

2022/23 Revenue Budget Monitoring Report for the Period Ending 30 September 2022 and Revised Estimates for 2022/23

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Purpose of the Report

1. The purpose of this report is to provide District Executive with the current forecast of spending and income against the Council's approved Revenue Budget for the financial year ("outturn"), to explain estimated variations against budget, and to propose Revised Estimates to Full Council for the 2022/23 revenue budget including proposals to balance the budget. This report should be read alongside the Capital Budget Monitoring Report also on District Executive's agenda.

Public Interest

2. 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

3. That the District Executive:
 - a. Noted the cost pressures being forecast against the approved 2022/23 revenue budget as set out in Table One.
 - b. Noted the measures being proposed by Senior Leadership Team to fund these cost pressures to bring the budget to a balanced position as set out in Table Two.
 - c. Noted the forecast year-end reserves position shown in Appendix A.
 - d. Agreed the virement of £140k from salaries Commercial Property Staffing Underspend to Commercial Property – Contract Agreed with Somerset County Council in May 2022 for support on managing the facilities management of SSDC occupied buildings.
 - e. Recommends to Council the Revised Estimates for 2022/23 which assume that the funding proposals (as set out in Table Two of this report) and the proposals set out in the Capital Budget Monitoring Report (also on this Executive Committee's agenda) are approved. The Revised Estimates are given in Table Three and analysed between service areas in Table Four.



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- f. Recommends to Council the use of £66,950 from the Medium-Term Financial Plan Reserve to address in-year budget pressures.

Background

4. The 2022/23 original net budget of £19.714m was approved by Council in February 2022. This represents the financial plans that the Executive manages, under their delegated authority and in accordance with the Financial Procedure Rules. All the Council's income and expenditure has a responsible budget holder.
5. The first quarter's budget monitoring report advised District Executive that there were budget pressures totalling an estimated £1.6m arising from the National Pay Award, increasing interest rates, increasing cost of living pressures, and a projected overspend in the commercial property budget. The report further advised that the situation would be updated at quarter two and that the Senior Leadership Team would make proposals to deliver a balanced outturn by year-end.
6. The projected position has significantly changed since that initial forecast was reported at Quarter 1, and now requires Revised Estimates to be approved by Full Council as required by the Scheme of Delegation and Financial Procedure Rules.

Summary of the Current Financial Position and Forecast Outturn

7. The normal process of budget monitoring involving budget holders and finance specialists has been enhanced for this quarter to include deep dive reviews by finance and management on focused areas of the budget. This has resulted in us being able to better identify areas of the budget which are under pressure and require budget increases and areas where savings can be made and/or alternative sources of finance can be applied. This work has also included an in-depth review of the capital programme, the outcomes of which are detailed in the Capital Budget Monitoring Report on this District Executive's agenda. The proposals contained within that separate report impact significantly on the financing charges revenue budget hence it is important that Members are aware of the linkage between the two reports. Table One of this report shows the impact on the forecast outturn for 2022/23 and Table Two shows how the recommended mitigating actions delivers the budget to the target agreed by Council in February 2022.
8. Changes primarily relating to the rapid change in economic conditions since the Original Approved Budget was agreed in February 2022 mean that the Council faces increased cost pressures in several areas of the budget (shown in Table One). These total £3.023m. A detailed explanation of each is given in relevant paragraphs later in the report. Members should note that the forecasts are the gross costs of these pressures. They are not netted-off against potential additional income or other mitigating factors. These are set out in Table Two. For instance, there are additional anticipated costs in Commercial Property shown in Table One that are partially offset by the recharging of some of these extra costs to tenants.



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9. Senior Leadership Team is proposing that the budget pressures are funded through a mixture of measures comprising of forecast savings, use of specific earmarked reserves, changes to the capital programme (resulting in savings in financing charges), and other measures as shown in Table Two below.

