



Chelmsford City Council Audit and Risk Committee

21st June 2023

Provisional Revenue Outturn Report for 2022/23

Report by:

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Purpose

This report is for noting and informs Members of the revenue outturn position for 2022/23.

Recommendations

1. It is recommended that the revenue outturn position for 2022/23 and actions arising be noted.
 2. Note that supplementary estimates will be sought to approve the items for carry forward budgets in 23/24 due to 22/23 underspends as highlighted in 3.2 below
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1. Summary

- 1.1. This report identifies Council expenditure and income for 2022/23 compared to the approved budgets. This assessment is needed for members to consider financial performance in the year but to also consider how current and future budgets may need to be changed in the light of this experience.

- 1.2. Service budgets: the provisional outturn showed a total overspend against the approved budget of £0.865m and an overspend against the original budget of £3.317m. A high level explanation of the £3.317m variation is explained in the table below:

Description	Amount
Loss of Car Parking Income	£1.034m
Other Service Variations (Explained further below)	(£0.169m)
Sub-Total Service Variations to Latest Approved Budget	£0.865m
22/23 Pay Award	£1.477m
Supplementary estimates/Use of Reserves	£0.578m
Transfer not an overspend: Budget Transfer from Non-Service Level (Leasing from MRP budget)	£0.398m
Sub-Total Additional Service Budgets Added in 22/23	£2.453m
Total Service Variations (Outturn vs. Original Budget)	£3.317m

- 1.3. Non-service budgets: The significant favourable variations for the provisional outturn were £4m made up as follows:
- £2m additional income from Business Rates. Approximately 50% of this gain is believed to be one-off.
 - £1.166m additional income from Interest Earnings. Higher interest rates generated this return and additional income is reflected in the 2023/24 budget
 - £0.622m additional net income from the Leisure VAT claim case. This has been reflected in 2023/24 budget.
 - £0.222m other net variations
- 1.4. The result of these variations above is that the 22/23 provisional outturn resulted in a contribution to the General Fund Balance of just under £200k. This was £3.1m better than the latest budget and £1.6m better than the 22/23 Original Budget.
- 1.5. Additional to this £3.1m improvement in the General Fund contribution is the prior year income relating to the Leisure VAT. Accounting practice requires prior year income to be treated as an adjustment rather than shown in the year it is received. Officers are confident (not certain) that reserves will be a £5.3m due the VAT refund. The majority of this is recorded in 21/22 and so increases the opening balance on the General Fund as seen in 3.2 below.
- 1.6. The 2023/24 budget report made to February Council allowed for many of the variations identified in this report, but not the VAT refunds for prior years and 2022/23. After allowing, for these VAT and the outturn the General Fund

Balance is estimated to be just over £6m above the projection (assumptions) put forward in the 23/24 Budget report.

2. Introduction

2.1. This report sets out the provisional outturn position in respect of revenue expenditure, income, and reserves for the financial year 2022/23.

Revenue transactions are the day-to-day expenditure and income resulting from running a business, which are chargeable in the Council's case to the General Fund. The expenditure and income must be charged to the financial year it is incurred. Officers as part of the preparation of the accounts continue to test transactions to ensure that they have been included in the correct period. It is therefore possible that after publication of this provisional outturn report, further adjustments between years can take place, although these are unlikely to be significant to the scale of the Council's finances.

2.2. The presentation of the Provisional Revenue Outturn is part of the financial management process. Broadly the process is:

- Cabinet in January and then Council in February, budget recommendations are received for approval for the forthcoming financial year (starting 1st April).
- Informal monitoring of the budget takes place and is reported to Cabinet Members every quarter.
- In July, Cabinet and Council receive a Medium-Term Financial Strategy which normally includes a budget forecast for the next five years and identifies any shortfalls and associated risks.
- Cabinet receives a high-level report in November which projects the expected level of expenditure and income by the Council for the current year. It identifies actions to address overspends where possible. Cabinet is not asked to approve budget changes but consider the actions relating to the budget variance which for instance could include changes to service provision.
- Audit and Risk Committee receive the provisional Revenue Outturn report to review the key variances and actions identified. This will provide information on financial risks moving forward.

