



WEST OXFORDSHIRE
DISTRICT COUNCIL

WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	EXECUTIVE - 6 MARCH 2024
Subject	FINANCIAL PERFORMANCE REPORT 2023/24 QUARTER THREE
Wards affected	All
Accountable member	Cllr Alaric Smith Executive Member for Finance Email: alaric.smith@westoxon.gov.uk
Accountable officer	Madhu Richards, Director of Finance Email: madhu.richards@westoxon.gov.uk
Report Author	Georgina Dyer, Chief Accountant Email: georgina.dyer@westoxon.gov.uk
Annexes	Annex A – Detailed Revenue budget comparison Annex B – Capital Spend against budget
Purpose	To detail the Council's financial performance for Quarter Three 2023-2024
Recommendation	That the Executive resolves to: <ol style="list-style-type: none">1. Note the Council's Financial Performance for Quarter Three 2023-20242. Delegate authority to the Director of Finance, in consultation with the Executive Member for Finance, to review and repurpose earmarked reserves to mitigate against the four main financial risks identified in this report.
Corporate Priority	Working Together for West Oxfordshire
Key Decision	No
Exempt	No
Consultees	No

FINANCIAL PERFORMANCE SUMMARY

WEST OXFORDSHIRE DISTRICT COUNCIL - Budget Monitoring

Revenue Budget Monitoring 2023/24 - Quarter 3, 1st April to 31st December 2023

Quarter 3				
Original Budget 2023/24	Profiled Budget	Actual Exp	Variance (under) / over spend	Forecast Year End
£	£	£	£	£

Service Area

Democratic and Committee Services	1,194,664	963,670	981,356	17,686	25,783
Environmental & Regulatory Services	594,312	397,494	484,552	87,057	126,600
Environmental Services	8,041,444	5,184,103	5,477,062	292,959	384,293
Finance, Human Resources & Procurement	1,035,476	1,427,243	1,459,239	31,997	(353)
ICT, Change & Customer Services	2,210,013	2,732,270	2,730,659	(1,612)	1,794
Land, Legal & Property	1,147,227	941,742	956,701	14,959	53,446
Leisure & Communities	1,282,513	(91,892)	(715,830)	(623,938)	(907,211)
Planning & Strategic Housing	1,174,379	975,969	1,178,050	202,080	285,813
Revenues & Housing Support	1,406,799	(321,050)	(347,340)	(26,290)	53,002
Investment Property and Retained Services	(3,125,286)	(1,077,954)	(222,663)	855,291	1,107,100
Total cost of services	14,961,541	11,131,595	11,981,785	850,189	1,130,267

Plus:

Investment income receipts	(1,102,228)	(957,921)	(1,373,421)	(415,500)	(554,000)
Publica surplus returned to the Council at year end					(250,000)

Cost of services before financing:	13,859,313	10,173,674	10,608,364	434,689	326,268
---	-------------------	-------------------	-------------------	----------------	----------------

The 2023/24 budget was approved by full Council in February 2023 and set a deficit revenue budget of £350,129, balanced by a contribution from General Fund balances. This report sets out the revenue budget position as at Quarter 3 and a forecast position for the year end.

The methodology for forecasting the outturn position is still evolving and represents the best estimate with the information on hand at the time of drafting this report. This is an evolving process which will improve over time.

As at Q3, there is an overall overspend compared to the profiled budget, of **£434,689**. The position at Q2 was an overspend of £323,686. The key factors driving our revenue position are the waste and leisure contracts, development management and the underperformance of some income budgets (primarily relating to investment properties).

The position at year end is forecast to be an overspend of £326,268. The equivalent figure at Q2 was £783,170. The outturn position has significantly improved due to the contribution of £554,000 in additional Treasury Management investment income and an expected £250,000 reimbursement from Publica relating to early delivery against savings targets and a slightly higher employee turnover position.

The quarterly Treasury Management reports this financial year have highlighted the increase in interest income from Treasury Management investment activity and the corresponding fall in capital value of our pooled funds. This has been the result of global economic conditions and has now started to reverse with interest rates thought to have hit their peak and inflation falling. The “windfall” from investment interest is a one off that we are unlikely to see repeated. The capital values of our pooled funds have recovered significantly in the last quarter, with our treasury advisors forecasting a full recovery of capital values by the end of 2025.

