



2021/22 Revenue Budget Monitoring Report for the Period Ending 31 March 2022

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
SLT Lead: Karen Watling, Chief Finance Officer
Lead Officers: Paul Matravers, Lead Specialist – Finance
Hannah Brown, Finance Specialist - LGR
Contact Details: paul.matravers@southsomerset.gov.uk or 01935 462275

Purpose of the Report

1. The purpose of this report is to provide Members with the actual spending and income (“outturn”) against the Council’s approved Revenue Budget for the financial year 2021/22, and provide explanations on the key variances against the approved budget.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of 7 July 2022.

Public Interest

3. This report summarises the financial management performance for the 2021/22 financial year and it provides explanations of the significant key variances.
4. Maintaining the financial health and resilience of the organisation is important to ensure the ongoing delivery of priority services within our community. The Council also has a legal obligation to set and maintain a balanced revenue budget position.

Recommendations

5. That the District Executive:
 - a. Notes the outturn report position as set out in Table One;
 - b. Recommends that the Chief Executive approves the transfer of the 2021/22 underspend of £900k to the General Fund reserve, as set out in paragraphs 12.
 - c. Recommends that the Chief Executive approves the creation of a new earmarked reserve for potential Minimum Revenue Provision (MRP) costs and the transfer of £444k into this reserve as set out in paragraph 18 to 23.

Background

6. The 2021/22 original net budget of £16.743m was approved by Council in February 2021. 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.
7. The Quarter Two revenue budget monitoring report advised that an in depth review of the 2021/22 budget had been carried out to realign some historic budgets to reflect current spend and income. This exercise also identified additional budget requirements within some services. Council approved the 2021/22 revised net budget, of £17.319m, in December 2021.

Summary of the Current Financial Position

8. This report covers the full financial year (1 April 2021 to 31 March 2022), a summary of the year end budget position is shown below in Table One, analysed by categories of expenditure and income.
9. The net revenue budget position for the 2021/22 financial year is an **under spend** of **£18,614** which is a **0.11% variance**.

Table One: 2021/22 Outturn Position

	Outturn Position - 2021/22		
	Budget	Actual	Variance
<u>Expenditure</u>			
Employees	£19,933,960	£19,717,258	(£216,702)
Premises	£3,307,640	£4,071,237	£763,597
Transport	£822,910	£707,667	(£115,243)
Supplies & Services	£9,042,450	£9,742,721	£700,271
Third Party Payments	£12,207,130	£11,975,079	(£232,051)
Housing Benefits payments	£26,383,360	£26,450,555	£67,195
Capital Financing	£1,471,660	£2,798,085	£1,326,425
Revenue Reserve transfers	(£2,210,140)	(£3,207,074)	(£996,934)
	£70,958,970	£72,255,530	£1,296,560
<u>Income</u>			
Government grants	(£31,459,330)	(£31,417,111)	£42,219
Other grants and contributions	(£1,452,730)	(£2,021,095)	(£568,365)
Sales	(£1,689,760)	(£1,961,032)	(£271,272)
Fees and charges	(£17,064,510)	(£17,550,545)	(£486,035)
Investment income	(£1,973,230)	(£2,004,950)	(£31,720)
	(£53,639,560)	(£54,954,734)	(£1,315,174)
Net Budget	£17,319,410	£17,300,796	(£18,614)

	Outturn Position - 2021/22		
	Budget	Actual	Variance
Funded by:			
Council Tax	(£10,605,583)	(£10,612,678)	(£7,095)
Business Rates			
Business Rates income	(£3,320,444)	(£2,566,078)	£754,366
Deficit on NNDR Collection Fund	£8,885,872	£8,885,872	£0
S31 grant	(£2,504,429)	(£6,343,204)	(£3,838,775)
Pooling gain	£0	(£1,294,000)	(£1,294,000)
	£3,060,999	(£1,317,410)	(£4,378,409)
Grants	(£1,501,690)	(£2,374,381)	(£872,691)
Reserves			
Corporate Reserves	(£8,273,136)	(£8,885,872)	(£612,736)
Pooling gain transferred to reserves	£0	£1,294,000	£1,294,000
S31 grant transferred to reserves	£0	£3,695,329	£3,695,329
	(£8,273,136)	(£3,896,543)	£4,376,593
Total	(£17,319,410)	(£18,201,012)	(£881,602)
Variance	£0	(£900,216)	(£900,216)

(Variance column: bracketed figures = underspend / surplus income, unbracketed figures = overspend / income shortfall)

10. Managers have provided an explanation of the budget variances for their service area as part of their management responsibilities and in line with good financial management and financial procedures rules.
11. In accordance with financial regulations the Chief Financial Officer has agreed that committed budgets of £10.6k will be carried forward to 2022/23.
12. The overall “bottom line” budget position, when Council Tax, Business Rates, general government grants, and general reserves are used to fund the net budget position, is a £900k underspend. The Chief Finance Officer recommends this is transferred to the General Fund Balance to assist in funding increased costs in 2022/23 arising from forecast pay award increases, inflationary pressures, and further likely increases in interest rate charges.