Table One: Identified cost pressures

Budget Area	£	Comments	Paragraph
Property Services Budget	1,030,000	Gross increases in rent payable, service charges, insurance costs, consultants' fees & provision of facilities management services from Somerset County Council	Para 21 and Table 5
Pay Award and Members Allowances	725,530	Cost of agreed pay award above Feb 2022 Budget assumptions on full establishment & indicative increase in Members' Allowances	Paras 14 to 18
Fuel & Utility Costs	194,000	Inflation on costs above Feb 2022 Budget assumptions	Para 19
Financing Charges	1,134,200	Gross increase in costs arising from rapid rise in interest rates along with MRP cost increases and assuming Feb 2022 approved Capital Budget is wholly spent	Paras 28 to 36 & Q2 Capital Budget Monitoring Report
Somerset Waste Partnership	79,000	Increase in cost for container purchase and delivery - SSDC's share	Paras 24 to 25
TOTAL	3,162,730		

Table Two: Proposed Funding measures

Proposed measure	£	Comments	Paragraph
Pay Award savings Assumption	-60,000	Given current vacancy rate assumption that all the Pay Award will not be needed	Para 16
Staff Turnover savings assumption	-100,000	Given current vacancy rate assumption that there will be a budget underspend	Para 16
Investment Income	-92,000	Increase in income from Treasury Management Pooled investments	Para 37
Yeovil Innovation Centre	-55,000	Additional rental income	Para 21
Operational Property Income	-106,000	Additional rental income	Para 21
Mileage Allowances	-76,000	Underspend of £60k to date, projection assumes trend continues.	Para 22
Financing Charges	-137,270	Impact of removal of capital projects from the programme and slippage into 2023/24.	Para 33
IT Budgets	-150,000	Savings from hardware and software maintenance with additional hardware and software running up to LGR being financed by Capital Budget. Savings in equipment, tools and materials budget	Para 23
Commercial Property	-1,013,430	Additional rental income and adding in service charges income budget line	Para 21



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Proposed measure	£	Comments	Paragraph
Somerset Waste Partnership	-713,000	SSDC's share of underspends and additional income on recycling credits	Paras 24 to 26
Savings in the Employees budget	-541,000	These represent savings made to date	Para 17
Other smaller proposed savings	-52,080	£28k savings in virtual meetings budget, £24k saving in Finance consultancy	Para 23
Use of earmarked Reserves	-66,950		Para 49
TOTAL	-3,162,730		

10. The net budget forecast outturn before the application of the MTFP support fund is shown in table three by type of expenditure and income. Table four shows the same information by service area.

Table Three: Revised Expenditure and Income analysis

	Approved Original Budget	Revised Estimate	Change
<u>Expenditure</u>			
Employees	£21,857,650	£21,853,080	(£4,570)
Premises	£3,457,660	£4,338,660	£881,000
Transport	£815,420	£739,420	(£76,000)
Supplies & Services	£9,718,550	£9,794,050	£75,500
Third Party Payments	£18,780,850	£18,286,850	(£494,000)
Housing Benefits payments	£27,348,150	£27,348,150	£0
Capital Financing	£1,219,280	£2,170,730	£951,450
Revenue Reserve transfers	(£1,296,780)	(£1,296,780)	£0
	£81,900,780	£83,234,160	£1,333,380
<u>Income</u>			
Government grants	(£38,619,920)	(£38,619,920)	£0
Other grants and contributions	(£1,159,240)	(£1,159,240)	£0
Sales	(£2,182,830)	(£2,182,830)	£0
Fees and charges	(£17,738,690)	(£18,913,120)	(£1,174,430)
Investment income	(£2,485,780)	(£2,577,780)	(£92,000)
Gen Govt Grants & LA Taxation	£0	£0	
	(£62,186,460)	(£63,452,890)	(£1,266,430)
Net Budget	£19,714,320	£19,781,270	£66,950

