

ADUR & WORTHING
COUNCILS

Joint Strategic Committee
11 July 2023

Joint Overview & Scrutiny Committee
7 September 2023

Key Decision: No

Ward(s) Affected: All

Financial Performance 2022/23 - Revenue outturn

Report by the Director for Sustainability & Resources

Executive Summary

1. Purpose

- 1.1 This report outlines the revenue financial monitoring position for the end of the 2022/23 financial year for the Joint Strategic Committee, Adur District and Worthing Borough Councils. At the time of publication of this report, the Statements of Accounts are in progress, both due to be completed by the end of July. The audit commencement date is still to be confirmed but is unlikely to commence until the Autumn, any adjustments that emerge during the audit will be reported to members later in the year.
- 1.2 The final position for operational services were overspends for Adur District Council of £1.8m and Worthing Borough Council of £3.6m. This is compared to the projections reported at quarter 3 when operational outturns were predicted to be an overspend of £1.6m in Adur and £3.3m in Worthing before any use of reserves.
- 1.3 Overall outturn positions were an overspend of £10k in Adur District Council and an underspend of £778k in Worthing Borough Council. This represents a 0% overspend against the budget for Adur and 6% underspend in Worthing.

1.4 The table at 4.4 below sets out the components contributing to the outturn positions in 2022/23.

1.5 There is one 2022/23 budget carry forward proposed in Worthing of £35,000 to support Cost of Living funding.

1.6 This outcome is an improvement for both Councils from that forecast in the quarter 3 monitoring report '3rd Revenue Budget Monitoring Report (Q3) 2022/23' when net overall overspends after reserve transfers of £382k and £2.1m were being projected in Adur and Worthing respectively. The significant movement in Worthing is due to the outcome of the VAT appeal claim related to leisure services (see section 4.7) which was announced in the last quarter of the financial year. Adur's outturn position improved due to increased income from business rates.

1.7 The following appendices have been attached to this report:

Appendix 1 Joint Summary of 2022/23 Outturn

Appendix 2 (a) Adur Summary of 2022/23 Outturn
(b) Adur Use of Earmarked Reserves

Appendix 3 (a) Worthing Summary of 2022/23 Outturn
(b) Worthing Use of Earmarked Reserves

Appendix 4 (a) HRA Summary
(b) HRA Briefing Note of Variances Q3 to Outturn

2. Recommendations

2.1 The Joint Strategic Committee is asked to recommend that Adur District Council, at its meeting on 20th July 2023 and Worthing Borough Council at its meeting on 18th July 2023:-

(a) NOTE the overall final outturn for 2022/23.

(b) APPROVE the net appropriations from General Fund Reserves in the year as detailed in section 6 of the report totalling: Adur District Council £749,839 Worthing Borough Council £1,644,580.

(c) AGREE in Worthing Borough Council the revenue budget carry forward to 2023/24 of £35,000 to be funded from reserves to support work associated with the Cost of Living crisis.

2.2 Joint Overview and Scrutiny Committee is recommended to note:

(i) the contents of the report and consider whether it needs to scrutinise any budget area in detail.

3. Context

3.1 2022/23 was a year of multiple financial challenges with the long term impacts of the pandemic running alongside the sudden cost of living crisis. The Councils saw increases in the wage bill, significant hikes in energy costs and a rise in homelessness. Council service teams worked tirelessly to maintain service levels throughout these consecutive upheavals while also delivering significant change programmes such as the rationalisation of office accommodation at Portland House to generate rental income, increases to a number of commercial income streams and strong performance in the Strategic Property Investment Fund. Positive contributions from underspends in the Minimum Revenue Provision for both Councils; and in Worthing a VAT reclaim payment significantly improved final outturns. Current and future years continue to be challenging in a period of persistently high inflation and seemingly permanent changes to income streams such as car parking. There remains a need to continually review and reshape the medium term financial strategy to adapt the councils' budget to new financial realities.

3.2 The Joint Strategic Committee last considered the 5-year forecast for 2022/23 to 2026/27 on 6th December 2022. This report '2023/24 - Budget update' outlined

the financial context, and updated the outline 5 year forecast, the key budget pressures and the savings proposals for addressing the budget gap for Adur and Worthing Councils. The report built on previous strategies whose aim was to ensure that the Councils would become community funded by 2020 reliant, by then, only on income from trading and commercial activities, council tax income and business rate income.

- 3.2 The successful delivery of the strategy is fundamentally changing how the Councils are funded. The Councils are moving increasingly away from ever reducing government funding towards funding from the local community via Council Tax and Business Rates, becoming increasingly reliant on income from commercial activities.

4. Issues for consideration

- 4.1 As part of the 2022/23 budget the Councils committed to savings of £0.168m for Adur District Council and £1.136m for Worthing Borough Council to produce a balanced budget and to address the reduction in Government support. Services were required to carry out efficiency, procurement and base budget reviews to identify where income could be increased or expenditure reduced. However, the financial landscape has changed due to the impact of the economic downturn, energy prices, rising inflation and interest rates visible in additional cost pressures falling on the Council over the last 12 months. Additional pressure has also been created by the national pay award which was higher than assumed and built into the 2022/23 budget.

- 4.2 Following the LGA Finance peer review in November 2019, which referenced in its feedback report the low level of the reserves, the Councils have positioned themselves to better manage risk and contribute to reserves for the future through three separate initiatives:

- The centralisation of inflation provisions.
- The creation of contingency budgets where possible for areas of uncertainty in the budget.
- Accelerating savings initiatives where possible - including generating additional commercial income.

