



2020/21 Revenue Budget Monitoring Report for the Period Ending 30th September 2020

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Purpose of the Report

1. The purpose of this report is to provide Members with the current projection of the forecast spending and income (“outturn”) against the Council’s approved Revenue Budget for the financial year, and to explain projected variations against budget.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of 5th November 2020.

Public Interest

3. This report gives an early forecast revenue financial position and budgetary variations of the Council for the financial year 2020/21, as at 30th September 2020. It also incorporates the impact Covid-19 has had on Council finances. Maintaining the financial health and resilience of the organisation is important in ensuring the ongoing delivery of priority services in our community.

Recommendations

4. That the District Executive:
 - a. notes the 2020/21 forecast financial position of the Council;
 - b. notes the predicted variance to approved Directorate Budgets as detailed in paragraphs 10 and 12;
 - c. notes the budget virements made under delegated authority as detailed in Appendix B;
 - d. approves the budget virements included in paragraph 16, Table 4;
 - e. approves a budget allocation of up to £420k towards local government change, to be held in an earmarked reserve;



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- f. notes the transfers made to and from reserves outlined in paragraph 30 Table 6, the Area Reserves as detailed in Appendix C, and the Corporate Reserves as detailed in Appendix D.

Background

5. The 2020/21 original budget was approved by Council in February 2020. This represents the financial plans that the Executive manages under their delegated authority and in accordance with the Financial Procedure Rules. All of the Council's income and expenditure has a responsible budget holder.
6. This is the second report for the year, which is completed at the end of Quarter 2 (1st April to 30th September 2020). The projected position should be regarded as a reasonable indication of possible differences between actual and budgeted spend and income for the year. Experience shows that the position at the end of the year can vary, sometimes significantly even without COVID-19, from early forecasts with time for management to take corrective action and manage risks and opportunities before the end of the financial year. Our demand-led services are particularly difficult to forecast, but we use trend analysis to make these areas as accurate as possible.
7. We are continually monitoring the effect of COVID-19 on the Council's finances, and it is important to recognise there are still a number of assumptions at this stage and it is very hard to judge the full impact on 2020/21 budget as further Government measures could also affect this. The budget monitoring report has now been adapted to include information which would have been reported previously in the 'Update Report on the Impact of Covid-19 on the Council' report presented to Executive. Incorporating this report allows Members to see the full picture in one report for the financial year 2020/21.
8. NB. It is important to emphasise that the returns which we have made to the Ministry of Housing, Communities and Local Government (MHCLG) and which have been reported in our Covid-19 updates, have been gross, as instructed in their guidance. What we present here is the figures following the mitigation i.e. after we have implemented management actions and other mitigations such as furlough payments.

Summary of the Current Revenue Financial Position and Forecast Outturn

9. Managers have forecast expenditure and income for the year in order that the expected outturn and the projected variances are identified and reported. This was particularly critical for those services affected by COVID-19. Appendix A to this report sets out the position as at the end of quarter 2 and details the forecast outturn for 2020/21.
10. The Council has received 4 tranches of funding from Central Government so far. Tranche 1 was ringfenced grant has been utilised in full to provide Council Tax reductions for those in receipt of CTS therefore is excluded from the revenue budget. The remaining unringfenced grants are shown in table 1.



Table 1 – COVID Funding

| | £ | £ |
|--|-----------|------------------|
| Central Government COVID Funding | | |
| Tranche 2 - Covid Response 1 (New Burdens) | 64,586 | |
| Tranche 3 - Covid Response 2 (New Burdens) | 1,672,767 | |
| Tranche 4 - Covid Response 3 (New Burdens) | 266,968 | |
| Total Unringfenced Grant | | 2,004,321 |