3. Provisional Revenue Outturn 2022/23

3.1. The outturn figures in the report are provisional and are at risk of revision later in the year for the following reasons:

- Income and expenditure cut offs. As stated earlier determining what financial period a transaction belongs to can be difficult. Officers continue to test transactions to ensure the correct accounting has been achieved up to the point of publication of accounts. Significant numbers of transactions are then tested

by external audit. It is not possible for finance officers to test every transaction undertaken in services, so errors will occur.

- Business Rates and Business Rate Retention, at the time of publishing, the figures for the Essex pool were not available. An estimate of £0.9m additional income has been included and is subject to change when the final pool figures are provided.
- At time of publishing this report the 2021/22 Audit has not yet been completed. For both members and the finance team external audit provides assurance that processes work correctly. No changes are expected arising from the audit, but the late audit is a matter of concern as previously reported.

3.2. Appendix 1 contains an Outturn Summary report (in the usual Revenue Monitoring format), showing variations, recommended actions, and potential risks. The outturn is compared to the latest budget which is the Original 2022/23 Budget plus approved supplementary estimates (additional funding added during the year under delegations).

The contents of Appendix 1 are:

Page 1 contains a summary explanation and diagram identifying whether the services' net expenditure varies compared to the budget. The overall provisional net service outturn is £0.865m or 3.73% over the latest approved budget.

Page 2 shows a list of key material variations. The notes show the amount and the cause of each variation. Actions and Risks are also identified, along with the movement since last reported if applicable.

The key projected service variations are below, including a comparison to the Revenue Outturn forecast reported to November 2022 Cabinet:

Description	Outturn +over /- under latest approved budget £ms	Change to Projected overspend reported to Cabinet November 2022
Loss of Car Parking Income	1.034	£266k better
Temporary Accommodation Subsidy Loss and Repairs costs for Temporary Accommodation	0.431	£229k worse
Inflationary pressures on areas of spend such as fuel, vehicle maintenance, insurance etc	0.305	£235k better
Electricity and Gas	-0.339	£339k better
Various Staffing Vacancies	-0.400	£400k better
Leisure Centre Net Income	-0.168	£168k better
Other Variations	0.002	£121k better

Total Service Variation	0.865	-1.3m
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*Restated to remove impact of staff pay award approved during 22/23

Three items have been identified to have budgets carried forward to 23/24 due to underspends in 22/23 which are part of the service variations totalling £145,600 as follows and the MTFS (Cabinet & Council) will seek approval:

Description	Department	Amount
Cyber Security Costs – remaining cost from £100k grant received in 20/21	Digital Services	£51,600
HR Training – to allow purchase of training platform	Human Resources	£12,000
External Audit Costs – to cover costs of 22/23 external audit which has not yet begun	Accountancy & Exchequer	£82,000

Page 3 contains details on Council budgets that are not managed by services but are centralised corporate costs or income. For each variance, actions and risks are again identified. The variations are:

Description	Outturn +over /- under budget £ms	Reported November* Cabinet
Interest Earnings	-1.166	£666k better
Business Rates Retention (net)	-2.000	Unchanged
Capital Contribution from revenue (funding discussed in reserves section below)	-0.804	£804k better
Other Grants	-0.180	£180k better
Exceptional Items (Leisure Income VAT Claim)	-0.622	£622k better
MRP & Interest Paid	0.141	£114k worse
Total Projected Variation	-£4.631	-£2.386

The additional business rate income mostly arises from lower than estimated appeals against valuations. It can take many years for a valuation challenge by business to fail or succeed, so estimating for losses is not robust. It is felt that approximately 50% of the extra income may be ongoing.

The business rate retention income also assumes a £0.9m gain from the Essex Pool, this is an estimated figure, as the pool has not yet reported its final figure.

Due to uncertainty surrounding appeals against the new valuation list published from 23/24 onwards and the Essex Pool income, £0.3m has been retained in the Business Rate Retention Reserve for future years to cover these risks.

The underspend on the Capital Contribution (from revenue), is actually deferral of the use of the funding until 2023/24. The underspend will be carried forward in the Chelmsford Development Reserve. By delaying the contribution to capital, the Council can choose to fund the capital programme in the most effective way to keep MRP costs lower for a longer period of time.