These measures have built some capacity in the Council's reserves which is much needed at this time.

- 4.3 The budgets were approved in February 2022 with continued uncertainty around the pace of recovery from the impact of the Covid 19 pandemic. During 2022/23

the government continued to help support people and businesses as the country navigated its way through the recovery, this had an ongoing impact on local councils:

- Administration of the government backed schemes for energy rebate payments.
- Administration of additional business rates reliefs awarded to support business, including the re-issuing of the bills.
- A reduction in business rate income as a result of the additional reliefs.

There was also a large volume of work created in 2022/23 from the returns and reconciliations required associated with the business and self isolation grants administered by the councils on behalf of the government in 2021/22.

4.4 The outturn position is comprised of a number of elements as set out in the table below:

2022/23 Outturn	Adur £000	Worthing £000
Over/(under)spend in operational services – including share from Joint	1,770	3,563
Reduced borrowing requirement: A lower than forecast call on the MRP (provision to repay debt) and net interest in 2022/23, due to reprofiling of the capital programme.	(911)	(867)
Leisure Services VAT reclaim - net repayment after costs	-	(2,780)
Pay award - impact above budgeted allowance	392	606
Reduction in national insurance contribution rate	(30)	(45)
Net Overspend before Government Funding and Transfers to reserves	1,221	477
Non ring fenced Government grants	(27)	(41)
Outturn overspend before impact of taxation and transfer to/from reserves	1,194	436
Impact of Taxation		
Impact on NDR income from additional reliefs and appeals	(444)	1,208
Overspend before transfer to/(from) reserves	750	1,644
Transfers to(from) Reserves:		
Business rates smoothing reserve	-	(1,216)
Tax Guarantee smoothing reserve - contribution to Council Tax 2020/21 deficits funded over a three year period	(59)	(37)
Net Operational Over/(Underspend)	691	391
Transfer to / from (-) reserves to fund revenue expenditure	(681)	(1,169)
Outturn after total transfers to/(from) reserves	10	(778)

4.5 In summary the overall revenue outturn positions are as follows:

	Joint	Adur	Worthing
	£000	£000	£000
Current Budget	25,790	9,742	13,785
Outturn (Including funding and transfers to/from reserves)	28,379	9,752	13,007
	2,589	10	(778)
		0.0%	-6.0%

Comparison of outturn position to the Q3 forecast:

	Joint	Adur	Worthing
	£000	£000	£000
Outturn Over/(under)spend	2,589	10	(778)
Forecast Over/(under)spend Q3	2,912	382	2,100
Movement	(323)	(372)	(2,878)

4.6 The reported budget variances in Adur and Worthing, in the table above, include the total share transferred from the Joint services in line with their allocated share.

4.7 The movement between the quarter 3 forecast report to members and the outturn position are due to higher business rate income than expected in Adur, and in Worthing the announcement that the VAT appeals associated with leisure services has been decided and in agreement with the local government claims.

4.8 The key factors underpinning the outturn financial position include:

- Car Parking Income - in Worthing the service income did not achieve budget, with a shortfall of £160,000. This was as a result of a slower than assumed recovery in 2022/23 from the pandemic. Income performance in Adur was on budget. In addition expenditure was £137k higher than the budget due to the increasing transactional costs associated with an increasing number of cashless payments. The final year end position was as predicted and reported at quarter 3.
- The government response to the cost of living crisis in the form of support through energy rebate payments created additional resourcing requirements

this together with the need to deal with the backlog work created whilst Covid grants were being processed has meant cost pressures have been incurred with the need to recruit temporary staff.

- Pay award - the national pay award was agreed with an increase of £1,925 to each spinal column pay point. This equated to an average pay increase of 5.82%, 3.82% higher than the 2% budgeted allowance creating an in year cost pressure of £972,000. This was partially offset by £75,000 with the 1.25% reduction in the employer national insurance contributions from November following the government decision to reverse the increase introduced at the start of April 2022 .
- Waste dispute - created additional cost pressures resulting from the negotiated changes following the waste dispute earlier in the financial year and agency costs being incurred to cover vacancies, holiday and sickness. In addition there was also a reduction in income against budget as a result of cancellations and refunds associated with the dispute. A report was taken to Joint Strategic Committee in June 2022 setting out for members the unbudgeted cost implications for the councils with approval to utilise the Capacity Issues Reserves of £209,020 in Adur and £371,590 in Worthing to support the identified cost pressures.
- Homelessness - caseload numbers (individuals, couples and families presenting themselves to the council in immediate housing crisis) have been consistently higher than expected during 2022/23 with 97 in Adur and 337 in Worthing at the end of March 2023 compared to 81 and 271 in the respective councils at the beginning of the financial year. The final outturn positions were overspends in the service of £437,000 in Adur and £544,000 in Worthing, this despite an increase in the 22/23 Adur budget of £150,000. This compares with the £247k and £703k respective overspends projected at quarter 3. To address the ongoing demand on the service an additional budget has been built into the 2023/24 budgets for both Councils (£381,000 Adur and £748,000 Worthing).
- An underspend in the Minimum Revenue Provision (MRP) and net interest payable and receivable budgets. These budgets are calculated on both the historic financing of previous years capital programmes and the impact of financing the current year's capital spend. Both councils have an underspend in the MRP budget due to reprofiling to 2022/23 of a proportion of the 2021/22 Capital Programme and the impact of changes to planned financing due to increased levels of capital receipts and capital grants both of which offset the need to borrow. The reduced need to borrow also translates into a

saving on interest payable. Furthermore, higher interest rates than assumed when setting the budget have also increased the income received from the council investments:

