

## Boston Borough Council – Q2 Finance Report 2022/23

### Finance Summary

- The revenue outturn shows a deficit position of £218k
- Specific and general reserves of the Council are forecast to be £13.051m at 31 March 2023.
- Capital spend at the end of Quarter 2 was £1.105m against a full year budget of £10.682m
- An efficiency target of £282,000 is included in the budgets for 2022/23
- After funding the 2022/23 Capital Programme the capital resources are:
  - Capital Reserve - £4.126m
  - Capital Receipts - £2.398m
- The Council held investments of £31.3m as at 30 September 2022.
- COVID Budget Pressures Smoothing reserve will be used to offset income pressures being experienced in Leisure (197k) and Parking (£183k). At the Council meeting held on 7th March 2022, delegated authority was given to the Deputy Chief Executive Corporate Development (S151) to use the Covid budget pressures smoothing reserve, if required, during the 2022/23 financial year, to smooth any fluctuations in income the Council may still be experiencing as a result of the consequences of the COVID-19 pandemic.

### Section 2 – Finance

Section 2.1	Key Financial Issues in Quarter 2 of 2022/23
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#### Section 2.1 – Key Financial Issues in Quarter 2 of 2022/23

- The process of identifying the in-year efficiencies is currently underway and will continue throughout the year.
- The worst-case scenario based on the current Capital and Reserve forecast has been used in the estimates outturn for the General Fund. We will be reviewing the Capital Expenditure estimates as part of the Quarter 3 financial process.
- The use of shared resources between the partnership is currently being reviewed and will be updated in Q3.
- The forecast currently includes assumptions around expected increases in fuel costs. Services are under continued pressure from increased costs in power and fuel. These will be monitored closely over the next quarter as inflation and interest rates continue to rise. Although fuel costs have reduced slightly more recently, these costs remain an additional pressure on services as shown in Table 1.
- This year's pay awards will be finalised and included within the Q3 report; estimates are included within this report; the current year budget included a provision for a 2% increase which was set before these inflationary pressures were anticipated.

Inflation	July (%)	August (%)	September (%)
CPI	10.1	9.9	10.1
RPI	12.3	12.3	12.6

## Section 2.2 – Revenue Budget

Table 1 details the outturn by Assistant Director. This shows an overspend position of £218k.

Table 1 – Net Spend by Assistant Director				
Assistant Director Area	Revised Budget 2022/23	Outturn 2022/23	Variance (underspend)/overspend	Comments on main variances
	£'000	£'000	£'000	
Corporate	2,187	2,195	8	£8k - language line costs
Economic Growth	125	125	0	
Finance	2,307	2,307	0	
Governance	662	662	0	
General Fund Assets	(1,297)	(1,012)	285	Bereavement Income £21k, Parking Income £183k, Utilities £81k
Leisure and Culture	473	723	250	Utilities £34k, Plant maintenance and equipment £9k, Markets Income £9k, Leisure Income £197k
Neighbourhoods	1,786	1,894	108	Increased Recycling & Refuse fuel costs £62k as an inflationary impact. Vehicle Maintenance Contract and road tax £41k and Utilities £5k
Planning & Strategic Infrastructure	220	220	(0)	
Regulatory	486	486	0	
Wellbeing and Community Leadership	1,320	1,307	(13)	Enforcement Income (£13k)
BTAC	733	733	0	Public Conveniences, Town Centre Operatives and Open Spaces combined (£12k)
Effect of Pay award including NI and Pension		461	461	Estimated Impact of Pay Award
HB Overpayments Provision		(125)	(125)	Housing benefits overpayments provision reduction
<b>Sub Total – Assistant Director – net costs</b>	<b>9,001</b>	<b>9,975</b>	<b>973</b>	
Internal Drainage Boards/Parish Precepts	2,623	2,623	0	
DRF	1,888	1,888	0	
MRP	15	15	0	
Interest Payments Received / Return on Property Funds	(517)	(892)	(375)	Additional investment Income estimated at (£375k) based on current estimates.
Reserves	(5,182)	(5,562)	(380)	
Efficiencies Requirement	(282)	(282)	0	
<b>Non-Service Expenditure</b>	<b>(1,455)</b>	<b>(2,210)</b>	<b>(755)</b>	
<b>Total Expenditure</b>	<b>7,546</b>	<b>7,765</b>	<b>218</b>	
Council Tax	(5,360)	(5,360)	0	