Page 4 contains the position on the Council's reserves, both unearmarked (general) reserves and earmarked reserves.

The Original budget assumed a use of unearmarked (general) reserves of £1,449k in 22/23; the latest approved budget assumed a use of £2.950k after allowing for funding supplementary estimates (see paragraph 3.4).

The provisional outturn shows a £3.146m variation against the current approved budget (decrease) to the use of unearmarked reserves which in broad terms results from:

- Business Rates Retention (as above, a £2m gain)
- Interest Earnings (a £1.166m gain)
- Exceptional Item VAT Leisure refund 2022/23 (a £0.622m gain)
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3.3 Reserves Compared to the 2023/24 Budget Assumptions

The 2023/24 budget is based on a projected level of reserves rather than the 2023/24 approved budget for 2022/23. This is to try to ensure that the budgets for 2023/24 are based on the latest information in February. The table below shows how the outturn position is different to the assumptions made in the 2023/24 budget.

The General Fund Balance closing position for 22/23 is £6.054m higher than expected in the February 23/24 budget report. This is predominantly due to the £5.3m Leisure VAT refund from HMRC being certain enough to account. However, of the remaining gain, a £150k is being carried over to spend in later years.

Usable Reserves (Provisional Outturn)									
	2022/23 Final Forecast				2022/23 Provisional Outturn				Variation
	Provisional / Opening Balance	Budgeted net (use of) contribution to reserves	Transfers	Closing Balance	Actual Opening Balance	Actual net (use of) contribution to reserves	Budgeted Transfers	Closing Balance	
	£000s	£000s		£000s	£000s	£000s		£000s	
Earmarked									
1 Cultural Support Fund	132	-43		89	132	-40		92	3
2 Chelmsford Development	2,156	-2,156		0	2,156	804		2,959	2,959
3 Infrastructure Provision	1,259			1,259	1,259			1,259	0
4 Growth Fund	69			69	69	-50		19	-50
5 Insurance	910	-100		810	910			910	100
6 Local Development Framework	819	-207		612	819	-100	315	1,034	422
7 Pension Deficiency	1,833	867		2,700	1,833	413		2,246	-454
8 Park and Ride	176			176	176	53		229	53
9 Hylands House Reserve	3			3	3			3	0
10 Housing Initiatives	150			150	150			150	0
11 DPO Reserve	79			79	79			79	0
12 Project Evaluation Reserve	348	-6		342	348	-63		285	-57
Carry Forwards &									
13 Supplementary Estimate Reserve	286	-280		6	286	-443	303	146	140
14 Master Plan Income	65			65	65			65	0
Total Earmarked Reserves	8,285	-1,925	0	6,360	8,283	575	618	9,476	3,116
Unearmarked									
18 General Fund	15,137	-1,757		13,380	19,853	199	-618	19,434	6,054
	15,137	-1,757	0	13,380	19,853	199	-618	19,434	6,054
Total other reserves	23,422	-3,682	0	19,740	28,136	774	0	28,910	9,170
Not Available to Support Spend, until financial year end when the actual position is determined.									
19 Business Retention reserve	4,635	-4,299		336	4,635	-3,829		806	470

The Budget process for 2024/25 will review Reserves and their expected use in future years.