Table Four: Revised Estimates by Directorate

	Approved Original Budget	Revised Estimate	Change
<u>Directorate</u>			
Chief Executive	£1,949,580	£1,948,570	(£1,010)
Commercial Services	£2,736,700	£2,089,270	(£647,430)
Place & Recovery	£532,200	£499,610	(£32,590)
Strategy & Support Services	£10,292,500	£11,151,850	£859,350
Service Delivery	£4,203,340	£4,091,970	(£111,370)
Net Budget	£19,714,320	£19,781,270	£66,950

11. The budget is analysed by categories of expenditure and income and written explanations of each are given in the paragraphs that follow.
12. The year-to-date net spend position of £6.22m suggests an underspend of some £3.5m against the profiled year to date budget, however whilst there is significant underspending in the staffing budget of some £1.2m the rest of the variance to-date is a result of cash flow and timing differences which do not impact on the forecast year-end position.

Analysis of Expenditure and Income budget areas

Employees

13. **National Pay Award:** The 2022/23 pay award has recently been agreed by the employers and unions and comprises the following:
 - With effect from 1 April 2022, an increase of £1,925 on all NJC pay points 1 and above
 - With effect from 1 April 2022, an increase of 4.04 per cent on all allowances (*as listed in the 2021 NJC pay agreement circular dated 28 February 2022*)
 - With effect from 1 April 2023, an increase of one day to all employees' annual leave entitlement
 - With effect from 1 April 2023, the deletion of pay point 1 from the NJC pay spine.
14. The impact on the Council's budget, assuming a full staff establishment, is an additional £0.696m over and above what was agreed at Council in February 2022.
15. It may be that this increase will be mitigated to some extent by the Council's vacancy rate which is expected to increase as Vesting Day for the new authority approaches. Based on the current vacancy rate of 17% an assumption has been made that £60k of the forecast increase will not be incurred in 2022/23. Recruitment is underway in several areas, in compliance with the LGR agreed



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staffing protocol, and Senior Leadership Team does not recommend that these recruitments should be halted.

16. A review of underspending already achieved-to-date suggests that £541k can be taken out of the employee's budget: £281k in Service Delivery, £55k in Strategy & Support, and £205k in Commercial Services. We have also assumed a modest (£100k) underspend at the year-end due to vacancies not being filled.
17. **Members Allowances:** The forecast increase in Members' allowances of £29,100 above the budget agreed in February 2022 assumes an increase of 5.60%. This figure has not yet been finalised.

Premises and property services

18. **Utility Bill increases:** At this stage the full effect of the utility price increases is difficult to forecast to year-end, especially since we are not yet in the coldest winter months. These budgets will therefore be monitored closely in the coming months. The current cost pressure of £0.194m (see Table One) is based on the most up-to-date information available the time of writing.
19. **Property Services:** A deep dive review has identified that certain budgets associated with holding the commercial property portfolio are not in line with actual spend or have historically not been included in the approved base budget. As a result, there is currently a forecast year end gross cost pressure of £1.030m as detailed in Table Five below.
20. Members are advised that some of these additional costs *i.e.* service charges (£0.295m) and Insurance premiums (£0.05m) can be recharged to Tenants. In addition, the deep dive review has confirmed additional commercial rent income from rent renewals, lease re-gearing and 'grossing up' of £668k. After including these items, the overall net budget position for property services is an underspend of £123k.