Employees

13. The net underspend is a combination of a £365k underspend in salaries and wages, which has been offset by staff compensation payments of £143k.

There are a number of underspends across the Council due to staff vacancies and difficulties in recruiting, the most significant being in Building Control (£112k); Customer Connect Team (£104k); Support Services Case Officers (£91k) and Property Services Case Officers (£83k).

Premises

14. The majority of the overspending of £763k relates to Commercial Land & Property specifically rental payments (£370k), unrecovered Service Charge payments, (£294k) as well as increased consultancy costs of £97k.

Transport

15. The under spend of £115k is made up of insurance premiums £26k, travelling allowances £27k and fleet management costs of £62k.

Supplies and Services

16. This category of expenditure covers a wide range of costs: the year-end position shows a net overspend of £700k. The main areas of increased spend include consultancy costs (£303k), equipment, tools & materials (£179k), Arts and Entertainment performance costs (£107k), and bank charges (£79k).

Housing Benefit payments

17. During the year there are often profiling differences between the estimated and actual spend. As forecast in the quarter 3 budget monitoring report, the year-end spend relating to rent allowances is in line with budget.

Capital Financing Charges

18. Capital Financing charges comprise of interest charges arising from external borrowing and MRP (Minimum Revenue Provision) costs. The latter are charges made to the revenue budget for future repayment of debt.
19. Part of the overspend on capital financing charges arises from the S151 Officer's recommendation to set aside, in a new earmarked reserve, the amount of £444k for a potential need to make an increased charge to the revenue budget for MRP costs.
20. Since the Minimum Revenue Provision (MRP) regulations were relaxed in 2008, capital loans to third parties require that a prudent amount of MRP is set aside to provide for any default in loan repayments. Where authorities are confident the loan will be fully repaid, that prudent amount can be zero. SSSDC have taken the view that MRP charges do not need to be made in respect of the lending made to SSSDC Opium Ltd and the Somerset Waste Partnership.
21. In November 2021, the government proposed in a consultation paper that MRP charges must be made in respect of such loans. A more recent consultation (June 2022) is currently being undertaken with proposals for more relaxed rules for capital loans made for service purposes (i.e. the lending to Somerset Waste Partnership).



South Somerset District Council

22. Loans made for commercial purposes however (such as those made to SSDC Opium Ltd) are not covered by this zero MRP exemption. But where such loans are repayable in at least annual instalments, the capital receipts from those instalments can be used instead of a revenue charge to meet the MRP requirement. This only applies in the year of receipt, so local authorities cannot defer MRP on the basis of capital receipts expected in later years.
23. The Chief Finance Officer advises that provision is made to cover the costs of charging additional MRP costs, with respect to the lending to SSDC Opium Ltd in 2021/22, as this may be required after discussions with the external auditors. Whilst the council has received annual loan repayments during 2021/22 these capital receipts have been used to part finance the capital programme in 2021/22 rather than being used as a source of funding for increased MRP costs.

Other grants and contributions

24. The Council received additional grants and contributions of £568k in excess of the budget, the most significant of which are from:
 - Sports Council England - £181k;
 - The Arts Council - £165k;
 - Burial contribution - £127k;
 - National Lottery Heritage Fund - £36k;
 - The Cultural Recovery Fund - £35k.

Sales

25. Following the relaxation of COVID restrictions there have been increased visitor numbers to Ninesprings Centre, Westlands, Octagon and Yeovil Rec Galley Café. This positive recovery has meant greater demand for refreshments/meals at these outlets, which has resulted in a budget surplus of £271k.

Fees and charges

26. The fees and charges position shows a year-end surplus of £486k against the budget, the most significant of which are from:
 - Arts and Entertainment admission charges - £512k;
 - Car parking income - £247k;
 - Street cleansing - £159k;
 - Horticulture - £101k;
 - Building Control - £40k.
27. These surpluses have been offset by shortfalls in other areas. As previously reported, there is an income shortfall of £295k against legal fees and costs recovered, in the main this relates to Revenues where the debt recovery timetable has not been followed, due to staff resource being redirected to the administration of business grants.