11. Appendix A shows there is currently a net forecast overspend of £4.206m (27.05%) for 2020/21. Of the unringfenced funding shown above, £336,950 has been distributed across the revenue budgets for expenditure directly incurred as a result of COVID-19 up until the end of August 2020. An additional £156,570 has been allocated to cover COVID-19 related capital expenditure up to the end of August 2020. The remaining £1,510,801 remains unallocated at present to allow for, further COVID direct expenditure and also pending the outcome of potential income to be received from the Central Government Income Compensation Scheme. Allocating the remaining grant will reduce the potential overspend to £2.695m (17.33%) for 2020/21.
12. During Quarter 2, the first Income Compensation Scheme return was submitted to MHCLG. As previously reported, the Scheme requires councils to cover the first 5% of the income loss, based on budget and then the Government will reimburse 75p in the pound thereafter of the net loss (after underspends in expenditure is deducted). Hence, the Council will need to subsume another 25p in the pound of the net loss. The return for 1st April to 31st July showed a claim of £471k made to Central Government. This claim does not include the loss on all of our income streams as areas such as Treasury income and Commercial Investment Income are excluded.
13. Table 2 below details the services with major variances forecast for 2020/21 as predicted at 30th September 2020.

Table 2 – Major Variances (+/- £50,000)

| Directorate | Service | Forecast Variance £'000 | Explanation of variance |
|---|------------------------|-------------------------|---|
| Commercial Services and Income Generation | Arts and Entertainment | 300 | Ongoing restrictions have meant that a reduced schedule is in place - this has resulted in large variances in income for Westlands and Octagon but these are mitigated where possible by significant savings in expenditure budgets. In order to reduce the variance against budget a number of staff have either been furloughed or redeployed to other services in the first six months of the year. Applications for cultural grant funding have been submitted and if successful the variance on income budgets will reduce accordingly and the overall position against budget will improve. |

| Directorate | Service | Forecast Variance £'000 | Explanation of variance |
|--------------------------|--|----------------------------|--|
| | Waste / Recycling | 706 | SSDC's share of Somerset Waste Partnership's budget variance in relation to costs of, kerbside collections, recycling sites and recycle more. This figure also relates to a delay in the roll-out of the Recycle More programme. |
| | Income / Opportunity Development (YIC) | 95 | Anticipated that there will be a shortfall of income against budget due to tenants vacating, income from room hire is also less than anticipated due to restrictions in place. These variances are partially offset by expected underspends on utilities and maintenance budgets |
| | Commercial Investments | 732 | Currently forecasting a gross deficit for the year, as a result of COVID-19 and possible non collection of rent for the year. Any shortfall in income for the year that does crystallise will be covered by a movement from the Commercial Risk Reserve which was established to smooth fluctuations in the market and economy and mitigate risk. |
| | Car Parking | 1,114 | Forecast loss based on average income taken from April – September 2020. |
| Service Delivery | Building Control | 250 | The forecast year end variance is based on the service having to run with agency staffing due to difficulties in recruitment. Income affected by COVID-19 lockdown with continued uncertainty along with material supply issues on site. |
| | Revenues and Benefits | 150 | No court cost income due to suspension of recovery action. |
| Strategy & Commissioning | Contracted Sports Facilities | 395 | Forecast operator subsidy and reduced income from closure period. |
| Support Services | Finance Corporate Costs | 225 | The Council has substantial investments in pooled funds, it is anticipated that the return on these investments will reduce temporarily. The advice received indicates that the return on pooled fund investments will be between 25% and 50% less than 2019/20. The pooled fund investments have started to show signs of recovery which will have a positive impact on the investment returns for the remaining part of the financial year. |

(Negative figures = underspend / surplus income, positive figures = overspend / income shortfall)



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14. COVID-19 has had a significant impact on the Council finances and it is important that we can quantify this and mitigate where possible to ensure we remain on a robust, sustainable financial footing. Managers in the affected areas are continually monitoring income and expenditure trends together with their Finance Specialist and, if required, plans will be implemented to bring spending and income in line with the approved budgets where possible. It has already been recognised this will not be possible in all areas.
15. The approved base budget as at 1st April 2020 was £15.207m for 2020/21, which was increased to £15.548m to include £340.7k budget carried forward from the previous financial year.