3.4 Please note the breakdown below which shows the latest budget includes approvals made, under delegations, for:

Portfolio Area	Department	Amount	Description	Funding From
Connected Chelmsford	Marketing and Communications	£21,400	Temporary Communications Officer	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Legal & Democratic Services	£81,100	Legal Agency Staff Cover	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Legal & Democratic Services	£20,000	Community Governance Review Final Round	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Culture	£14,000	Museum Parasols	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Legal & Democratic Services	£28,800	Legal and Democratic Restructure	Carry Forward and Supplementaries Reserve
Chief Executive	Accountancy & Exchequer	£19,200	Civica Pay Upgrade	Carry Forward and Supplementaries Reserve
Greener & Safer Chelmsford	Recycling & Waste	£16,000	Environmental Permit for the Depot	Carry Forward and Supplementaries Reserve
Greener & Safer Chelmsford	Recycling & Waste + Parks	£80,000	HVO Fuel	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Legal & Democratic Services	£14,500	Community Governance Review Implementation Stage	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Legal & Democratic Services	£5,000	Legal Agency Staff Cover for Vacant Post	Carry Forward and Supplementaries Reserve
Connected Chelmsford	Revenues & Benefits	£83,800	One-off Revs and Bens Staff Payments for administration of Business Grant schemes	Carry Forward
Chief Executive	Digital Programme Office	£11,000	Video Conferencing equipment costs for the Council Chamber	Carry Forward
Connected Chelmsford	Digital Services	£48,400	Cyber Security Costs from £100k government grant	Carry Forward
Fairer Chelmsford	Property Services	£57,600	Use of Project Evaluation Reserve for feasibility works on potential car parks development	Project Evaluation Reserve
Greener & Safer Chelmsford	Various	£10,900	Use of Project Evaluation Reserve for feasibility works on green initiatives	Project Evaluation Reserve
Connected Chelmsford	Culture	£42,500	Cultural Development Trust SLA	Cultural Support Fund
Sub Total Earmarked Reserves		£554,200		
Council Wide	Council Wide	£1,476,800	Pay Award for 22/23	General Fund
Connected Chelmsford	Legal & Democratic Services	£12,200	Legal Agency Staff Cover for Vacant Post	General Fund
Greener & Safer Chelmsford	Environmental Health	£11,400	Legal Appeal	General Fund
Sub Total General Fund Balance		£1,500,400		
Grand Total		£2,054,600		

4. Implications for Financial Planning

4.1. Several of the key variations either added to the budget during 22/23 as a supplementary estimate, or shown as a variation at outturn have already been reflected in the 23/24 budget. For example, the following have already been included in 23/24 budgets:

- £1.5m impact of 22/23 pay award
- £1.034m loss of car parking income
- £0.760m additional income from leisure VAT case
- £0.200m additional building maintenance costs
- Various other inflationary provisions

4.2. The result of this is that there are several variations against the 22/23 budget left over that require further investigation as part of the 24/25 budget cycle, to understand whether they are ongoing or not. Some of these areas are as follows:

- £0.4m underspends on staffing due to vacancies
- £0.431m overspends on Housing costs due to rising caseload and repair costs
- £0.107m net overspend due to a £0.275m overspend on casual leisure staff offset by £168k additional income
- £0.339m overspend on other HB Subsidy (not related to Temporary Accommodation)
- Business Rate Retention

These variations result in potential additional pressures (at current levels above) of just under £500k a year, so whether these are ongoing trends is important to determine. Additionally, of course inflation remains a problem for predicting future costs and income.

5. Conclusion

5.1. Service level budgets continue to overspend against the Original Budget as in the previous few financial years. The budgets for 2023/24 have been amended to allow for most but not all of these service overspends. Non-service level budgets have continued to underspend to offset the service overspends.

5.2. The level of Unearmarked Reserves is some £6m higher than would have been expected based on the 2023/24 budget, this is predominantly due to the estimated Leisure VAT refund from HMRC being included in the latest figures (£5.3m in total). (This is yet to be paid by HMRC)

5.3. The level of Reserves will be addressed in the 2024/25 budget process.

List of appendices:

Appendix 1 – Chelmsford City Council Outturn Position for 2022/23

Background papers:

Nil

Corporate Implications

Legal/Constitutional:

None

Financial:

As detailed

Potential impact on climate change and the environment:

None

Contribution toward achieving a net zero carbon position by 2030:

None

Personnel:

None

Risk Management:

None

Equality and Diversity:

None

Health and Safety:

None

Digital:

None

Other:

None

Consultees:

None

Relevant Policies and Strategies:

Medium-Term Financial Strategy.

Chelmsford City Council Variances - Outturn Summary 2022/23

SUMMARY

Service Budgets and Net Expenditure

The original service budget has been increased by approved variations (approved overspends) for Pay (22/23 award) totalling £1.477m, other supplementaries/use of reserves of £0.578m and £0.398m for a transfer of budget from the non-service level. So the latest approved budget at the service level is in total £2.453m higher than that originally approved.