Table Five: Net budget impact in property services budgets

Cost / Income Item	£000	Comments
Rents Payable	370	Rents payable on leasehold assets within the Council's property portfolio & agents fees
Property Management	140	Contract agreed with Somerset County Council in May 2022 for the provision of facilities management services in respect of SSDC occupied buildings (see Recommendation D)
Service Charges	295	Service charge costs for properties with multiple tenancies
Insurance Premiums	50	Insurance premiums have increased above the level anticipated in the original budget
Consultancy Fees	175	Largely reflects the recoverable expenditure on management costs (e.g., lease renewals) and dilapidation payments
SUB TOTAL	1,030	



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LESS:		
Recharges to tenants	-345	Service charges and insurance premiums.
Property Management Staffing Underspend	-140	Underspend on employee budgets (vacant posts), this will cover the cost of the contract agreed with SCC agreed in May 2022 (see Recommendation D).
Additional Commercial Rent	-668	Additional income from portfolios, rent renewals, lease regear and 'grossing up'
SUB TOTAL	-1,153	
NET POSITION	-123	

Transport

21. The underspend on staff mileage allowances to the end of September is £60k. The forecast underspend to year-end of £76k (see Table Two) anticipates an increase in claims over the second part of the year but that the revised budget can be reduced by £76k.

Supplies and Services

22. This category of expenditure covers a wide range of costs. Specific savings proposals are being proposed for:
- Democratic Services: £28k arising from an underspend on the budget for virtual meetings.
 - IT Budgets: £150k comprising: £70k on the maintenance of hardware and software; £65k due to most requirements for additional hardware and software running up to LGR being financed by Capital funds; and, as a result, a £15k budget for equipment, tools and materials that is no longer required.
 - Finance costs: £24k in consultancy and publications budgets.

Third Party Payments

23. **Somerset Waste Partnership (SWP) Forecast Outturn:** Overall, the end of October (Month 7) position shows that the SWP budget is forecast to be underspent by £3.101m. This represents 6.3% of the original budget. The savings expected can be explained further as follows:
- Recycle More now fully rolled out and savings and savings forecast of £2.759m (SCC: £1.100m and Districts £1.659m).
 - Savings on Covid-19 costs in Districts of £0.320m.
 - Savings on year-end accruals for the County Council Disposal contract (£0.290m), net of additional costs of timber disposal at HWRC sites (£0.263m).



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24. The SSDC share of the forecast outturn surplus as calculated by the Somerset Waste Partnership (SWP) is set out in Table Six below:

Table Six: SSDC's share of cost increases and savings from SWP

	Cost Pressure/ (Saving) £000
Collection Costs	(465)
Recycling Credits	(153)
Covid-19	(93)
Other Savings	(2)
Additional Cost Pressure of Container Purchase and Delivery	79
NET SAVING ON CURRENT BUDGET	(634)

25. The year end forecast for other items included in this category is anticipated to be on budget and therefore no Revised Estimates are proposed in this area. The current position as at quarter 2 shows an overspend, against the profiled budget but this is mainly a timing issue related to Council Tax Rebate payments. In total, the Council has received £9.3m funding for these payments and to date has a spend of £8.4m.

Housing Benefit payments

26. At this stage the budget is showing an underspend caused by timing issues, the forecast year end position is in line with the current budget and therefore no adjustments to estimates are proposed for this area.

Capital financing costs

27. **Impact of increases in Interest Rates:** Since the budget was set in February 2022 the Bank of England have increased interest rates at each of their meetings as set out in Table Seven. The base rate in February 2022 was 0.5% with the budget assumption of the rate rising to 1% during this financial year (as advised by our Treasury Management advisers Arlingclose). At the time the Council set its budget for 2022/23 its assumptions for inflation and interest rates were based on best market forecasts provided by the Council's external advisors. Since then a number of unforeseen factors (e.g., war in eastern Europe, economic disruption and loss of market confidence) have led to increased costs of supplies and services as well as explaining the rapid rise in the Base Rate.