Over/(underspends)	Adur (General Fund)	Worthing
	£000	£000
Minimum Revenue Provision *	(469)	(302)
Interest payable on borrowing	(219)	(77)
Interest from investment income	(223)	(508)
Other financing costs	0	20
Total	(911)	(867)

* *The Minimum Revenue Provision (MRP) is a statutory charge to the revenue budget to provide for the repayment of debt. The budget is based on previous unfunded capital expenditure plus the estimated charge for the approved capital expenditure for the year.*

- Shortfall in net income from Worthing crematorium leading to an overspend against the bereavement service of £609,000. Although a substantial shortfall against the budget this is an improvement on the quarter 3 forecast of a £672k shortfall, in part due to cemetery income being £30k higher than projected.
- Worthing VAT Reclaim relating to Leisure Services - Worthing Borough Council has had a claim lodged (that stood behind three lead appeal cases Chelmsford City Council, Midlothian Council and Mid-Ulster District Council reflecting the different legal regimes in England and Wales, Scotland and Northern Ireland) for 12 years regarding the VAT treatment of sport and leisure services. The appeals concerned whether VAT is payable on the provision of local authority leisure services or treated as non-business as they are delivered under a special legal regime. The case has now been heard by all tribunal tiers and the decision found to be in agreement with the local authorities claims. This means that HMRC accepts that local authority leisure services in the UK are non-business supplied. Tax refunds for overpaid VAT will now be repayable by HMRC for the relevant periods 2007-2015 with. The net amount, after the KPMG advisory commission, is expected to be in the region of £2.78m, with the exact amount depending on the outcome of ongoing negotiations around some income streams (catering

and party hire), and the final interest calculation which has yet to be confirmed. The same opportunity did not exist for Adur District Council as the leisure service has been outsourced since 2005.

- Planning Income - Adur and Worthing have both experienced a reduction in applications that have led to a shortfall in income within the planning service departments as broken down in the table below.

Shortfall in income against budget	Adur	Worthing
	£000	£000
Building Control	83	67
Development Control	29	51
Land Charges	57	56
Total income shortfall	169	174

The outturn position is an improvement on the predicted income shortfalls reported in quarter 3 of £195k in Adur and £235k in Worthing. In addition to the shortfall in income there was also a significant overspend in costs £111,000 in Worthing associated with professional and legal fees related to a number of sites including Goring Gap, which is partly covered by an approved contribution from the Capacity Issues reserve of £42,927.

- Cross cutting

Utilities - as reported to members during the year the cost of energy has been a significant cost pressure for both councils. The outturn positions are overspends against both gas and electricity budgets for Adur and Worthing.

Overspend against budget	Adur	Worthing
	£000	£000
Gas	5	31
Electricity	45	199

Worthing has a larger number of public buildings where the cost of utility supply is the responsibility of the council, including the crematorium where there is a significant supply need to deliver the service.

Maintenance - expenditure budgets were as predicted in respect of over and underspend positions, the final outturn position was as follows compared to the quarter 3 forecast:

Over/(under)spend	Q3 Forecast	Outturn
	£000	£000
Joint	198	115
Adur	71	40
Worthing	(127)	(92)

- **Business Rates**

There is an inherent timing difference in the accounting for business rates between when the budget is set and future decisions made by Treasury in relation to reliefs where compensation is funded through section 31 funding. Local taxation is accounted for transparently through a separate account known as the Collection Fund with any differences between what is expected to be collected and what is actually collected by the authority accounted for through the general fund as surplus or deficit adjustments. An estimated surplus/deficit is calculated in January and that is used in the budget for the next financial year, any variance will then not flow through to the general fund until the following year.

The financial impact on the general fund in 2022/23 is shown below:

	Adur		Worthing	
	Budget	Outturn	Budget	Outturn
	£m	£m	£m	£m
Net income after tariff	2.186	2.191	2.304	2.344
Add: Section 31 grant	1.215	1.840	1.750	2.872
Add: Safety net payment	-	-	-	-0.471
Less: Levy 2022/23	-0.817	-0.622	-0.681	-
Less: Levy adjustment relating to prior years	-	-0.064	-	-0.376
Less: Recovery of estimated 2020/21 deficit	-	-0.366	-3.153	-3.153
Add: Withdrawal from Business Rates Smoothing / Local Income Tax Guarantee reserves to fund net deficit	-	-	3.153	1.215
Income expected from Business rates	<u>2.584</u>	<u>2.979</u>	<u>3.373</u>	<u>3.374</u>

Balance on Smoothing reserve 31 March 2022	1.766	3.307
Use of reserves in 2022/23	-	-1.215
Contribution to reserve in 2022/23	-	0.400
Balance on Smoothing reserve 31 March 2023	1.766	2.492
Expected use of reserve in 2023/24	-1.286	-2.492

Overall income from business rates in Adur was better than expected when setting the budget and no withdrawal from the smoothing reserves required in 2022/23. This is after over awarding £5m in mandatory and discretionary reliefs to businesses during the year. The closing balance on the reserve is sufficient to meet the overall projected deficit on the Collection Fund for 2023/24.

Business Rate income is volatile and can be affected by many factors: government decisions, changing use of commercial properties, valuations, appeals. The amount of income to benefit the General Fund is set at the outset of the financial year and will not change irrespective of the actual level of business rate income received. In 2022/23, the Government awarded significant additional reliefs in-year which generated a deficit within the collection fund which the Council will need to fund in 2024/25. However the balance on the Smoothing Reserve will be used over the next two years to fund the deficit on the Collection Fund.