Table 3 – Net Budget Reconciliation

| | £'000 |
|--|---------------|
| Approved base budget as at April 2020 | 15,207 |
| 2020/21 Carry forwards | 340 |
| Revised Budget as at 30th September 2020 | 15,547 |

Budget Virements

16. Under the Financial Procedure Rules, providing that the S151 Officer has been notified in advance, Directors/Managers may authorise any virements for an individual cost centre within their responsibility. Directors and Managers can authorise virements, up to a maximum of £50,000, for an overall Directorate that is within their area of responsibility. Portfolio Holders can approve virements between services within their areas of responsibility, up to a maximum of £50,000 per virement. All virements outside of the criteria set out above require the approval of District Executive, there are no such virements this quarter.

Table 4 – Virements over £50,000

| Amount £ | From | To | Details |
|-------------|---------------------------------------|---------------------|--|
| 337,350 | Other income & Expenditure | Various | Allocation of COVID19 grants for spend |
| 162,670 | Various Arts & Entertainment | Various | Transfer of salaries for CV19 redeployment |
| 63,390 | Various Leisure, Recreation & Tourism | CV19 Well-being Hub | Transfer of salaries for CV19 redeployment |

Delivery of Savings

17. As part of effective financial planning and control it is important to monitor the delivery of savings planned within the approved budget. The table below details the major savings (savings over £25,000) that were agreed and the expected achievement of those savings at year-end. The table only highlights projected shortfalls and does not identify where targets may be exceeded.



Table 5 – 2020/21 Budgeted Major Savings (over £25,000)

| Description | Income/ Saving Target £'000 | Forecast Saving at Year- End £'000 | Shortfall £'000 |
|---|--------------------------------------|--|--------------------|
| Transformation – Non pay (Additional savings identified outside of the business case agreed by Council) | 150.0 | 50.0 | 100.0 |
| Sales, Fees and Charges - Arts | 5.0 | 0 | 5.0 |
| Sales, Fees and Charges - Licensing | 6.0 | 0 | 6.0 |
| Sales, Fees and Charges - Horticulture/ Street Scene | 20.0 | 20.0 | 0 |
| Sales, Fees and Charges - Waste | 40.0 | 0 | 40 |
| Sales, Fees and Charges - Countryside | 4.0 | 0 | 4.0 |
| Increase in rental income | 66.7 | 0 | 66.7 |
| Increase in service charges | 39.0 | 0 | 39.0 |
| Total Major Savings | 330.7 | 70.0 | 260.7 |

(Negative figures = shortfall)

18. Table 5 shows that a significant element of the major savings target for 2020/21 may not be achieved. The achievement of savings will be carefully monitored during the second half of the financial year to clarify whether the budget expectation is realistic given the effect of COVID-19. The projected shortfall on its own is not material to the overall financial performance for the year, especially given COVID-19 and it is anticipated that the impact of the shortfall will have to be managed within the overall budget total.

Council Tax Support and Council Tax

19. The Council Tax Support Scheme (CTS) provides for discounted tax charges to households with lower incomes. The Authority has set an estimate for 2020/21 of £9.397m within the Council Tax Base for annual CTS discounts. As part of the response to Covid-19, the Government provided local authorities with a council tax hardship fund to support economically vulnerable people and households in their local area. This grant is to compensate billing authorities for the council tax foregone in 2020/21 due to additional council tax reliefs provided to recipients of working age local tax support schemes during the Covid-19 emergency. SSDC received £1.156m from this hardship fund. This grant related to 2020/21 only.
20. A total of £10.712m CTS discounts have been awarded as at 30th September 2020. The cost of CTS is allocated through the Council Tax Collection Fund and is shared between the preceptors in proportion to their relative shares of council tax due for the year (SSDC share is c14.4% for 2020/21).
21. The Hardship Scheme is in place for extreme circumstances with a budget of £30,000 for the year. By the end of Quarter 2, SSDC had received 47 requests for hardship relief of which 39 were successful. The amount awarded to the end of quarter 2 was £10,834.



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22. The in-year collection rate for Council Tax is 55.05% for 2020/21 compared to 55.56% for quarter 2 last year. The number of people opting to pay by 12 instalments has decreased (currently 16862 households), however these figures have now been adjusted for those who do not pay due to having maximum CTS. At the end of quarter 2, we had reduced the total of £9.334m outstanding debt relating to previous years by £1.142m.