At the Service level, the provisional outturn showed a total overspend against the latest approved budget of £0.865m but an overspend against the original budget of £3.317m. The overspend against the original budget being made up of the following key variations:

-£1.5m cost of the 22/23 pay award (this has been reflected in the 23/24 budget)

-£1.034m loss of car parks income (this has been reflected in the 23/24 budget)

-Various other offsetting variations

Non-service Budgets and Net Expenditure

The overspend at service level was offset by a favourable position on non-service budgets compared to the original budget:

-£2m additional business rates income (some 50% of this is felt to be one-off but this will be reviewed in the 2024/25 budget process)

-£1.166m additional interest earnings due to higher interest rates (some of this gain has already been reflected in 23/24 budgets)

-£0.622m additional net income from VAT Leisure refund (£760k additional ongoing income has been added to the 23/24 budgets)

-a budget transfer to service budgets for lease costs of £0.398m

Overall non-service items where £4.6m underspent against the latest approved budget and £5m against the original budget

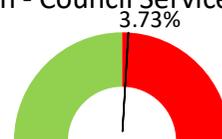
Earmarked Reserves; An additional £0.6m was contributed/not used compared to the latest approved budget and £0.1m compared to the original budget.

Overall Position

The original and the latest approved budgets assumed a use of the General Fund during 2022/23. The outturn was £3.1m better than the latest budget and £1.6m better than the 22/23 Original Budget, resulting in a small contribution to the General Fund balance in 22/23 of just under £200k.

Additional to the improvement identified in this outturn report, a further one-off windfall is likely and has been reflected in the 2022/23 Draft Statement of Accounts. The windfall from the VAT leisure refund for the years prior to 2022/23 has been submitted and officers are confident (not certain) that HMRC will refund a further £4.7m (net) of VAT from the leisure claim, on top of the £0.6m recorded in the 2022/23 outturn. The overall General Fund balance (reserve) is therefore estimated to be £5.3m higher than projected in the 2023/24 budget papers due to the VAT refund.

Actual Year End Variation - Council Service Net Expenditure

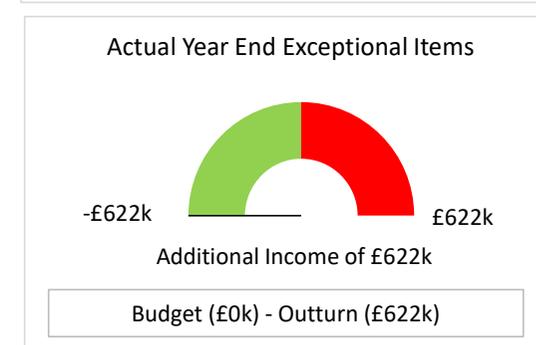
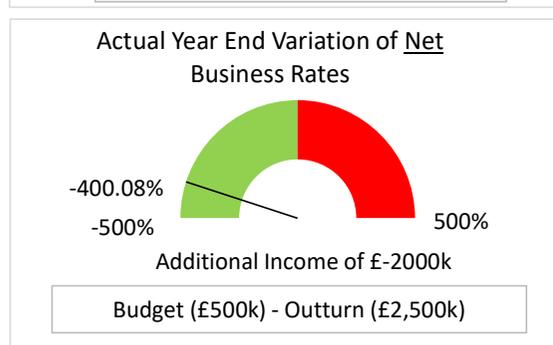
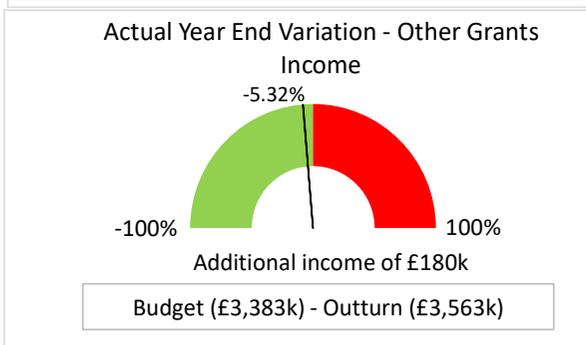
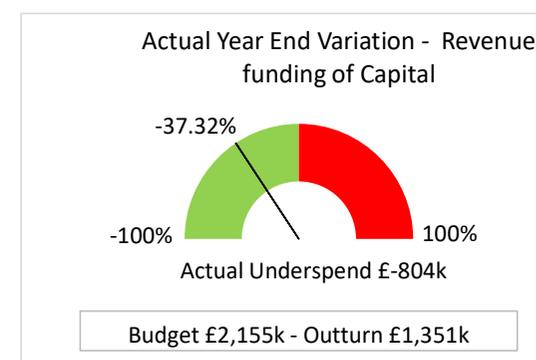
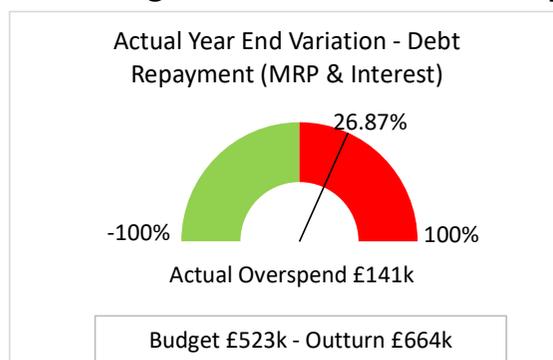
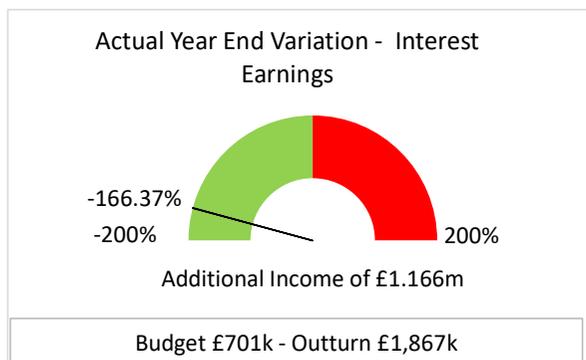