South Somerset District Council

28. In addition to this there has also been a shortfall in rental income from commercial properties of £397k.

Investment income

29. The investment income is showing a small surplus of £32k, which is in line with the forecast in the quarter 3 budget monitoring report.

General Grants used to fund the Net Revenue Budget

30. There is an increase over budget in general grants income arising from the last Covid-19 Support Grant not being used during 2021/22.

2021/22 revenue budget outturn position for each service

31. Table Two below reflects the current and forecast budget position, for each service directorate.

Table Two: 2021/22 Net Budget Outturn Position

	Outturn Position - 2021/22		
	Budget	Actual	Variance
Chief Executive	£752,950	£886,677	£133,727
Commercial Services	£3,542,180	£3,484,731	(£57,449)
Place & Recovery	£536,960	£617,931	£80,971
Strategy & Support Services	£8,376,170	£8,623,040	£246,870
Service Delivery	£4,111,150	£3,688,417	(£422,733)
Net Budget	£17,319,410	£17,300,796	(£18,614)

(Variance column: bracketed figures = underspend / surplus income, unbracketed figures = overspend / income shortfall)

Council Tax Support and Council Tax

32. The Council Tax Support Scheme (CTS) provides for discounted tax charges to households with lower incomes. The Authority has set an estimate for 2021/22 of £10.402m within the Council Tax Base for annual CTS discounts, and total of £10.447m has been allocated as at the 31 March 2022. The cost of the 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 14.13% for 2021/22).
33. The Hardship Scheme is in place for extreme circumstances with a budget of £30k for the year. By the end of March 2022, SSDC had processed 125 applications of which 78 were successful; the amount awarded was £31.2k.



South Somerset District Council

34. The collection rate for Council Tax in 2021/22 is 95.40% compared to 95.52% for 2020/21. At the end of March 2022, the total of £13.479m of outstanding debt relating to previous years had been reduced by £3.404m.

Business Rates

35. The collection rate for Business Rates in 2021/22 is 93.38% compared to 89.62% for 2020/21. The collection rate has improved as the local economy recovered from the impact of COVID-19. At the end of March 2022, the total of £5.502m of outstanding debt relating to previous years had been reduced by £1.655k.
36. The Non Domestic Rates income that the Council collects is distributed between Central Government, SSDC, Somerset County Council, and the Fire and Rescue Authority under the Business Rates Retention funding system.
37. A Somerset Business Rates Pool (comprising the County Council and the Districts within the County Council area) has provided a positive impact on retained funding from Business Rates since 2018/19, retaining more funding locally rather than redistributed to central government. The existing pooling arrangement will remain in place through 2022/23.
38. The pooling gain relating to 2020/21 of £811k and the estimated pooling gain of £1,294k for 2021/222, have both been transferred into the Regeneration Fund earmarked reserve to provide funding for the Regeneration Programme.

Earmarked Reserves

39. The Council holds earmarked revenue reserves for a variety of good financial management reasons. Some reserves are for specific expenditure that will occur in the future, some reserves are held to mitigate possible risk, and others are reserves specifically built up over the past to help support the Medium Term Financial Plan. We also hold reserves for each Area Committee. Earmarked reserves are either revenue reserves (which can be used to fund both revenue and capital expenditure) or capital reserves which, unless the Secretary of State gives the council a specific dispensation, can only be used to fund capital expenditure.
40. Table Two below shows all the transfers that have been actioned for the year to date either under the delegated authority given in the Financial Procedure Rules or using the decisions made by Full Council at its December 2021 meeting. A detailed breakdown is given in Appendix A.



South Somerset District Council

Table Three: Transfers made (into) and out of Earmarked Reserves

Reserve Type	Balance as at 01/04/2021 £'000	Transfers		Balance as at 31/03/2022 £'000
		To £'000	From £'000	
Capital	(18,222)	(4,815)	18,038	(4,999)
Revenue	(26,524)	(8,682)	10,115	(25,092)
SSDC useable reserves	(44,746)	(13,497)	28,153	(30,090)
S31 Grant reserve	(11,704)	(3,695)	8,886	(6,513)
Total Earmarked Reserve Balances	(56,450)	(17,193)	37,039	(36,604)

(Bracketed figures = balance or transfer into reserve, unbracketed figures = transfer from reserve)

41. The S31 Grant reserve is identified separately because the balances are needed to fund forecast shortfalls in Business Rates income in 2022/23 and future years and therefore cannot be used for any other purpose.