Table Seven: Increases in Bank of England Base Rate

Date of increase	Increase	Base rate
17 March 2022	0.25%	0.75%
5 May 2022	0.25%	1.00%
16 June 2022	0.25%	1.25%
4 August 2022	0.50%	1.75%
22 September 2022	0.50%	2.25%
3 November 2022	0.75%	3.00%

28. The Bank of England's Monetary Policy Committee (MPC) sets the Bank Base Rate in order to influence the national economy to meet the government's 2% inflation target. At its meeting on 3 November 2022, the MPC voted by a majority of 7–2 to increase Bank Rate by 0.75 percentage points, to 3%. CPI inflation is currently 11.1% in October 2022.
29. In the MPC's central projection, CPI inflation starts to fall back from early next year as previous increases in energy prices drop out of the annual comparison. CPI inflation is projected to fall sharply to some way below the 2% target in two years' time, and further below the target in three years' time.
30. The impact of the increase in the bank rate affects both the council's interest payable on debt and the interest income it receives on its investments. In terms of interest payable, this is dependent on the level of current and future external debt of the council. This in turn depends largely on the amount of expenditure incurred on the capital budget that is planned to be funded from borrowing.
31. If the currently agreed capital budget of £51m were to spend by year end, the cost pressure arising from the increase in interest rates would be some £0.682m on top of the current financing charges budget of £1.125m.
32. However, if the proposals that are made in the Q2 capital budget monitoring report are approved, regarding the removal of capital budgets that are no longer needed, or for projects that are proposed to be paused, as well as the slippage of current year budgets to future years, a reduction to this cost pressure of £0.137m can be made.
33. **Increase in MRP costs and brokerage fees:** An increase in MRP (Minimum Revenue Provision) costs of £357k and debt brokerage fees (£46k) is required. The MRP increase is required due to the proposed refinancing of the capital programme and minor amendments in the useful life assumptions required to calculate the costs.
34. **Alleviating Somerset Council's budget position in 2023/24:** The new authority's implementation Executive has requested that all 5 Councils consider whether they can protect revenue resources when financing their capital budget programmes.

35. The Q2 capital budget monitoring report elsewhere on the agenda proposes that £4.664m of revenue earmarked revenue reserves originally intended to fund 2022/23 capital expenditure are retained and replaced by long term borrowing (this adds an extra £50k to the capital financing charges budget for this financial year).
36. **Treasury Management Pooled Investments**: An increase in income of £92k by year end is forecast to arise from the Council's Treasury Management investments.

Government Grants

37. There is a year-to-date budget variance of £1.1m for Housing Benefits Subsidy that the Council receives towards the Housing Benefit payments. The subsidy is paid based on an estimate of the value of payments that will be made during the year and is paid over to the Council in monthly instalments. Any shortfall in income received during the year will be recouped at the end of the financial year once the final claim is submitted. The expectation is that the budget for Housing Benefit Administration will be as agreed in the original 2022/23 budget.

Other grants and contributions

38. Income received from other grants and contributions is currently on budget. The variance is the result of this timing issue and in most cases the income due was received in October.

Sales and rental income

39. There is currently a small surplus shown in sales income of £42k, and the forecast sales income is broadly in line with the budget.
40. Additional rental income outside of the commercial property portfolio of £161k will be added into the Revised Estimates comprising an increase for renting out part of Brympton Way (£106k) and increases at the Yeovil Innovation Centre (£55k).

Budget Virements

41. District Executive has delegated authority to approve virements between activities/services/projects within the overall approved net budget total and have further delegated this authority as set out in the table below which is included in section 3.4 of the Financial Procedure Rules.

Authoriser	Limit	Finance advice required from
Budget Holder	£25,000	Specialist – Finance
SLT Member	£50,000	Lead Specialist Finance
Portfolio Holder	£100,000	S151 Officer
District Executive	Greater than £100,000	S151 Officer



42. There are no virements greater than £100,000 requiring District Executive approval in the period July to September 2022. Recommendation D of this report asks District Executive to agree the virement of £140k from the salaries budget in Commercial Services to the third party payments budget in the same directorate. This is in respect of the contract for the provision of facilities management services agreed with Somerset County Council in May 2022.