Actual Overspend £0.86m

Note	Key Variations against service budgets	Actions	Risks
1)	Reduced income of £1,034k from the Council's car parks. This is due to changing customer trends from the cost of living crisis, and the knock on impact of the pandemic on working from home.	Throughput levels at each tariff will be reviewed for 22/23 and taken into consideration for the MTFS report in July	Future car parking levels drop off compared to the reduced budgets put forward from 23/24 onwards
2)	Net overspend £305k inflation ; including overspends £126k cost of fuel, £221k vehicle maintenance costs, £100k grounds maintenance materials and contractor costs, £98k overspent on insurance premiums. Less £240k inflation provision now assumed applied.	Further inflation will impact on the 2023/24 budget. Budgets will be reviewed as part of the MTFS	Price rises continue but income does not increase. This would mean drawing on more reserves in 2023/24 and/or is a threat to current levels of service provision.
3)	£290k additional net income from Hylands , predominantly due to a higher number of weddings. This is largely due to rearranged weddings from Covid but there is some potential ongoing additional income also	Income levels will be reviewed as part of the MTFS, it is possible that some additional income will be able to be added to the budget from 24/25 onwards	Income falls below pre-pandemic levels once the catch-up of delayed weddings is completed. Though this felt be increasing less likely.
4)	A £431k overspend on TA made up of a £125k overspend on Temporary Accommodation HB Subsidy Loss due to rising case numbers in TA plus a £306k overspend on TA repairs costs	Costs for repair works and materials have increased given the global economy, the repairs costs also include some one-off costs from property acquisitions for TA. TA caseload and projections will be reviewed as part of the MTFS	There is significant risk of additional budget pressures from additional households in TA and further pressures on the TA repairs budgets. Additionally rent arrears are increasing which could lead to higher bad debt costs.
5)	An additional £510k income from Recycling income eg material sales and recycling credits	Income budgets have been assessed as part of the 23/24 budget process, and will be reassessed as part of the MTFS	Prices drop off for sales of commodities or the level of tonnage collected falls resulting in less income
6)	A net £107k overspend due to a £275k overspend on casual staff at leisure centres offset by some reduction in permanent staff costs offset by £168k additional income	Casual spend and income levels at leisure centres will be reviewed as part of the MTFS. Income is higher than expected and budget projections for future years will be reviewed.	Higher casual staff numbers are not offset with additional income, or additional income is one-off in nature
7)	A £202k overspend on building services controlled building maintenance	The 23/24 budget has been increased by approximately £200k. Budgets should be reviewed again as part of the MTFS and 2024/25 budget process.	Increases are ongoing and inflation continues to push up prices significantly, leading to the Council's buildings becoming too expensive to run.