- Local Tax Income Guarantee

The government committed to compensating Councils for any in-year losses for Council Tax and Business Rates in 2020/21. This scheme runs in parallel to the requirement for billing authorities to spread the in-year 2020/21 collection fund deficit over 3 years.

Given that these losses are being funded over a three year period by the precepting bodies, this grant is being used over the same period to ensure that these losses are offset in the year in which the Council will need to fund them. A prudent approach was adopted in 2020/21 when these funds were transferred to reserves. The use of the reserves in 2021/22 is as follows:

	Adur		Worthing	
	Council Tax	NNDR	Council Tax	NNDR
	£	£	£	£
Balance of Reserve 1 April 2022	118,666	0	72,180	229,769
Approved use 2022/23	59,000	0	37,000	0
Balance 31 March 2023	59,666	0	35,180	229,769
Approved planned use in 2023/24	59,666	0	35,180	229,769

5.0 ADUR HOUSING REVENUE ACCOUNT (HRA)

5.1 Adur Homes is held within a ring fenced Housing Revenue Account, which is shown in Appendix 4. Overall the HRA shows an overspend against its budget of £397,284 which is an improvement on the £578,149 overspend projected in quarter 3. The movement is mainly due to a review of the depreciation policy which has reduced the annual charge to the revenue budget by £610,000. This favourable variance is offset by continuing rental income losses as a result of increased void properties, along with increased repair costs.

5.2 The HRA Reserve stood at £1.045m at 31st March 2023 with earmarked reserves totalling £0.117m. This reflects the positive impact of the depreciation policy review, which was backdated to the prior financial year (2021/22).

6.0 TRANSFERS TO RESERVES

6.1 Movements and Use of Earmarked Reserves

As part of the 2022/23 final accounts process, officers have identified amounts that are recommended for transfer to reserves for specific purposes or planned as part of the budget process, as detailed below.

In 2022/23, both authorities drew down on reserves to fund other costs. A detailed breakdown of the reserve positions is included in **Appendix 2b** for Adur and **Appendix 3b** for Worthing.

Adur District Council:

Adur District Council transfers from General Fund Earmarked Reserves 2022/23		
Budgeted/Committed contributions to/(from) reserves:	£	£
<ul style="list-style-type: none"> • Decrease in Grants & Contributions Carried Forward • Self-insurance charges and proposed contributions • Approved use of reserves • Local Tax Income Guarantee 	<p>(289,435)</p> <p>(69,740)</p> <p>(321,498)</p> <p>(59,000)</p>	<p>(739,673)</p>
<p>Contribution from reserves from general overspend:</p> <ul style="list-style-type: none"> • General Fund overspend withdrawn from the General Fund Working Balance 	<p>(10,166)</p>	<p>(10,166)</p>
<p>Total recommended net withdrawals from Earmarked Reserves</p>		<p>(749,839)</p>

If all the proposals in the above table are adopted, Adur District Council's General Fund Working Balance will decrease to £1.041m which, at 10.7% of net expenditure of £9.752m, is just above the range of 6%-10% normally set by the Council. However, the working balance is being retained at this level to help mitigate the impact of the current inflationary pressures on the Council's overall finances.

In addition the Council would retain earmarked revenue reserves of £0.968m (excluding the revenue grants reserve, the Business Rates Smoothing Reserve and the Local Tax Income Guarantee), a decrease of £1.359m over 31st March, 2022. The full listing of earmarked reserves is attached at **Appendix 2b**.

Worthing Borough Council:

Worthing Borough Council net transfers from General Fund Earmarked Reserves 2022/23		
Budgeted/Committed contributions to/(from) reserves:	£	£
<ul style="list-style-type: none">• Decrease in grants & contributions Carried Forward	(312,378)	
<ul style="list-style-type: none">• Net withdrawal from Theatres Reserve	(31,497)	
<ul style="list-style-type: none">• Approved use of reserves	(803,893)	
<ul style="list-style-type: none">• Local Tax Income Guarantee	(37,000)	
<ul style="list-style-type: none">• Self-insurance charges and proposed contributions	(22,150)	
<ul style="list-style-type: none">• Withdrawal from Business Rates Smoothing Reserve	(1,215,763)	(2,422,681)
Transfer to reserves for general underspend:		
<ul style="list-style-type: none">• Transfer to Business Rates Smoothing Reserve to fund future NDR losses	400,000	
<ul style="list-style-type: none">• General Fund underspend transferred to Capacity Issues Reserve	378,101	778,101
Total recommended net withdrawals from Earmarked Reserves		(1,644,580)

If all the proposals in the above table are adopted, Worthing Borough Council's General Fund Working Balance will increase to £1.347m which, at 10.4% of net expenditure of £13.007m, is above the range of 6%-10% normally set by the Council. However, the working balance is being retained at this level to help mitigate the impact of the current inflationary pressures on the Council's overall finances.

In addition the Council would retain earmarked revenue reserves of £1.992m (excluding the revenue grants reserve, the Business Rates Smoothing Reserve and the Local Tax Income Guarantee), a decrease of £0.479m over 31st March 2022. The full listing of earmarked reserves is attached at **Appendix 3b**.

7.0 MINIMUM REVENUE PROVISION (MRP) REQUIREMENT 2022/23 AND DEBT POSITION

MRP Requirement for 2022/23

7.1 The Local Authorities (Capital Finance and Accounting) (England)(Amendment) Regulations 2008 require the Councils to make a prudent provision within the accounts for repayment of debt. This provision is called the Minimum Revenue Provision (MRP) and is charged to revenue expenditure.