The General Fund Balance

42. The General Fund Balance, comprises of an unallocated revenue reserve available to fund unforeseen emergencies and costs. The year-end balance is forecast to be £5.556m.
43. The current assessment of the 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 to avoid falling below recommended levels.

Summary of Overall Reserves Position

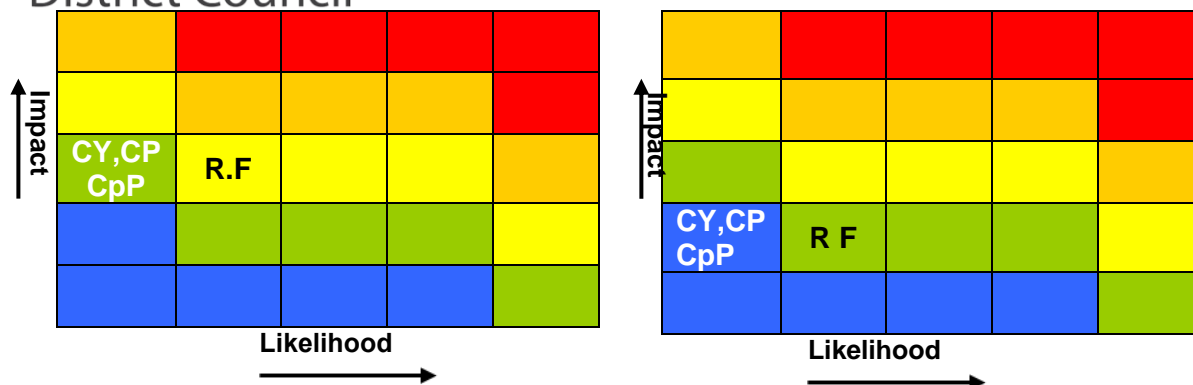
44. The Council held £60.886m in capital and revenue reserves as at the beginning of this financial year. As at 31 March 2022, the forecast year-end balance of reserves is £42.160m, this figure includes the forecast general fund balance of £5.556m and the S31 grant earmarked reserve of £6.513m.

Risk Matrix

Risk Profile before officer recommendations Risk Profile after officer recommendations



South Somerset District Council



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

Council Plan Implications

45. 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

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

Equality and Diversity Implications

47. 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

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

Background Papers

Budget Setting reports to Full Council in February 2021.

Quarter One 2021/22 Budget Monitoring report to District Executive in September 2021

Quarter Two 2021/22 Budget Monitoring report to Council in December 2021

Quarter Three 2021/22 Budget Monitoring report to District Executive in February 2022