Table 1 – Net Spend by Assistant Director				
Assistant Director Area	Revised Budget 2022/23 £'000	Outturn 2022/23 £'000	Variance (underspend)/overspend £'000	Comments on main variances
Business Rates	1,249	1,249	0	
Non Ring-Fenced Government Grant	(3,436)	(3,436)	0	
<b>Total Funding</b>	<b>(7,547)</b>	<b>(7,547)</b>	0	
<b>Total Budget - (Surplus)/Deficit</b>	<b>0</b>	<b>218</b>	<b>218</b>	

\*This denotes a full year projection

**Recommendation:**

**F1** That Cabinet notes the revenue outturn position for 2022/23 as detailed in **Table 1**

The 2022/23 budget included an efficiency target of £282k, efficiencies forecast so far are:

Table 2 – Efficiency Description	Amount £'000	Comments
General Assets	(25)	Increase in rental income for municipal buildings 23k
Neighbourhoods	(41)	Increase in rental income for refuse and recycling
Corporate	(61)	PSPS Contract
Finance	(19)	PSPS Contract
Wellbeing and Community Leadership	(39)	PSPS Contract
<b>Total</b>	<b>(185)</b>	
<b>Target</b>	<b>(282)</b>	
<b>Efficiencies to be Identified</b>	<b>(97)</b>	

Further work is underway to look at and consider opportunities for efficiencies and we are engaging with Service Managers to take this process forward.

Income

The Council has a number of demand-led budget areas which are reliant on income for services provided.

Table 3 – Trading Income Budgets

Income Area	Revised Budget to 30 September 2022	Actual Income to 30 September 2022	Variance (above)/ below budget	Comments
	£'000	£'000	£'000	
GF - Car Parking, Bereavement, and Property	(1,930)	(1,727)	204	Bereavement income is overall £21k lower than anticipated, Car Parking Income £183k
Leisure Pool, and Markets	(1,017)	(812)	206	Markets experiencing a £9k shortfall, Leisure Income £197k
Neighbourhoods – Office Cleaning, Recycling	(1,004)	(1,004)	0	
Development Management	(633)	(633)	0	
Regulatory – Land Charges, Licences	(391)	(391)	0	
Bed & Breakfast	(44)	(44)	0	
Property Asset Income	(808)	(808)	0	
<b>Total</b>	<b>(5,827)</b>	<b>(5,418)</b>	<b>410</b>	

Reserves

At 30 September 2022 specific reserves are forecast to be £11.051 m, after a net transfer from reserves of £5.562m in Quarter 2 to cover revenue and capital expenditure. **Table 4** reflects the outturn position.

Table 4 – Specific and General Reserves Balance

Reserve	Balances at 1 April 2022 £'000	Contributions into Reserves £'000	Use of Reserves £'000	Balances at 31 March 2023 £'000
Capital Funding	5,626	333	(1,833)	4,126
Transformation	1,457	32	(198)	1,291
Repairs and Renewals	697	35		732
ICT	88		(70)	18
Housing	1,513	75	(55)	1,533
Controlling Migration	14			14
Insurance	260			260
Property Fund Returns Risk Mitigation	1,116			1,116
Funding Volatility	4,991		(3,501)	1,490
Covid 19	851		(380)	471
<b>Specific Reserves Total</b>	<b>16,613</b>	<b>475</b>	<b>(6,037)</b>	<b>11,051</b>
General Fund	2,000			2,000
<b>Total</b>	<b>18,613</b>	<b>475</b>	<b>(6,037)</b>	<b>13,051</b>

\* COVID Budget Pressures Smoothing reserve will be used to offset income pressures being experienced in Leisure (197k) and Parking (£83k). The balance on that reserve after this adjustment as shown above is £471,000.