7.2 The Councils' MRP policy was approved by the Joint Strategic Committee at its meeting of 2nd June 2016 and was recommended for approval by Worthing Council at its meeting on 19th July 2016 and by Adur Council at its meeting on 21st July 2016. It was agreed that: firstly for any debt associated with unfunded capital expenditure incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt.

This does not apply to Worthing Borough Council which had no debt as at 1st April 2008. Secondly, for both Councils' non-HRA capital expenditure which forms part of the Capital Financing Requirement (the CFR), (excluding loans to RSLs or other approved bodies), after 1st April 2008, the MRP will be calculated as the annual amount required to repay the CFR using the Annuity Method over the life of the assets acquired. The option remains to use additional revenue contributions or capital receipts to repay debt earlier. Where a building is being constructed, the MRP will be set aside once the building has been completed. The CFR is a prescribed calculation which is used to measure the Councils' underlying need to borrow to finance all capital expenditure.

7.3 The MRP policy will ensure that, by the time debts are due to be repaid, sufficient funds will have been set aside.

7.4 As MRP is applied in the year after that in which capital expenditure is funded from borrowing, the MRP for 2022/23 relates to unfunded expenditure incurred up to and including 31st March 2022. Voluntary MRP may be set aside, which can be offset in future years.

7.5 By applying the approved methodologies, described in paragraph 7.2, the following MRP determinations have been provided for in the 2022/23 accounts:

- For Adur District Council General Fund the MRP was £1,885,636. £10,000 of Voluntary MRP was offset. No Voluntary MRP was set aside for the HRA.

- For Worthing Borough Council the MRP was £1,853,450. £160,000 of Voluntary MRP was offset.

Debt Position at 31 March 2023

- 7.6 In recognition of the introduction of the HRA Self-Financing regime, the Councils' joint treasury management policy also includes a requirement to account separately for General Fund and HRA debt in accordance with the "two pool approach" recommended by CIPFA within the Treasury Management Code of Practice. This approach apportioned historic debt at 31 March 2012 between the HRA and General Fund in accordance with the Code guidance, and requires new borrowing from 1 April 2012 onwards to be attributed to either the General Fund or HRA according to the purpose for which it is obtained.
- 7.7 For Adur Council the separation of General Fund and HRA debt facilitates a comparison with the corresponding underlying need to borrow (the Capital Financing Requirement) i.e. capital expenditure not financed from internal resources. The purpose of the comparison is to enable General Fund and HRA treasury management decisions to be taken independently of each other, and in an equitable and transparent manner.
- 7.8 Accordingly, there follows a comparison of the respective debt outturn positions compared to the CFR for each Council, albeit that as Worthing does not have an HRA it therefore does not operate a two pool approach.

Debt Position at 31 March 2023	Adur District Council			Worthing BC
	General Fund	HRA	Total	General Fund Total
	£	£	£	£
Actual Long Term Debt 01/04/22	102,342,319	58,624,959	160,967,278	153,750,873
New Long Term Debt Raised in year	7,000,000	8,000,000	15,000,000	73,250,000
Long Term Debt Repaid in Year	(7,811,605)	(3,851,167)	(11,662,772)	(23,052,312)
Actual Long Term Debt 31/03/23	101,530,714	62,773,792	164,304,506	203,948,361

CFR v Long Term Debt Position at 31 March 2023	Adur District Council			Worthing BC
	General Fund	HRA	Total	General Fund Total
	£	£	£	£
Capital Financing Requirement (CFR)	106,797,904	66,652,570	173,450,474	206,400,045
(Over) / Under Borrowing	5,267,190	3,878,778	9,145,968	2,451,684

7.9 Adur also held the Parish Precept of £637,337 on behalf of Lancing Parish Council.

7.10 For Adur Council the General Fund is under-borrowed by approximately £5.267m. The HRA is under-borrowed by £3.879m. We have used this approach because, in the light of the cost of borrowing compared to the income from investments, we are opting to finance some of the capital expenditure through the use of internal resources. This position largely reflects the opening position at 1st April 2012 arising from the application of the two pool split, where-in the CIPFA methodology assumed the HRA was fully borrowed at the level of its CFR, so that any under or over borrowing at that time was fully attributed to the General Fund. The General Fund took out new long term borrowing to fund the capital programme and the refinancing of maturing debt.

7.11 Worthing is under-borrowed by £2.452m due to the use of internal resources as described above for Adur. New loans have been taken out in 2022-23 to fund economic regeneration projects, the capital programme and the refinancing of maturing debt.

8.0 ENGAGEMENT AND COMMUNICATION

8.1 The Corporate Leadership Team, Heads of Service and budget managers have all collaborated on the content of this report providing explanation and narrative on the outturn variances.

9.0 FINANCIAL IMPLICATIONS

9.1 There are no further financial implications. The report sets out the final outturn position with both Adur and Worthing presenting underspends against budget.

10.0 LEGAL IMPLICATIONS

10.1 Local authorities have a statutory duty under section 28 of the Local Government Act 2003, to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. Section 151 of the Local Government Act 1972 requires the Councils to make arrangements for the proper administration of their financial affairs.

11.0 CONCLUSION

11.1 The Councils have had a difficult year with additional pressures resulting from cost pressures from inflation, a pay award above that budgeted for the year and the impact of the waste dispute. As highlighted in section 4.4 the outturn position for Adur District Council is an overspend of £10k and for Worthing Borough Council an underspend of £778k.