Non Domestic Rates

23. The in-year collection rate for Non Domestic Rates is 59.64% for 2020/21 compared to 56.29% for quarter 2 last year. Due to the introduction of 100% extended retail relief for 2020/21, as a consequence of the Covid-19 support measures, the collectable debt has reduced and payments received so far in quarter 2, expressed as a percentage of the revised collectable debt, is higher. At the end of quarter 2, we had reduced the total of £3.696m outstanding debt relating to previous years by £433k.
24. Non Domestic Rates income that we collect is distributed between Central Government, SSDC, the County Council, and the Fire and Rescue Authority under the Business Rates Retention funding system. Following the ending of the one year BRR pilot arrangements for 2019/20, this now reverts to the standard shares for 2020/21 (Gov 50%, SSDC 40%, SCC 9%, Fire 1%).

Council Tax Reforms

25. Members agreed at District Executive in February 2019 to increase the Empty Home Premium on empty properties to the maximum percentage, as detailed in the legislation. From the 1st April 2019 for dwellings that have been empty for more than two years, a premium of 100% of the charge will be added (this previously was 50%). From the 1st April 2020, a premium of 200% of the charge will be added for dwellings that have been empty for more than 5 years. Further changes will come into effect from 1st April 2021.
26. At the end of September 2020, there were 153 long-term empty properties (unfurnished and unoccupied for 2 years or more). At the same point last year, there were 159 properties. Of the current 153, 65 have been empty for more than 5 years and are subject to the increased premium of 200%.

Discretionary Housing Payments (DHP)

27. The Government DHP funding allocation for 2020/21 is up to £315,793. In addition to this the Council is permitted to spend up to £473,689 of its own money on DHP awards, although no budget has been set for this discretion. By the end of Quarter 2, we had processed 248 DHP applications, 224 of which were successful with a total award value of £123,057. A further £18,392 is committed up to the end of this financial year. The total sum paid and committed (£141,449) represents 44.8% of the Government DHP grant.



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28. Universal Credit recipients have their housing cost support paid directly by DWP, however they are still able to apply to SSDC for a DHP and the number of Universal Credit recipients in the district is increasing each month. Universal credit related DHP's are included in the figures in the above paragraph.

Reserves & Balances

29. Reserves are amounts that have been set aside from annual revenue budgets to meet specific known events that will happen in the future. Details of the reserves held within the Areas are provided in Appendix C. The complete list of specific Corporate Reserves and the current balance on each one is provided at Appendix D. The Appendix shows all movements of each one that has been actioned under the authority delegated in the Financial Procedure Rules.
30. Transfers out of specific reserves that require reporting to District Executive for noting are as follows:

Table 6 – Reserves Movements

| Reserve | Balance at 01/07/2020 £'000 | Transfers £'000 | Balance at 30/09/2020 £'000 | Reason for Transfer |
|--------------------------------------|--|----------------------------|--|--|
| Capital | | | | |
| Usable Capital Receipts | -16,878 | -15 | -16,893 | |
| Revenue | | | | |
| Internal Borrowing Reserve | -209 | -112 | -321 | Repayments from revenue accounts for internal loans for vehicles and equipment. |
| Capital Reserve | -928 | -164 | -1,092 | Revenue contribution to capital in respect of new Cremator |
| Transformation Reserve | -107 | 6 | -101 | Funding of transformation expenditure. |
| Revenue Grants Reserve | -454 | 1 | -453 | Forerunner grant (localism bill) transfer to fund Queen Camel Neighbourhood Plan work |
| Council Tax/Housing Benefits Reserve | -640 | -165 | -805 | Funding for transitional resources (£5k) less revenues new burdens grant received (£170k) transferred to reserve. |
| Ticket Levy Reserve | -83 | -2 | -85 | Ticket levies to reserve movements. |
| Community Safety Reserve | -68 | 21 | -47 | Transfer to revenue to fund Yeovil Co-Ordinator post |
| Community Initiatives Reserve | 0 | -163 | -163 | Transfer in to fund Community initiatives (£524k) and transfer to revenue to fund Somerset Families Programme (£361K). |