### Section 2.3 – Capital Budget

This section covers:

- Revisions to the Capital Programme
- Progress against the 2022/23 approved capital programme and the anticipated outturn
- Financing of the Capital Programme

**Table 5 – 2022/23 Capital Programme and Q2 Forecast Outturn**

Scheme	Approved Budget 2022/23 £0	21/22 Slippage	NEW Scheme	Revised 22/23	Actual 30-Sep 2022 £0	Forecast Outturn 2022/23 £0	Variance (under)/over £0
Disabled Facilities Grants	280	171		451	110	451	0
Housing Strategy	-	56		56	-	56	0
Resurfacing and Footpath Improvements	-	70		70	30	70	0
Vehicle Replacement Programme	215	63		278	-	278	0
Town Centre Heritage Scheme	42	1,243		1,285	-	1,285	0
Multi Use Games Area	-	17		17	-	17	0
Information Technology Refresh	170	13		183	-	183	0
ICT Finance Upgrade via PSPS	-	272		272	-	272	0
Changing Places	-	-	370	370	-	370	0
<b>Total Non-Towns Fund Projects</b>	<b>707</b>	<b>1,905</b>	<b>370</b>	<b>2,982</b>	<b>140</b>	<b>2,982</b>	<b>0</b>
Boston Town Deal – Accelerated Funding	-	252		252	5	252	0
Leisure	2,935	(86)		2,849	150	1,163	(1,686)
Mayflower	720	102		822	285	822	0
St Botolph's Library	-	222		222	-	222	0
Centre for Food and Fresh Produce Logistics	453	383		836	134	836	0
Blenkin Memorial Hall	99	746		845	391	845	0
Healing the High Street	283	29		312	-	312	0
Boston Station	1,565	(3)		1,562	-	1,562	0
<b>Total Towns Fund Projects</b>	<b>6,055</b>	<b>1,645</b>	<b>0</b>	<b>7,700</b>	<b>965</b>	<b>6,014</b>	<b>(1,686)</b>
<b>Grand Total</b>	<b>6,762</b>	<b>3,550</b>	<b>370</b>	<b>10,682</b>	<b>1,105</b>	<b>8,996</b>	<b>(1,686)</b>

Table 5 – Capital Programme – Comments on Delivery	
Scheme	Comments
Mayflower	Scheme delivery continues, scheme fully financed by Towns Fund grant.
Blenkin Hall	Scheme delivery continues, scheme fully financed by Towns Fund grant.

### Treasury

Return of Investment - returned amount of £2.311m.

### Capital Financing

The current Capital Programme is financed from reserves and external borrowing in line with the Capital Strategy.

**Table 6** indicates the forecast capital resources available to the Council at the end of 2022/23. The estimated position for the following two years is also provided.

Table 6 – Capital Resources			
	2021/22 £'000	2022/23 £'000	2023/24 £'000
Capital Resources* available at start of each year	5,578	6,356	6,524
Capital Investment (estimate in future years)	(2,047)	(10,312)	14,887
Additional Sources of Finance			
- New Capital Receipts (estimate in future years)	491	2,311	-
- Funding from other reserves and internal borrowing	249	246	20
- External Grants	1,214	7,705	13,711
- Revenue Contributions	-	-	-
- External borrowing	-	-	-
- Budgeted contributions to capital reserve	995	333	344
- Minimum Revenue Provision	(15)	(15)	(15)
- Transfer from Capital Reserve to support ongoing projects	(110)	(100)	(100)
<b>Estimated Capital Resources* at end of each year</b>	<b>6,356</b>	<b>6,524</b>	<b>5,597</b>

\* Capital Reserve and Capital Receipts

## Section 2.4 – Treasury Management

### Investments at 30 September 2022

During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.

