £3.9m of energy contingency funding in full and through use of further reserves of £1m.

- 9 This position whilst highlighting the increase in costs also reflects the forward purchasing of over 80% of energy for the winter months, the majority was purchased at prices that were lower than the energy cap – although still significantly higher than has been paid before. In addition, the Government committed to a six-month Energy Bill Relief Scheme for businesses and other non-domestic energy users, including charities and public sector organisations, this provided a discount on energy prices.
- 10 Inflation has also impacted through general cost of living pressures. The Council has seen increased costs for goods and services, increased demand for support and welfare services, and reduced income across a range of services as Leeds residents and visitors choose to spend differently as a consequence of rising inflation. Furthermore, the Council has also experienced significant increases in fuel costs.
- 11 In April 2023 Executive Board approved the application of the remaining balance of the Merrion House capital receipt to redeem debt in 2022/23, to reduce MRP by the same amount and to contribute the resulting £22.3m revenue saving to earmarked revenue reserves. The outturn position reflects this contribution to the Merrion House earmarked revenue reserve. These funds will be available to fund future unforeseen budget pressures and to ensure the Council continues to become more financially resilient, particularly given the use of £12.4m of the Strategic Contingency Reserve to balance the 2022/23 position.
- 12 The HRA overspend at outturn is primarily due to the overspend on the repairs and disrepair budgets due to a combination of significant inflationary pressures in the sector and the costs associated with bringing back void properties into use and the demand for repairs.
- 13 In addition, the HRA has witnessed a growth in bad debts, following analysis of tenant arrears the provision for doubtful debts was £1.2m higher than budgeted and total bad debts now stand at £8m.

#### Treasury Management Outturn

- 14 The Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council's capital programme and is consistent with the Best City Ambition and 3 key pillars.
- 15 Net external debt at 31st March 2023 was £2.397bn which is £5m lower than the February 2023 forecast. The level of debt and liabilities should be viewed in the context of the Council's long-term assets which were valued at £6.779bn at 31st March 2022, this asset position will be updated for 2023 when the draft accounts are completed.
- 16 The level of debt has remained within the Authorised Limit and Operational Boundary as approved by the Council in February 2023. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time. The Operational Boundary is a key management tool and can be breached temporarily depending on cash flow.
- 17 The outturn position for debt costs within the revenue budget was an underspend of £6.4m before taking into account the impact on MRP of applying the remaining balance of the Merion House capital receipt to reduce debt. This £6.4m underspend arose primarily because of opportunities to borrow at lower interest rates during the year, lower than anticipated overall borrowing requirement and lower than anticipated MRP.
- 18 Increases in interest rates could have an impact on the council's debt position and borrowing costs. However, short term borrowing is used during the year to temporarily fund the borrowing requirement where necessary, ensuring that long term borrowing is not undertaken at unfavourable rates.

- 19 Whilst this approach continues to deliver lower costs of financing, the level of borrowing funded by short terms loans has increased to £170m at 31/03/2023. During 2022/23 both actual short and long-term rates have increased significantly however the Council’s advisors are forecasting that rates will fall back from current levels which are the highest seen in over a decade. As a result, the strategy has been updated to fund from short term until longer term rates fall at which time short term funding will be switched into lower cost longer term funding.
- 20 The average rate of interest paid on the Council’s external debt was 3.22% for 2022/23 down slightly from 3.28% recorded in 2021/22.

**What impact will this proposal have?**

- 21 This is an information report covering the key financial areas of the Board’s remit. This will enable board members to comment and question the Council’s approach to financial management and financial policies and procedures.

**How does this proposal impact the three pillars of the Best City Ambition?**

- Health and Wellbeing       Inclusive Growth       Zero Carbon

- 22 The reports contained at appendices 1 and 2 deal with the Council’s financial outturn position in respect of the General Fund, the HRA and Treasury Management. The budget setting process targets resources against the Council’s policies and priorities as set out in the Best City Ambition and as such is central to the delivery of the Best City Ambition.

**What consultation and engagement has taken place?**

Wards affected:
Have ward members been consulted? <input type="checkbox"/> Yes <input type="checkbox"/> No

- 23 Board Members considered the Work Programme for the 2023/24 municipal year at its initial meeting on 19 June 2023 and agreed to this work item to consider the financial outturn position of the authority for 2022/23 financial year.

**What are the resource implications?**

- 24 The appendices to this report set out the resource implications of the Council’s outturn position for 2022/23.

**What are the key risks and how are they being managed?**

- 25 There are no specific risks associated with this report.

**What are the legal implications?**

- 26 There are no specific legal implications associated with this report.

**Options, timescales and measuring success**

**What other options were considered?**

- 27 Not applicable.

**How will success be measured?**

28 Not applicable.

**What is the timetable and who will be responsible for implementation?**

29 Not Applicable.

**Appendices**

- Appendix 1 – Financial Health Monitoring 2022/23 – Outturn financial year ended 31st March 2023, considered by Executive Board on 21 June 2023.
- Appendix 2 - Treasury Management Outturn 2022/23, , considered by Executive Board on 21 June 2023.

**Background papers**

- None