11.2 As a direct result of the HMRC repayment expected from HMRC in relation to its leisure services claim Worthing is in a position of underspend at the end of the financial year and able to contribute to reserves. This is a significant improvement from the projected overspend forecast of £2.1m at quarter 3. This is very welcome at a time when local government faces ongoing financial pressures, including the reduction in central government funding and the ongoing strain on expenditure and income streams.

Background Papers:

Joint 'Final Revenue Budget Estimates 2022/23' Report

[JSC Agenda - February 2022](#)

Adur District Council 'Budget Estimates 2022/23 and Setting of the 2022/23 Council Tax' Report

[Adur District Council Public Document Pack - February 2022](#)

Worthing Overall Budget Estimates 2022/23 and Setting of 2022/23 Council Tax Report

[Worthing Borough Council Public Document Pack - February 2022](#)

Financial Performance 2021/22 - Revenue Outturn Report

[JSC Agenda - July 2022](#)

3rd Quarter Revenue Monitoring Report 2022/23

[Adur JSC Sub Committee Agenda - March 2023](#)

[Worthing JSC Sub Committee Agenda - March 2023](#)

Chief Executive's use of urgency powers to settle the waste dispute - report by the Chief Executive

[JSC Committee Agenda - June 2022](#)

Local Government Association Finance Peer Review and Improvement Action Plan

[LGA Finance Peer Review](#)

Officer Contact Details:

Emma Thomas

Chief Accountant

01403 221232

emma.thomas@adur-worthing.gov.uk

Sustainability & Risk Assessment

- 1. Economic**
Matter considered and no issues identified

- 2. Social**
 - 2.1 Social Value**
Matter considered and no issues identified

 - 2.2 Equality Issues**
Matter considered and no issues identified


 - 2.3 Community Safety Issues (Section 17)**
Matter considered and no issues identified


 - 2.4 Human Rights Issues**
Matter considered and no issues identified


- 3. Environmental**
Matter considered and no issues identified


- 4. Governance**
Matter considered and no issues identified


Appendix 1

 ADUR & WORTHING COUNCILS	ORIGINAL ESTIMATE 2022/23	CURRENT ESTIMATE 2022/23	OUTTURN 2022/23	((UNDER)/ OVERSPEND 2022/23
	£	£	£	£
Chief Executive	645,580	645,480	772,797	127,317
Director for Communities	9,014,030	8,886,940	10,448,039	1,561,099
Director for Digital & Resources	12,227,570	11,397,520	12,597,875	1,200,355
Director for the Economy	3,903,400	3,869,480	4,075,568	206,088
TOTAL SERVICES	25,790,580	24,799,420	27,894,278	3,094,858
ALLOCATION OF COSTS				
Recharged to Capital	(1,169,680)	-	(530,222)	(530,222)
Other Recharges to Joint		(178,520)	(198,537)	(20,017)
	24,620,900	24,620,900	27,165,518	2,544,618
Adur District Council	(9,933,310)	(9,933,310)	(10,897,237)	(963,927)
Worthing Borough Council	(14,687,590)	(14,687,590)	(16,268,282)	(1,580,692)
TOTAL SERVICE BLOCK ALLOCATIONS	(24,620,900)	(24,620,900)	(27,165,518)	(2,544,618)

 ADUR DISTRICT COUNCIL	ORIGINAL BUDGET 2022/23	CURRENT ESTIMATE 2022/23	OUTTURN 2022/23	Notional Capital Charges Variance	Support Service Recharge Variances	(Under) / Over Spend Excluding Support and Capital Charges
	£	£	£	£	£	£
CABINET MEMBER PORTFOLIOS						
Leader	771,920	771,920	704,985	(8,203)	351,155	(409,888)
CM for Environment	3,075,710	3,075,710	3,611,352	(4,558)	53,837	486,364
CM for Health & Wellbeing	1,360,290	1,360,290	1,531,276	(2,400)	120,825	52,561
CM for Customer Services	1,565,670	1,565,670	2,329,295	1,520	6,660	755,444
CM for Regeneration	1,748,630	1,748,630	1,982,718	(4,070)	203,821	34,337
CM for Resources	163,680	163,680	721,607	55,118	350,618	152,191
Holding Accounts	246,010	246,010	-	(30,650)	(1,086,916)	871,557
TOTAL CABINET MEMBER	8,931,910	8,931,910	10,881,233	6,757	-	1,942,566
Credit Back Depreciation	(1,534,510)	(1,534,510)	(1,541,257)	(6,757)		10
Minimum Revenue Provision	2,344,950	2,344,950	1,875,637			(469,313)
	9,742,350	9,742,350	11,215,613	-	-	1,473,263
Additional Non Ring Fenced Grants			(26,816)			(26,816)
Total Including additional grant funding			11,188,797	-	-	1,446,447
Adjustments for taxation						
Section 31 grants and Collection Fund adjustments			(444,163)			(444,163)
Total before transfer to/(from) reserves			10,744,634	-	-	1,002,284
Transfers to/from reserves:						
Tax Income Guarantee Reserve			(59,000)			(59,000)
Transfer (from) / to reserves to fund specific expenditure including REFCUS			(933,117)			(933,117)
Net Overspend Transferred (from) Reserves			(10,166)			(10,166)
Total Budget requirement before External Support from Government	9,742,350	9,742,350	9,742,350	-	-	(0)