Detailed in **Table 7** are the investments held by the Council at 30<sup>th</sup> September 2022 excluding accrued interest. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis. Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g., Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of Boston's own resources.

Table 7 – Investments as at 30 September 2022			
Financial Institution	Amount (£)	Maturity Date	Yield
HSBC Bank	2,100,000	Instant Access	0.01%
CCLA Money Market Fund	7,500,000	Instant Access	1.96%
Barclays Bank	3,000,000	95-day notice	2.30%
Bank of Scotland	2,000,000	175-day notice	1.01%
UK Debt Management Office	4,000,000	05/10/2022	1.97%
UK Debt Management Office	2,600,000	07/10/2022	1.87%

**APPENDIX A**

Goldman Sachs	3,000,000	28/02/2023	3.06%
Standard Chartered	3,000,000	27/03/2023	4.34%
Helaba Bank	3,000,000	22/09/2023	4.305%
<b>TOTAL</b>	<b>30,200,000</b>		

<b>Maturity Structure at 30 September 2022</b>		
<b>Duration</b>	<b>Amount (£)</b>	<b>Percentage of Total</b>
Less than one week	12,600,000	26%
Less than one month	6,600,000	14%
One to three months	-	0%
Three to six months	6,000,000	13%
Six to nine months	2,000,000	4%
Nine to twelve months	3,000,000	6%
More than twelve months	17,936,022	37%

The Council has purchased property fund units and the table below provides a breakdown in relation to the purchase of these units:

<b>Fund</b>	<b>Date of Purchase</b>	<b>Net Asset Value at Date of Purchase £</b>	<b>Premium/ (Discount) on Purchase £</b>	<b>Premium/ (Discount) on Purchase %</b>	<b>Total Cost £</b>
Black Rock UK Property Fund	05/08/16	255,085	(5,102)	(2.00)	249,983
	30/12/16	255,085	(5,103)	(2.00)	249,982
	28/09/18	<u>3,945,592</u>	<u>54,449</u>	<u>1.38</u>	<u>4,000,041</u>
	<b>TOTAL</b>	<b>4,455,762</b>	<b>44,244</b>	<b>0.99</b>	<b>4,500,006</b>
Schroder UK Real Estate Fund	05/08/16	250,000	-	-	250,000
	03/09/18	<u>4,020,006</u>	<u>(20,000)</u>	<u>(0.50)</u>	<u>4,000,006</u>
	<b>TOTAL</b>	<b>4,270,006</b>	<b>(20,000)</b>	<b>(0.47)</b>	<b>4,250,006</b>
Threadneedle Property Unit Trust	31/08/16	263,549	(13,177)	(5.00)	250,372
	31/08/18	2,902,441	86,572	2.98	2,989,013
	28/09/18	483,966	16,116	3.33	500,082
	31/10/18	<u>483,930</u>	<u>16,357</u>	<u>3.38</u>	<u>500,287</u>
	<b>TOTAL</b>	<b>4,133,886</b>	<b>105,868</b>	<b>2.56</b>	<b>4,239,754</b>
M&G Investments UK Property Fund	14/09/18	<b>858,236</b>	<b>88,020</b>	<b>2.25</b>	<b>946,256</b>
AEW UK Core Property Fund	31/10/18	<b>3,745,319</b>	<b>254,681</b>	<b>6.80</b>	<b>4,000,000</b>
<b>TOTAL</b>		<b>17,463,209</b>	<b>472,813</b>	<b>2.30</b>	<b>17,936,022</b>