SIGNIFICANT VARIANCES

A full list of variances by cost centre is included in Annex A. The most significant variances, listed by Service Area (as set out in the table above), are as follows:

Environmental Services

I.1 Recycling

At the end of Q3 the Suez contract is £179,000 overspent. This is forecast to rise to £244,000 by year end. This is due to a significant increase in tonnage of recycling collected which in turn has increased handling costs. With the contract ending in the autumn of 2024 the Waste team have issued a tender for this contract, the results of which are due by the end of February. The Waste team are committed to improving service delivery models to bring this spend down and to achieve sustainable ongoing savings for the Council. There is an additional overspend of £40,000 on recycling bins so far this year, representative of the additional number of homes built in the district in recent years and resident’s desire to recycle their waste rather than send it to landfill.

I.2 Green Waste

Income is £42,000 below budget and the service is forecast to be £32,000 overspent at year end. This is an improved position to the one reported in Q2, due to lower than anticipated printing costs and equipment purchases.

I.3 Trade Waste

Trade Waste is invoiced in April & September therefore the full income for the year has already been raised. Income has exceeded target by £26,000 and tipping charges to the County Council are £20,000 underspent but expenditure on boxes is £10,000 overspent. The overall position of £36,000 underspent is not expected to change by year end.

Environmental & Regulatory Services

1.4 Building Control

Income is £79,000 below budget, a decline of 18% compared to the same period last year. Current economic conditions are impacting the service with the forecast year end position being an under achievement of income of £110,000 compared to £100,000 in Q2. The income target in the 2024/25 budget has been reduced by £93,000 and the fees have been increased by 6.7%. Fees are set on a cost recovery basis so are affected by salary increases and general inflation.

Land, Legal & Property

1.5 Land Charges

Similar to Building Control, Land Charges struggle against competition from the private sector. In Q2 income was £39,000 below target increasing to £55,000 below target in Q3 and forecast to be £82,000 at year end. Direct competition from the Personal Search companies has significantly impacted our Land Charges income over the last 3 years taking 70% market share, aided by the requirement that we provide access to our data free of charge to Personal search companies and any individual who requests it. In 2024/25 the income target has been reduced by £55,000 to make it more achievable and fees have increased by 6.7%. Fees are set on a cost recovery basis so are affected by salary increases and general inflation.

Leisure and Communities

1.6 The inclusion of a £575,813 income contingency in the 2023/24 budget was due to significant uncertainty, at the time of setting the budget in February 2023, around the level of income achievable from the leisure contract. Invoices are being raised for the contractual amount, which is producing a significant underspend, as shown in Annex A, of £557,602. Various options are being explored to increase the financial sustainability of this contract for both parties. Proposals for options will be brought to Members when the appropriate due diligence has been carried out.

Planning & Strategic Housing

1.7 Development Management

Income from Planning applications is difficult to forecast as it is not consistent throughout the year and there is no discernible pattern over the longer term. Last year income was significantly below target until two major applications were received in Q4 which turned the outturn position into a surplus from the deficit that had been reported in the first three quarters of the year.

Major applications often have an extended timeline and it is difficult to predict when exactly they will be submitted. General economic conditions like interest rates are thought to have reached their peak, which may have a positive impact on planning application volumes as both individuals and developers are able to estimate their costs more confidently.

At Q3 income is £95,000 below target, a 5.5% drop from the same period last year with income forecasted to be £118,000 below target at year end. The government increased Planning Application fees by 25% in December 2023, the impact of which will be reported in future Budget Monitoring reports.

1.8 Development Management Appeals

External legal spend has increased dramatically since 2020, a significant proportion of which relates to Planning Appeals & Inquiries. Development Management Appeals are £101,000 overspent at Q3

with a forecast of a £150,000 overspend at year end. A single Planning Inquiry can cost the Council up to £55,000 for significant sites and an average of £20,000-£30,000 for more standard sites as well as the requirement to pay the opponent's court costs for certain matters. The budget for 2024/25 has been increased by £90,000 but this is only a short term solution. Only the reduction in the number of planning appeals will return this expenditure to a sustainable level.