Note	Key Variations against service budgets	Actions	Risks
8)	£308k underspend on electricity and gas across the Council's buildings due to lower usage than profiled	Indications for 23/24 budgets are that the Council could be underspent in the region of £600k due to new prices coming out lower than budgeted. This will be reviewed along with usage data as part of the MTFS	Predicting future energy prices has become almost impossible and therefore has implications for financial management
9)	A £339k overspend on HB Subsidy (not related to Temporary Accommodation)	This will be reviewed as part of the MTFS to understand whether the budgets need to be adjusted	Subsidy grant from the government continues to not be sufficient to cover the Council's payments out in HB and these overspends have to be built into the budget
11)	£400k worth of net underspends in Connected Chelmsford and Sustainable Development due to staff vacancies not being filled	Consider the vacancy factor provision for the Council as a whole as a part of the MTFS	High vacancies can impede on service delivery

Other General Fund Budget Items of Income and Expenditure



Note	Key Variations	Actions	Risks
1)	£1,166k additional income from interest earnings mostly due to the rising Bank of England base rate	The 23/24 budget was increased to reflect additional earnings expected, further income could be earned if favourable cashflows occur	Capital values are at risk with some investments, or we hold less cash than we expected resulting in reduced income levels
2)	£804k underspend on Revenue funding of Capital, this is offset by higher contributions to reserves below	The lower level of funding of capital is as a result of carrying additional revenue reserves for funding capital spending in later years. This is aimed to achieve the most cost effective borrowing profile over the medium term.	Capital spending costs rise over the coming years
3)	£2,000k additional income from the Business Rates Retention Scheme - £0.3m has been retained for future years to cover risks on appeals and will form part of the MTF5	A new ratings list has now been published and so appeals could fluctuate significantly, it is therefore uncertain at this time what an ongoing position could be, this will be worked on as part of the 2024/25 budget over the summer	The outstanding information from the Essex pool significantly alters the figures
4)	£622k additional income from exceptional items relating to the Leisure VAT claim with HMRC	An income gain of £760k has been added to the 23/24 budgets. A refund relating to years before 2022/23 of £4.7m is shown in the statement of accounts, resulting in a total claim of £5.3m	HMRC reduce the Council's claim. Customer numbers reduce and this income is not fully realised

Use of Reserves

Actual Year End Variation - Contribution/Use of Earmarked reserves against latest approved budget

Additional Contribution of £619k

Changes in the use of earmarked reserves are often offset by changes in the expenditure in the service accounts .

The outturn position is a contribution to reserves of £575k compared to a latest approved budget use of £44k.

The higher contribution is predominantly due to an £804k underspend on Revenue Funding of Capital (shown above) which results in £804k of funding being contributed to reserves to be used in future for funding capital expenditure, offset with other smaller variations.

It should be noted the use of earmarked reserves in the original and the latest approved budget allowed for £300k of additional expenditure (supplementary estimates) to be approved in 2022/23. At the end of 2022/23 some £300k of supplementary estimates to be funded from Earmarked Reserves had been approved. A further £1.5m of additional approved additional expenditure is funded from the General Balance. There is a provision for £200k of new supplementary estimates in the 23/24 budget.

Actual Year End Variation - Contribution/Use of General balance (reserve) against latest approved budget

Reduced Use of £3.146m

The original budget allowed for a £1.449m use of General balance, which after approved variations in 2022/23 increased to £2.95m use (an increase of (£1.5m) . The largest cause being the pay award for 22/23 being added into the 22/23 budgets as an approved variation (£1.477m).

The total projected contribution to the General Fund Balance for 22/23 is £0.196m, so a reduced use of £3.146m (against the latest approved budget), reflecting variances shown in this report.