**Property Fund Investments as at 30 September 2022**

Financial Institution	Purchase Cost (£)	Estimates Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£)	2022/23 Quarterly Gain/(Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return
BlackRock UK Property Fund	4,500,006	62,600	2.75% Estimate	5,042,172	542,166	(267,647)	(5.73%)	(2.98%)
Schroder UK Real Estate Fund	4,250,006	78,098	3.66% Estimate	4,794,788	544,782	(186,383)	(4.41%)	(0.75%)
Threadneedle Property Unit Trust	4,239,754	77,813	3.65% Estimate	4,410,190	170,436	(246,791)	(2.95%)	0.70%
M&G Investments UK Property Fund	946,256	6,193	1.10% Estimate	1,085,282	139,026	(19,708)	N/K	N/K
AEW UK Core Property Fund	4,000,000	79,137	3.95% Estimate	4,047,998	47,998	(147,685)	(0.86%)	3.09%
<b>TOTAL</b>	<b>17,936,022</b>	<b>303,841</b>		<b>19,380,430</b>	<b>1,444,408</b>	<b>(868,214)</b>		

The Projected Annualised Distribution Yield is the projected yield for the year based on dividends already received during the current financial year.

The 2022/23 Annualised Fund Capital Gain/Loss is the projected gain/loss in the capital value of the fund since the start of the financial year calculated by reference to the change in the Net Asset Value from 31 March 2022 to the period end.

The estimated combined return is the total of the Projected Dividend Distribution Yield and the Annualised Fund Capital Gain/Loss. Please note that this is the position as at 30 September 2022 and the capital values will fluctuate year on year.



An analysis of dividend distributions received since the purchase of the property funds to 30 September 2022 can be found in the table below:

<b>Financial Institution</b>	<b>Actual Dividend Distributions Received Pre 2022/23</b>	<b>Budgeted Distribution for 2022/23</b>	<b>Estimated Dividend Distributions Received 2022/23</b>	<b>Total Distributions Received Since Purchase</b>
BlackRock UK Property Fund	535,257	89,083	62,600	597,857
Schroder UK Real Estate Fund	478,695	59,193	78,098	556,793
Threadneedle Property Unit Trust	636,396	65,880	77,813	714,209
M&G Investments UK Property Fund	458,562	78,465	6,193	464,755
AEW UK Core Property Fund	622,968	56,833	79,137	702,105
<b>Total Revenue</b>	<b>2,731,878</b>	<b>349,454</b>	<b>303,841</b>	<b>3,035,719</b>

*Return on Investments*

The Council's 2022/23 budget for investment income is £748k. At the end of September 2022 investment income estimated to be approximately £892k. The current forecast outturn for 2022-23 is estimated to be approximately £1,123k which is £375k above the budget. If interest rates continue to rise this forecast outturn will subsequently increase.

Treasury investments achieved an average rate of 0.771% compared to the benchmark average 3-month SONIA rate of 1.701%.

Property fund investments are estimated to have achieved an estimated average rate of 3.288%.

The combined rate achieved on all investments was estimated to be approximately 1.741%.

*Borrowing*

The Council has £15.449m of external PWLB borrowing as per the table below.

<b>Entity</b>	<b>Amount (£)</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Rate</b>
Public Works Loan Board	10,000,000	10/12/2018	10/12/2068	2.54%
Public Works Loan Board	4,000,000	13/12/2018	13/12/2068	2.42%
Public Works Loan Board	1,449,000	27/03/2019	27/03/2069	2.18%
<b>TOTAL</b>	<b>15,449,000</b>			<b>2.475% Average</b>

Interest costs for 2022/23 on this borrowing are £382,388.