Council Tax Support and Council Tax

43. The Council Tax Support Scheme (CTS) provides for discounted tax charges to households with lower incomes. The Authority has set an estimate for 2022/23 of £10.918m within the Council Tax Base for annual CTS discounts, and total of £10.224m has been allocated as at the 30 September 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 2022/23).
44. The Hardship Scheme is in place for extreme circumstances with a budget of £36,600 for the year. By the end of September 2022, SSDC had processed 44 successful requests and the amount awarded was £18,882.
45. The in-year collection rate for Council Tax for this time period is 54.79% for 2022/23 compared to 54.12% for the same period last year. At the end of September 2022, the total of £16.807m outstanding debt relating to previous years had been reduced by £2.8m.

Non-Domestic Rates

46. The in-year collection rate for Non-Domestic Rates for this time period is 55.24% for 2022/23 compared to 49.45% for the same period last year. At the end of September 2022, the total of £7.089m outstanding debt relating to previous years had been reduced by £2.097m.
47. 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. The shares for 2022/23 are Central Government 50%, SSDC 40%, SCC 9%, Fire 1%.

Reserves Position

48. Recommendation f. of this report asks District Executive to recommend to Council the use of £66,950 from the Medium-Term Financial Plan Support Reserve to address in-year budget pressures. This is effectively a balancing item at Q2 to deliver a balanced outturn at year end.
49. Details regarding the earmarked and General Fund Balance position are given in appendix A.

Financial Risks

50. As part of budget monitoring, and revised budget setting, an assessment of financial risks needs to be made. This assessment is detailed in Table 8 below with an update from the responsible officer.

Table Eight: Financial Risks

Current Risk	Responsible Officer	Officer's Update
Interest Rates	Chief Finance Officer	Interest rates are anticipated to continue to increase for the remaining part of the financial year as explained in this budget monitoring report. A rise in interest rates increases the cost of borrowing but a positive impact will be seen on the return on the Council's investments. But the former is larger than the latter. Proposals made in the Q2 Capital Budget Monitoring report, if approved, will reduce the impact of the rising rates on the revenue budget. Proposals have recently been received by the CFO from Arlingclose in consultation with Somerset County Council proposing options to mitigate this risk. These will be reviewed as soon as possible.
Cost of living and inflation	Senior Leadership Team	<p>Senior Leadership Team will continue to assess the impact of the cost-of-living crisis on budgets and services.</p> <p>Leisure Contract – the sharp increase in utility costs (combined with an increase in national minimum and living wage and consumables), is presenting a significant new financial pressure for our leisure operator which may in turn impact negatively on the Authority's leisure budgets over time. The Council's operator is proactively taking steps to manage the impact on the South Somerset contract and is in the process of undertaking a financial modelling exercise to review management fee projections. Any new financial implications arising will be reported at a later date, but members should note the potential budgetary risk.</p> <p>Nationally the leisure sector is under immense strain given the current economic climate. Some operators are already running facilities on reduced opening hours or have taken other measures such as reducing pool temperature to help manage costs so that facilities can remain open. Therefore this risk is not peculiar to the South Somerset contract.</p>
Business Rate Income	Director-Service Delivery	The collection rate is up 5.79% compared to the same period in the previous year quarter 2. This is a volatile measure affected by the timing of summonses and payments made by large businesses. There is an increased risk of collection in a time of adverse economic conditions but that has not been evidenced thus far in 2022/23.
The Council Tax Support Scheme	Director-Service Delivery	The original budget for 2022/23 is £10.918m and a total of £10.224m has been awarded as at 30 September 2022. If costs exceed the assumption in the Council Tax Base this risks a deficit in the Collection Fund to be paid in subsequent years in proportion to preceptors' 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 2023.



Council Plan Implications

51. The budget is closely linked to the Council Plan, 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

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

Equality and Diversity Implications

53. 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

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

Background Papers

55. Budget Setting reports to Full Council in February 2022.