| Reserve | Balance at 01/07/2020 £'000 | Transfers £'000 | Balance at 30/09/2020 £'000 | Reason for Transfer |
|---------------------------------|-----------------------------|-----------------|-----------------------------|--|
| Local Government Change Reserve | 0 | -199 | -199 | Funding of costs associated with changes to local government in Somerset. Transfer into reserve to fund local government change costs (£420k). Project team and associated costs for Q1 and Q2 transferred to revenue code (£221k) |

(Negative figures = income, positive figures = costs)

Change to Local Government in Somerset

31. The five councils of Somerset have been looking at change to the system of local government over the past two years. In February 2020, Council agreed (along with the other three districts in Somerset) to develop a business case for change to a more collaborative and integrated system of local government that tackled the challenges our communities face, led to better outcomes and improved the sustainability of services. Over the course of the past year, government has been indicating that it wished to see changes in the system of local government with such changes being set out in a Devolution and Recovery White paper – originally intended to be published in the Autumn but now likely in early 2021. Work on the business case by the four district councils was delayed due to the councils focussing on supporting communities and businesses through Covid-19 but was accelerated in the summer following indications from the government that an invitation to submit proposals for change in Somerset was imminent.
32. Council agreed to support the Stronger Somerset Business Case developed by the four district councils at the meeting in September 2020. The business case was developed using a mixture of staff from the four councils together with external expertise and support. The government has invited all councils in Somerset to submit a final business case for change by 9 December 2020 and stakeholder engagement is now taking place with a view to refining and developing the final business case. The process of change will likely take more than two years and will continue to need resources at the different stages of the process. Funding for this workstream totalling £420k has been found within existing reserves, mainly the Business Rates Pooling gain and an earmarked reserve has been created. When all the costs have crystallised any surplus funds will be transferred to General Reserves.

General Fund Balance

33. The General Fund Reserve Balance represents the accumulated revenue surpluses that are held to mitigate financial risks and unforeseen costs. Within the total, however, are amounts that have been earmarked by the District Executive for specific purposes. The table below shows the current position on the General Fund Balance compared to that previously reported.

Table 7 - General Fund Balance

| | £'000 |
|---|---------------|
| Balance at 1 st April 2020 | -5,099 |
| Area & Economic Development Balances | 121 |
| 2020/21 Carry Forwards | 341 |
| Commitments | 252 |
| Current Estimated overspend in 2020/21 (worse case call on reserves) | 4,206 |
| Support for 2020/21 Budget | 944 |
| COVID Grant Funding Balance | -1,511 |
| Unallocated General Fund Balance at 30th September 2020 | -746 |
| Income Compensation Claim to date | -471 |
| Unallocated General Fund Balance at 30th September 2020 (Including claim) | -1,217 |

(Negative figures = income, positive figures = costs)

34. The current assessment of minimum balance requirement is £2.8m. It is advisable to continue to hold a balance above this minimum to provide headroom and flexibility to manage risk and avoid falling below recommended levels. Current balances as at 30th September do not meet this requirement and it will be necessary to allocate certain earmarked reserves (such as the Commercial Investment Risk Reserve) to mitigate some of the overspend and return the General Fund Balance to an appropriate level.

Financial Implications

35. As part of monitoring an assessment of risk has been made. This review of balances and reserves has shown that the Council currently has sufficient balances to cover major areas of financial risk.
36. Details of the current key risks are listed in the table below with an update from the responsible officer.