Investment Property and Retained Services

1.9 Bank Charges

There is currently an overspend of £75,000 relating to the costs incurred to process debit & credit card payments to the Council. A new contract has been in place since 1st February 2024 which will save the Council £80,000 a year based on current volumes and cost per transaction. The forecast overspend at year end is reduced to £68,000. The new contract is expected to bring Bank Charges back within the existing budget so no additional growth will be required in 2024/25.

1.10 Non Distributed Costs

There are two elements to the pension contribution the Council makes for its employees. Firstly, there is the amount paid monthly through payroll which is balanced by a secondary cash element paid direct to the LGPS that keeps the payroll contribution at a steady rate and funds historic pension liability. The primary contribution of 17.6% has not changed in 5 years, but the secondary cash contribution this year is higher than the budget and will be £141,000 overspent by the end of the year. The 2024/25 budget includes a confirmed secondary pension cost from the actuary of £766,000, an increase of £116,900.

1.11 Investment Property

The Q3 position is an overspend of £643,126, due to void units, service charges and rent free periods as highlighted in Q1 & Q2. The forecast for year end is an overspend of £813,350, driven mainly by Marriotts (£339k), Des Roches (£180k) and the delay in renting out Elmfield (£98k). This is a significant overspend and shows that the 2023/24 budget does not represent a realistic position.

The 2024/25 budget has been revised due to the variances in 2023/24. The 2024/25 budget is based on a detailed cashflow as well as including a budget for service charges and business rates. Several new tenants have moved into our properties in the last 9 months, reducing our void levels, with an increase in income for Des Roches, Talisman, Marriotts and Elmfield coming through in 2024/25. As reported in the Budget Report 2024/25, Between Towns Road is expected to be vacant for the whole of the next financial year, reducing our income by £350,000. A report will come to Executive on the future of the building in due course.

The Council have owned Marriotts for 13 months. It took over a development that had suffered from an absent landlord who had not invested in the scheme in the last few years of ownership resulting in a high void ratio and disaffected tenants. The Council has already seen success in the regeneration of this site with the letting of the largest empty unit to Sports Direct, lease extensions and new leases being negotiated. The focus is on upgrading the landscaping and seating to encourage increased footfall and a local community feel. This development is key to the local economic development of the whole town, but it will take time to get to full occupancy and for the full economic benefits to be seen.

In 2024/25 Income from Investment & Operational Property represents 23% of our funding:

Business Rates	£5.932m	30.39%
Council Tax	£5.950m	30.48%
Property	£4.535m	23.22%
Government Grants	£3.108m	15.91%

Revenues & Housing Support

1.12 Homelessness

It was reported in Q1 that the Government had provided an additional £220,541 of funding to relieve the pressure placed on the Homelessness service from the Afghan & Ukrainian Refugee schemes. Homelessness is currently £97,000 underspent representing a timing difference between the grant and the expenditure against it. All grant monies must be spent by 31st March 2024 or be returned to the government. At year end Homelessness will therefore be close to budget.

Risks and Mitigation

1.13 There are four main risks, identified in the Budget Paper for 2024/25 and listed below for ease of reference, which could have a significant impact on the Council's revenue position and financial stability in the coming years.

1.14 Publica Review

The return of a majority of employees and services to the Council from Publica may have a material impact on the revenue budget over the life of the Medium Term Financial Strategy (MTFS). In the next 2 years there will inevitably be one off costs relating to the transfer of services but it is not yet known what the full financial impact will be after the transfer is complete. The partner Councils and Publica are at the early stages of the due diligence and planning of the project with more detailed financial information coming forward later in the year.

The Executive have already approved the use of £200,000 of earmarked reserves for the initial project team set up costs and for external legal and HR advice. As and when more detailed costings become available the requirement for the use of earmarked reserves will be identified by the Director of Finance.

1.15 Investment Property

Given the natural cycle of voids and rent free periods, it is recommended that an Investment Property reserve is set up to augment the revenue outturn position and reduce reliance on general fund reserves in years where there is significant impact on the revenue budget as has been the experience in 2023/24. This will support our MTFS as it will protect the General Fund reserves and allow the Council to be more able to set a balanced budget in the future.