 ADUR DISTRICT COUNCIL	Opening Balance 2022/23	Transfers Out 2022/23	Transfers In 2022/23	Closing Balance 2022/23
EARMARKED REVENUE RESERVE ACCOUNTS				
	£	£	£	£
Capacity Issues Reserve including approved Carry Forward budgets	831,053			
New Salts Farm Lancing (JSC/047/20-21 8 September 2020)		(33,802)		
Platinum Jubilee (JSC/87/21-22 8 Feb 2022)		(12,063)		
Funding of cost pressures on waste (07/06/22 JSC)		(209,020)		
Business Development fund		(88,077)	-	
HRA Transformation costs - HR		(9,615)		
Senior Management Restructure		(37,072)		
Balance				441,405
Insurance Fund	152,699	(100,440)	30,700	82,959
Business Rates Smoothing Reserve	1,765,540			1,765,540
Local Tax Income Guarantee	118,666	(59,000)		59,666
Grants and Contributions held in Reserves	1,203,102	(481,285)	191,849	913,666
Property Investment Risk Reserve	375,674	-		375,674
Risk Reserve - Exit Costs			68,150	
Projected Underspend/(Overspend) (Reserve to be identified at outturn)		(10,166)		(10,166)
General Fund Reserve	1,051,497	-	-	1,051,497
TOTALS	5,498,231	(1,040,539)	290,699	4,748,391

 WORTHING BOROUGH COUNCIL	ORIGINAL BUDGET 2022/23	CURRENT BUDGET 2022/23	OUTTURN 2022/23	Notional Capital Charges Variance	Support Service Recharge Variances	(Under) / Over Spend Excluding Support and Capital Charges
	£	£	£	£	£	£
CABINET MEMBER PORTFOLIOS						
Leader	794,730	794,730	985,506	(180)	4,279	186,677
CM for Environment	3,413,060	3,413,060	4,898,300	(21,598)	658,375	848,462
CM for Community Wellbeing	899,210	899,210	930,829	420	(4,010)	35,209
CM for Citizen Services	3,419,340	3,419,340	5,120,413	203,630	185,960	1,311,482
CM for Regeneration	2,431,070	2,431,070	3,127,961	78,125	447,886	170,880
CM for Resources	203,720	203,720	(2,724,355)	134,925	398,393	(3,461,393)
CM for Culture & Leisure	4,166,310	4,166,310	4,438,618	(268,070)	122,533	417,846
CM for Climate & Emergency	124,450	124,450	128,178	-	3,728	-
Holding Accounts	411,200	411,200	-	(89,698)	(1,817,144)	1,495,642
TOTAL CABINET MEMBER	15,863,090	15,863,090	16,905,448	37,553	-	1,004,805
Credit Back Depreciation	(4,160,620)	(4,160,620)	(4,198,163)	(37,553)		10
Minimum Revenue Provision	1,995,930	1,995,930	1,693,450			(302,480)
	13,698,400	13,698,400	14,400,735	-		702,335
Additional Non Ring Fenced Grants			(40,791)			(40,791)
Total Including additional grant funding			14,359,944	-	-	661,544
Adjustments for Taxation						
Section 31 grants and Collection Fund adjustments			1,208,153			1,208,153
Total before transfer to/(from) reserves			15,568,097	-	-	1,869,697
Transfer to/from reserves:						
Tax Income Guarantee Reserve			(37,000)			(37,000)
Business Rates Smoothing reserve			(1,215,763)			(1,215,763)
Transfer (from)/to reserves to fund specific expenditure including REFCUS	86,250	86,250	(1,308,786)			(1,395,036)
Contribution to Business Rates Smoothing Reserve	-	-	400,000			400,000
Contribution to Capacity Issue Reserve	-	-	378,101			378,101
Net Overspend Transferred (from)/to Reserves			778,101	-	-	778,101
Total Budget requirement before External Support from Government	13,784,650	13,784,650	13,784,650	-		(0)

 WORTHING BOROUGH COUNCIL EARMARKED REVENUE RESERVE ACCOUNTS	Opening Balance 2022/23	Transfers Out 2022/23	Transfers In 2022/23	Closing Balance 2022/23
	£	£	£	£
Capacity Issues Reserve including approved Carry Forward budgets	1,308,326			
Teville Gate housing initial project costs (03/11/2020 JSC/71/20-21)		(38,375)		
Hardship Fund Contribution (11/01/22 JSC/77/21-22)		(46,264)		
Contribution to foodbank		(53,736)		
Platinum Jubilee (08/02/22 JSC/87/21-22)		(14,361)		
Funding of cost pressures on the Waste service (07/06/2022 JSC)		(371,950)		
Resourcing of community engagement, inclusion and participation activities (JSS-C(W)/4/22-23 5 July 2022)		(22,691)		
Business Development Fund		(145,920)		
Local Plan examination costs		(42,927)		
HRA Transformation - HR support		(14,423)		
Senior Management Restructure		(55,608)		
S106 Funding - Land west of Worthing Station			1,500	
Balance				503,571
Insurance Reserve	252,394	(52,150)	30,000	230,244
Leisure Lottery & Other Partnerships - 01/02/18 JSC/092/17-18 for Museum Costume Research Centre	27,766	0		27,766
Museum reserve	106,396	(31,497)		74,899
Business Rates Smoothing Reserve	3,307,389	(1,215,763)	400,000	2,491,626
Local Tax Income Guarantee	301,949	(37,000)		264,949
Property Investment Risk Reserve	450,000			450,000
Building Maintenance Reserve	326,259	(67,289)		258,970
Risk Reserve - Exit Costs	0		68,150	68,150
Grants & Contributions	1,066,798	(642,648)	330,271	754,421
Projected Underspend/ (Overspend) - net of £400k contribution from underspend to Business Rates Smoothing Reserve		(400,000)	778,101	378,101
General Fund Working Balance	1,347,348			1,347,348
TOTAL	8,494,625	(3,252,602)	1,608,022	6,850,045