Appendix A

Reserves	Balance as at 01/04/2021 £'000	Transfers		Balance as at 31/03/2022 £'000	Reason for transfers
		To £'000	From £'000		
Capital					
Usable Capital Receipts	(18,073)	(4,815)	18,038	(4,850)	Funding of 2021/22 capital programme as agreed by Council in Dec 2021
Internal Borrowing Reserve (Vehicle Purchases)	(149)	0	0	(149)	Will be used to fund the capital expenditure budget in 2022/23
	(18,222)	(4,815)	18,038	(4,999)	
Revenue					
Actions agreed by Council in December 2021					
Transformation Reserve	(91)	0	91	0	This reserve has now been deleted and the balance transferred to the new Somerset LGR Reserve
Somerset LGR Reserve	0	(191)	191	0	This is a new reserve that has been created, the £91k has been transferred from the Transformation Reserve and £100k has been transferred from the MTFP Support Fund The £191k has been used to cover the expenditure incurred in 2021/22 in respect of the LGR programme
Yeovil Refresh Reserve	(112)	0	112	0	This reserve has now been deleted and the balance transferred to the Regeneration Fund, as agreed by Full Council in December 2021
Regeneration Fund	(2,996)	(1,406)	1,160	(3,243)	Pooling Gains arising from SSDC being in the Somerset Business Rates Pool are transferred into the Fund. Transfers out are to fund the revenue costs of the Regeneration Programme (e.g. project management costs).
NNDR Volatility Reserve	(4,592)	0	4,593	0	This reserve has now been deleted and the balance transferred to the MTFP Support Fund, as agreed by Full Council at its meeting in December 2021
Medium Term Financial Plan Support Fund	(4,879)	(4,579)	596	(8,862)	Transfer into this reserve comprise of the New Homes Bonus grant (£1.2m) as agreed in the February 2021 Budget Setting report to Full Council and deletion of the NNDR Volatility Reserve with balances transferred into here as agreed by Full Council in December 2021. Expenditure funded by the reserve includes: £262k into the climate change reserve, £100k into the LGR reserve, £107k to fund the S151 Officer post, and £110k for the Kick Start Project.
Area Committee Reserves	0	(113)	0	(113)	The Area Committee balances have been transferred from the General Fund Balance as agreed by Full Council in December 2021
Deposit Guarantee Claims Reserve	(13)	0	13	0	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Park Homes Replacement Reserve	(286)	(30)	317	0	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Planning Obligations Admin Reserve	(30)	0	30	(0)	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Health Inequalities	(32)	0	31	(1)	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Insurance Fund	(50)	0	50	0	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Other reserve transfers					
Capital Reserve	(929)	(140)	918	(151)	This reserve was partially used to fund capital expenditure in 2021/22 as agreed by Full Council in December 2021
Cremator Replacement Capital Reserve	(549)	0	0	(549)	This reserve will be used in 2022/23 to part fund the capital budget for the Yeovil Crematorium Project
Internal Capital Loan Repayments	(321)	(99)	420	0	The balance on this reserve has been transferred to the MTFP Support Fund
Election Reserve	(214)	(40)	0	(254)	2021/22 Annual contribution to reserve
Sports Facilities Reserve	(51)	0	41	(10)	
Yeovil Athletic Track Repairs Fund	(198)	(19)	0	(216)	2021/22 Annual contribution to reserve
Planning Delivery Reserve	(16)	0	16	(0)	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Bristol to Weymouth Rail Reserve	(72)	0	72	0	This reserve has now been closed. The money has been returned, as SSDC was holding money under conditions.
IT Replacement Reserve	(10)	0	0	(10)	This will be used in 2022/23 to part fund the relevant projects within the 2022/23 approved capital programme
Treasury Management Reserve	(750)	0	0	(750)	This reserve continues to be held to provide funds to cover any potential losses in treasury pooled funds (special investments)
Revenue Grants Reserve	(525)	(16)	142	(399)	Funding of Localities projects in year.
Revenues and Benefits Reserve	(1,291)	(118)	168	(1,240)	Funding for transitional resources less new burdens grant received transferred to reserve
Closed Churchyards Reserve	(19)	0	19	0	This reserve has now been deleted and the balance transferred to the General Fund Balance as agreed by Full Council in December 2021
Artificial Grass Pitch Reserve	(162)	(16)	0	(177)	2021/22 Annual contribution to reserve
Business Support Scheme (Flooding)	(101)	0	19	(82)	Transfer to fund the cost associated with the River Parrett trail
Ticket Levy Reserve	(120)	0	(132)	(252)	Ticket levies to reserve movement
Waste Reserve	(100)	0	0	(100)	
Community Housing Fund	(170)	0	153	(18)	
Community Safety Reserve	(43)	0	19	(25)	Funding of the Yeovil One Co-ordinator
Housing & Homelessness Reserve	(441)	(258)	163	(537)	Funding for temporary staff in 2021/22
Commercial Investment Risk Reserve	(6,606)	(113)	0	(6,719)	Approved 5% transfer to risk reserve in respect of rental income received from property portfolio. £3m of the balance will be transferred into the General Fund Balance in 2022/23 as agreed by Full Council in December 2021. Part of the remaining balance will be used to fund capital works approved in the capital programme on existing commercial property stock.
Spatial Policy Reserve	(258)	(49)	166	(141)	Transfer of Neighbourhood Planning Grant into reserve, less funding for planning post
YIC Maintenance Reserve	(40)	(20)	0	(60)	2021/22 Annual contribution to reserve
Climate Change Fund	(167)	(262)	163	(266)	Funding of staff involved in this project and an increase in the reserve funding from the MTFP Support Fund
Community Initiatives Reserve	(163)	(522)	303	(382)	Funding of Yr2 Somerset Families Programme as agreed by District Executive in October 2021
Community Resilience Reserve	(126)	(247)	282	(91)	Grants allocated to fund future community resilience projects
Business Rates S31 Grants Collection Fund	(11,704)	(3,695)	8,886	(6,513)	This reserve holds the S31 grant provided by Government to compensate the Council for the reduced business rates income following the introduction of Retail Discount Relief in 2020/21. The transfer from reserves offsets the forecast NNDR deficit in the 2021/22 accounts. The transfer to reserves is S31 grant received in 2021/22 that will be used to offset any future year deficits. £3m of the balance will definitely be used in 2022/23.
MRP Reserve	0	(444)	0	(444)	Transfer to reserve to cover potential additional MRP
Revenue Reserves Balance	(38,228)	(12,378)	19,001	(31,605)	