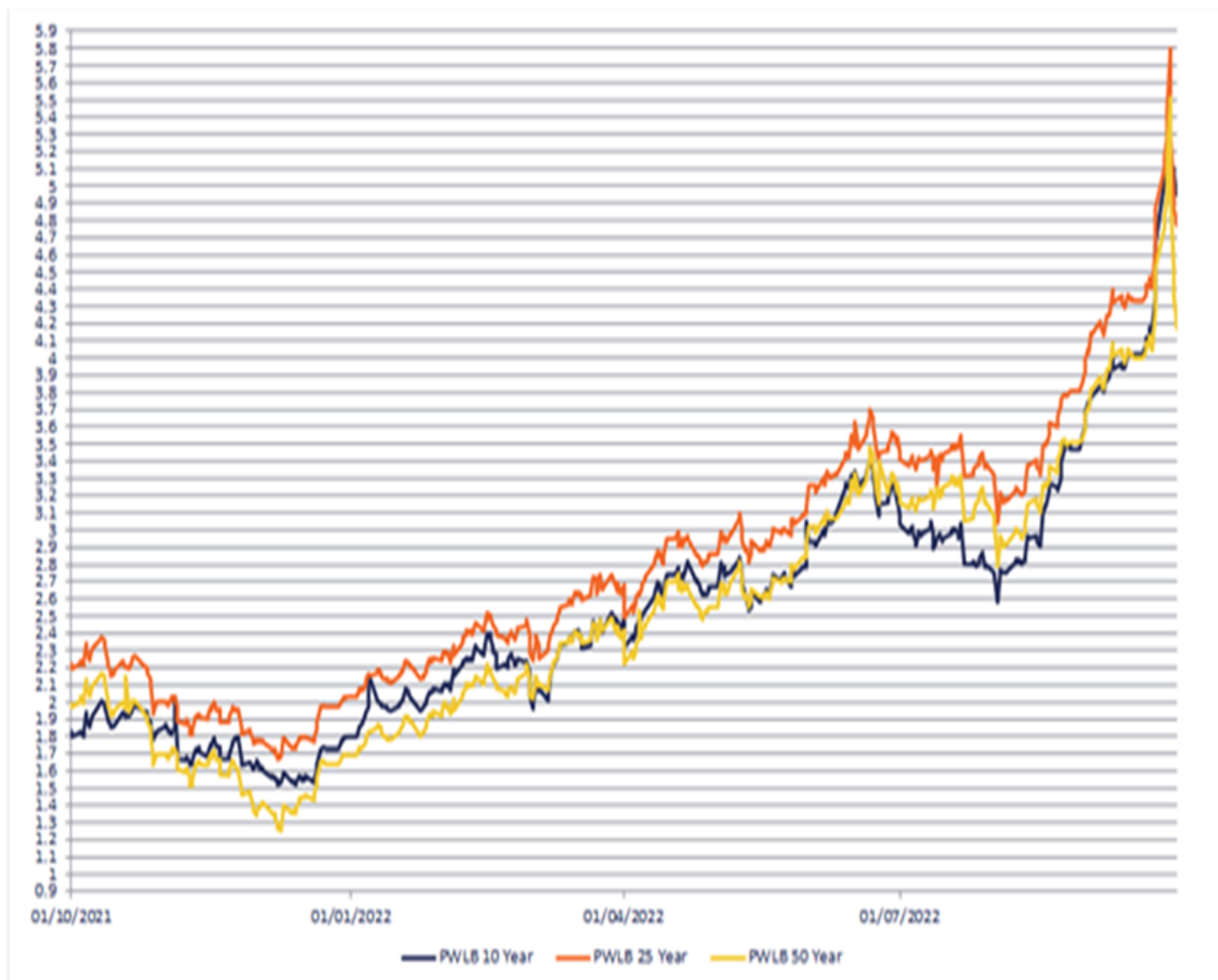
In addition to the PWLB loans above the Council has a £1m Lender Option Borrower Option (LOBO) loan with State Street Nominees at a rate of 11.125% which is due to mature in 2051.

Interest costs for 2022/23 on this borrowing are £111,250.

It is not anticipated that further borrowing will be undertaken during this financial year, but this may be subject to review.

*Public Works Loan Board (PWLB) Borrowing Rates*

PWLB borrowing rates have been rising sharply during the first half of the financial year resulting from increases to the Bank of England base rate and the concerns around inflation levels. The 50 year PWLB certainty rate was 4.19% as at 30 September 2022.



### Summary

Interest rates have continued their rising trend with the Bank of England increasing the Base Rate from 1.75% to 2.25% on 22 September 2022. Market expectations are for further rate hikes during 2022/23.

Rates on new investments with financial institutions and local authorities now range from 2.1% for one-month deposits through to 5.4% for one-year deposits.