1.16 Local Government Funding

In July 2022/23, the Executive approved the setting up of a specific budget deficit earmarked reserve to reduce the budget gap over the life of the MTFS and it would be prudent to continue to build up this earmarked reserve until the long term impact of funding changes can be accurately assessed. The full impact of funding changes is expected in 2026/27 when it is believed that the delayed Business Rates reset will come into effect. The MTFS estimates the potential impact of this

change as a 37.5% loss of Business Rates income and assumes a level of dampening from the government that is optimism rather than guaranteed.

1.17 Statutory Override

The statutory override for Financial Instruments (pooled funds), which requires fair value gains and losses to be taken to an unusable reserve unless the fund is sold, is set to end in 2025/26. The ending of the override would require any gains and losses realised or unrealised, to be recognised in revenue thus having an impact on our revenue budget. Unrealised losses would reduce available resource to fund core services, while unrealised gains would not represent genuine resource increases that could be used. Unrealised gains or losses will occur where there is a change in value of a pooled fund but we have not liquidated it, therefore we have not suffered the gain or loss in cash terms.

Any unrealised loss would have to be moved to the General Fund in 2025/26 if the statutory override is not extended and capital values have not fully recovered. It is therefore advised, by our Treasury advisors Arlingclose, that it would be prudent to create an earmarked reserve to smooth out the impact of any such unrealised gains or losses that will have to be accounted for through the General Fund, to protect our revenue position and our ability to fund front line services.

Our Pooled funds currently have a capital value below their purchase price because of changes in global economic conditions over the last 18 months causing high interest rates. We have seen capital values start to recover throughout Q3 with our treasury advisors projecting a full recovery over the next 18 months to 2 years, barring any further economic turbulence.

1.18 Delegated Authority

It is requested that authority is given to the Director of Finance, in consultation with the Executive Member for Finance, to review and repurpose some of the earmarked reserves to create the four specific risk reserves mentioned above. Reserves that could be repurposed include the Covid Impact Reserve and the Housing Benefits Subsidy smoothing reserve.

Council Tax & Business Rates Update

1.19 In recognition of previously identified Covid related arrears issues, this report includes an update on the Council Tax and Business Rates position.

The tables show the arrears specific to 2020/21 to 2022/23, which have been most effected by the Pandemic and Cost of Living Crisis and compares the Q2 position to that at 31st March 2023.

Council Tax Arrears	20/21	21/22	22/23	Total
	£	£	£	£
31.03.2023	1,282,456	2,209,117	2,993,806	6,485,379
Collected in Q1, Q2 & Q3	-297,098	-549,081	-930,464	-1,776,643
Liability movement	-69,609	-1,813	-132,281	-203,703
Balance 31.12.23	915,749	1,658,223	1,931,061	4,505,033

Business Rates Arrears	20/21	21/22	22/23	Total
	£	£	£	£
31.03.2023	400,670	749,187	1,319,753	2,469,610
Collected in Q1, Q2 & Q3	-290,310	-435,574	-979,207	-1,705,091
Liability movement	81,471	-74,271	116,335	123,535
Balance 31.12.23	191,831	239,342	456,881	888,054

The above tables show that in the first 3 quarters of the year £3,481,734 (£1,776,643 council tax + £1,705,091 business rates) has been collected in relation to 2020/21, 2021/22 & 2022/23 arrears.

Over and above amounts recovered through direct payments to the Council there are also amounts of refunds and credits for reliefs that have been applied for in the current financial year and backdated where appropriate.

Conclusion

I.20 The Q3 revenue outturn is consistent with that reported in Q2 with the forecast for the year end significantly improved due to the return on Treasury Management activity and the Publica surplus due back to the Council in March 2024.

Four key risk areas, in the revenue budget have been identified and the proposed mitigation, of repurposing some of our earmarked reserves, is recommended for approval.

Financial Implications

I.21 There are no financial implications arising from this paper as it outlines Q3 financial performance.

Legal Implications

I.22 There are no legal implications.

Risk Assessment

I.23 None required as a result of the content of this report.

Equalities Impact

I.24 No direct equalities impact with regards to the content of this report.

Climate Change and Ecological Emergencies Implications

I.25 None