HOUSING REVENUE ACCOUNT SUMMARY	ORIGINAL BUDGET	FORECAST ACTUAL	VARIANCE
	£	£	£
EXPENDITURE			
General Management	4,075,920	4,208,127	132,207
Special Services	748,080	755,596	7,516
Rent, Rates, Taxes & Other Charges	61,100	202,845	141,745
Repairs & Maintenance	3,008,370	3,094,610	86,240
Bad/Doubtful Debt	50,000	66,870	16,870
Capital Financing Costs			
Depreciation and Revenue Contribution to Capital	4,421,760	3,811,275	(610,485)
Interest charges	2,262,200	2,201,195	(61,005)
TOTAL EXPENDITURE	14,627,430	14,340,519	(286,911)
INCOME			
Dwelling Rents	(12,750,170)	(12,265,956)	484,214
Non-Dwelling Rents	(550,480)	(494,746)	55,734
Heating and Other Service Charges	(623,110)	(494,833)	128,277
Leaseholder Service Charges	(265,940)	(216,436)	49,504
Interest Received	(28,000)	(61,534)	(33,534)
TOTAL INCOME	(14,217,700)	(13,533,505)	684,195
NET (SURPLUS)/DEFICIT -TFR (TO)/FROM HRA GENERAL RESERVE	409,730	807,014	397,284

HRA Financial Issues 2022/23 – Q4 outturn**Outturn Variances compared to Q3 Forecast**

The table below provides a summary of the main HRA budget variances.

Service Area	Q3 Forecast	Q3 Forecast Variance to Budget	Q4 Outturn	Q4 Variance to Budget
Dwelling Voids	Current voids at end Jan = 103 (excluding Ashcroft and Inner Rooms) (4.1% of total stock) Avg loss of £10,300/wk	£420,000	Voids at end of March = 112 (excluding Ashcroft and Inner Rooms) (4.5% of total stock) Avg loss of £12,300/wk.	£484,000
Garage Voids	Current voids at end Oct = 339 (31% of total stock) Avg loss of £3,800/wk	£56,000	Voids at end of March = 340 (31% of total stock) Avg loss of £3,700/wk	£56,000
Service Charges	Proportionate effect of void loss, along with a delay in setting electrical and asbestos inspection charges (matching under spend in repairs & maintenance expenditure).	£120,000	Proportionate effect of void loss, along with a delay in setting electrical and asbestos inspection charges (matching under spend in repairs & maintenance expenditure).	£178,000
Staffing Costs	Flat rate increase of £1,925 per head.	£70,000	Flat rate increase of £1,925 per head.	£70,000
Staffing Costs	Some vacancy saving can now be seen, as vacancies have arisen in the second half of the year and been held vacant.	£50,000	The full vacancy provision was met due to continuing vacancies in the Neighbourhood Services and Systems teams and additional allocations of relevant staff to Capital projects.	(£79,000)
Council Tax	Over spend of £79k forecast due to increased void numbers.	£79,000	Council Tax costs have continued to increase due to	£145,000

			the high level of void properties.	
Repairs & Maintenance	An underspend of £143k was forecast, due to delays in contract award for electrical and asbestos inspections.	(£143,000)	There have been some significant subcontractor costs in the fourth quarter, notably £58k for fire damage works.	£102,000
Central Support Recharges	No variance anticipated.	-	Additional costs.	£124,000
Depreciation	No variance anticipated.	-	Reduced cost of depreciation due to a review of the policy.	(£610,000)
Interest Payable	Due to slippage in the capital programme and the ability to capitalise interest payments in connection with Albion Street, lower borrowing costs are now anticipated.	(£67,000)	Due to slippage in the capital programme and the ability to capitalise interest payments in connection with Albion Street, lower borrowing costs are now anticipated.	(£61,000)
Interest Receivable	Due to interest rate rises, additional income is expected.	(£42,000)	Additional income due to interest rate rises	(£34,000)
Other	Other variances	(£28,852)	Other variances	£22,284
	FORECAST OVER SPEND	£578,148	OVER SPEND	£397,284
	DEFICIT BUDGET	£409,730	DEFICIT BUDGET	£409,730
	FORECAST IMPACT ON RESERVES	£987,878	IMPACT ON RESERVES	£807,014

Reserve Balances

- The HRA general and earmarked reserves have been drawn upon in recent years in order to maintain service levels when the government's rent reduction policy required a 1% per annum reduction between 2016/17 and 2019/20. Since the 2020/21 budget, rent increases have been capped at CPI + 1% but this has not yet been enough to counter cost pressures and bring us back to a balanced budget position.

- This rent policy and ongoing cost pressures have reduced the level of reserves significantly over the last six years. The table below sets out the opening reserve balances as at 1st April 2022, restated in light of the backdated depreciation policy adjustments.
- The New Development Reserve balance is committed to development appraisal work at Southwick, the other closing balances are not now committed to any specific project.

HRA Reserves	Opening Balance 22/23	Spend	Closing Balance 22/23
General Reserve	£ 1,852,243	£ 807,014	£ 1,045,229
Discretionary Assistance Fund	£ 115,627	£ 114,156	£ 1,471
New Development Reserve [committed to Southwick development]	£ 352,100	£ 321,200	£ 30,900
Business Improvement Reserve	£ 91,664	£ 7,488	£ 84,176
	£ 2,411,634	£ 1,249,858	£ 1,161,776