The property fund valuations have continued a downward trend and during September 2022 the property fund valuations decreased by £447,503. M&G UK Property fund is liquidating its assets and therefore the capital value held in the fund is decreasing as distribution payments are received. M&G have paid Boston BC distribution payments totalling £3,053,744 as at 30 September 2022, from the asset sale proceeds. The timing of the next distribution payment is 24 October 2022.

PWLB borrowing rates continued to rise with the 50 year PWLB certainty rate rising from 3.67% as at 31 August 2022 to 4.19% at the end of September 2022.

Risks prevail in the financial markets and are subject to a continued high level of scrutiny with any significant issues arising being reported to the Council's Audit and Governance Committee. Changes to credit ratings of financial

institutions are monitored daily and where required reported to the Section 151 Officer for an agreed course of action to be taken.

## Section 2.5 – Insurance

### 2022/23 Claims Statistics

**Table 7** details the number of formal insurance claims for Quarter 2 of 2022/23 (figures in brackets are comparable figures for 2021/22).

Table 7 – Insurance Claims					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Public Liability	2 (0)	0(1)	0(1)	0(2)	2 (0)
Employers Liability	0 (0)	0(0)	0(1)	0(1)	0 (0)
Motor	2 (1)	3(2)	0(2)	0(5)	2 (1)
Property	0 (0)	0(0)	0(0)	0(0)	0 (0)
<b>Total</b>	<b>4 (1)</b>	<b>3(3)</b>	<b>0(4)</b>	<b>0(8)</b>	<b>4 (1)</b>

### Insurance Reserves

The Council maintains an insurance reserve for smaller value insurance claims where the losses are below the principal deductible of £25,000.

At 30<sup>th</sup> September 2022 the balance on the reserve was £260k, and this balance is monitored on a regular basis to ensure that the value of the reserve is sufficient to meet future liabilities.

## Section 2.6 – Debt Collection

A review of debts is undertaken every month, and monitoring is reported against targets. In line with the new financial procedure limits there are no debts in excess of £50,000 requiring Executive Board approval for write off.

An analysis of the sundry debts the Council held as at 30 September 2022 is show in **Table 8**.

Table 8 – Sundry Debt Analysis							
0-30 days	31-60 days	61-90 days	91-120 days	121-183 days	184-365 days	Over 365 days	Total
£	£	£	£	£	£	£	£
79,100	27,826	156,384	630,847	294,912	101,607	270,620	1,1561,296

Note: This does not include details of invoice amounts (£70,053) that are not yet due.

## Section 2.7 – Council Tax and Business Rates

### Council Tax Support Scheme (CTS)

Following the statutory annual review during 2021/22, the 2022/23 scheme remains unchanged from the previous year, allowing for national up-ratings. This scheme continues to support the Government’s Welfare Reform agenda to bring further reductions to the national benefits bill. The scheme sustains the required protection of those of pension age, protects vulnerable customers and encourages people into employment.

There is uncertainty over the ongoing impact on collection and recovery as a result of the knock-on effect of covid and now the cost of living and energy cost crises. In recognition, we continue to remain prudent in setting the bad debt provision in this area.

#### Council Tax – Quarter 2 In-Year Collection

The collectable debit for the year at 30 September 2022 was £40.3m with a collection rate of 53.19% achieved at 30 September 2022 (52.18% at 30 September 2021). The collection rate has been affected by the re-profiling of instalments due to an increase in direct debits this year associated with the energy rebate scheme.

#### ***Business Rates – 2022/23 In-Year Collection***

The collectable debit for the year on 30 September was £19.4m with a collection rate of 57.19% achieved at 30 September 2022 (49.64% at 30 September 2021). The annual collectable debit remains below pre-covid levels as a result of ongoing retail rate relief.

The Covid Additional Relief Fund (CARF) scheme provides rate relief support against 2021/22 financial year for businesses impacted by covid but who had not been supported through other relief schemes. This relief has been awarded in 2022/23.