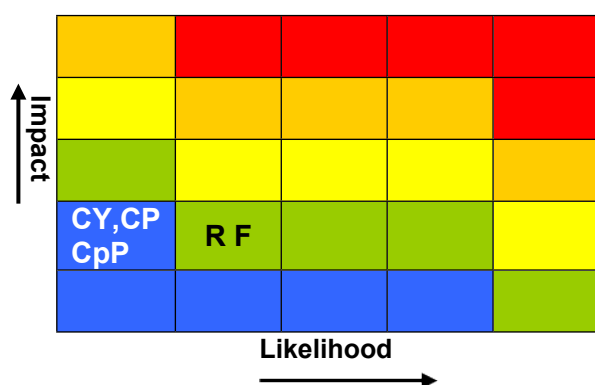
Table 8 - Risks

| Current Risk | Responsible Officer | Officer's Update |
|----------------------|----------------------------|--|
| Interest Rates | S151 Officer | Interest rates remain low with the possibility of being cut to zero or even going into negative territory. Low interest rates reduce the cost of borrowing with the adverse impact being the return on investments will be lower. Continual monitoring of investments and borrowing is being undertaken to ensure returns are maximised whilst taking account of risk. |
| Business Rate Income | Director-Service Delivery | The collection rate is up by 3.35% compared to the previous year's quarter 2. Paragraph 21 provides information for this increase. This is a volatile measure affected by the timing of summonses and payments made by large businesses. |

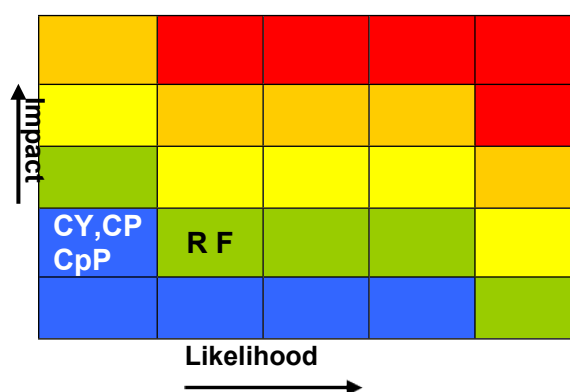
| Current Risk | Responsible Officer | Officer's Update |
|--------------------------------|---------------------------|--|
| The Council Tax Support Scheme | Director-Service Delivery | The original budget of £9.397m together with the £1.156m Hardship Grant from Government gives an overall budget of £10.553m. Currently £10.712m has been allocated by the end of quarter 2, which is 101.1%. If costs exceed the assumption in the Council Tax Base this recovery risks a deficit in the Collection Fund to be paid in subsequent years in proportion to precept totals. |
| Housing Benefit Subsidy | Director-Service Delivery | Current predictions are for the housing benefit subsidy to be on budget at the year-end but the outcome will not be confirmed until the subsidy claim is externally audited in autumn 2020. |
| The UKs Exit from the EU | S151 Officer | We still do not yet know the impact in the medium to long term. If consumer confidence reduces there may be a further impact on SSDC's income streams such as planning, licensing, theatre income, and car parking, although this is considered a low risk at this stage. Financing / treasury costs and income may also be affected. |
| Covid-19 | S151 Officer | We continue to monitor the effects of the pandemic on our service provision and budget. We continue to work with our Local Authority counterparts to lobby for adequate funding from Central Government to mitigate our increased costs and offset relevant areas of our income. We have adequate reserves to offset these pressures but we are mindful that we also have ambitious plans for regeneration which rely on significant funding in order to progress. |

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

| Categories | Colours (for further detail please refer to Risk management strategy) |
|---------------------------------|---|
| R = Reputation | Red = High impact and high probability |
| CpP = Corporate Plan Priorities | Orange = Major impact and major probability |
| CP = Community Priorities | Yellow = Moderate impact and moderate probability |
| CY = Capacity | |



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| | |
|---------------|---|
| F = Financial | Green = Minor impact and minor probability |
| | Blue = Insignificant impact and insignificant probability |

Council Plan Implications

37. The budget is closely linked to the Council Plan, and maintaining financial resilience and effective resource planning is important to enable the council to continue to fund its priorities for the local community.

Carbon Emissions and Climate Change Implications

38. There are no implications currently in approving this report.

Equality and Diversity Implications

39. When the budget was set any growth or savings made included an assessment of the impact on equalities as part of that exercise.

Privacy Impact Assessment

40. There is no personal information included in this report.

Background Papers

41. Budget Setting reports to Full Council in February 2020
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