

2022/23 Revenue Budget Monitoring Report for the Period Ending 31 December 2022

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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 2 March 2023.

Public Interest

3. This report gives a forecast of the revenue budget variations for the 2022/23 financial year and provides explanations in respect of the significant 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 variances being forecast against the 2022/23 revenue budget as set out in Table One.
 - b. Notes the forecast year-end reserves position shown in Appendix A.

Background

6. 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.
7. 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



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Award, increasing interest rates, increasing cost of living pressures, and a projected overspend in the commercial property budget.

8. The projected position has changed significantly since the initial forecast was reported and the quarter two budget monitoring process included a review by finance and management on focused areas of the budget. The reviews resulted in the identification of areas of the budget which were under pressure and required budget increases and areas where savings could be made and/or alternative sources of finance can be applied.
9. The budget pressure identified as part of the review was £3.023m, this budget gap was fully funded by underspends on budgets across all directorates with a small amount of earmarked reserve usage required (£66,950 – MTFP Support Fund). Full Council approved the revised budget on 15 December 2022.
10. There is no proposal to revise budgets in quarter three, but budget holders have forecast the year end variance for their respective areas based on the 2022/23 revised budgets approved at Full Council in December.

Summary of the Current Financial Position and Forecast Outturn

11. A summary of the budget position is shown below in Table 1, the budget is analysed by categories of expenditure and income and provides a forecast outturn for 2022/23.
12. As at the end of December 2022 the forecast revenue budget position is an underspend at year end of £417,460, which is a 2.11% variance. The year-to-date position suggests an overspend of some £0.073m

	Year to date - April to December 2022			Forecast Outturn 2022/23		
	Budget	Actual	Variance	Approved	Forecast	Variance
Expenditure						
Employees	£16,466,642	£15,810,362	(£656,280)	£21,835,080	£21,357,970	(£477,110)
Premises	£3,442,627	£3,007,291	(£435,337)	£4,366,660	£4,189,800	(£176,860)
Transport	£488,105	£551,893	£63,788	£725,220	£804,020	£78,800
Supplies & Services	£6,899,066	£7,629,544	£730,477	£9,879,250	£10,525,350	£646,100
Third Party Payments	£16,092,337	£15,278,741	(£813,596)	£18,358,850	£18,258,040	(£100,810)
Housing Benefits payments	£20,511,113	£18,683,431	(£1,827,681)	£27,348,150	£27,348,150	£0
Capital Financing	£1,392,615	£234,095	(£1,158,520)	£1,951,210	£1,691,980	(£259,230)
Revenue Reserve transfers	(£1,606,835)	(£1,187,291)	£419,544	(£1,077,260)	(£421,870)	£655,390
	£63,685,670	£60,008,065	(£3,677,605)	£83,387,160	£83,753,440	£366,280
Income						
Government grants	(£31,425,050)	(£25,230,438)	£6,194,612	(£38,619,920)	(£38,687,040)	(£67,120)
Other grants and contributions	(£359,360)	(£555,504)	(£196,144)	(£1,159,240)	(£1,656,840)	(£497,600)
Sales	(£1,673,567)	(£2,565,516)	(£891,950)	(£2,182,830)	(£2,182,830)	£0
Fees and charges	(£14,234,182)	(£15,487,882)	(£1,253,700)	(£19,066,120)	(£18,670,010)	£396,110
Investment income	(£1,212,459)	(£1,314,621)	(£102,163)	(£2,577,780)	(£3,192,910)	(£615,130)
	(£48,904,618)	(£45,153,962)	£3,750,656	(£63,605,890)	(£64,389,630)	(£783,740)
Net Budget	£14,781,052	£14,854,103	£73,051	£19,781,270	£19,363,810	(£417,460)

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



13. Table 2 below reflects the current and forecast budget position, analysed by service directorate.

Table 2	Year to date - April to December 2022			Forecast Outturn 2022/23		
	Budget	Actual	Variance	Approved	Forecast	Variance
Chief Executive	£872,383	£942,579	£70,197	£1,948,130	£2,062,710	£114,580
Commercial Services	£1,620,051	(£211,546)	(£1,831,597)	£2,078,190	£2,418,970	£340,780
Place & Recovery	£739,542	£784,455	£44,912	£546,750	£544,630	(£2,120)
Strategy & Support Services	£8,516,378	£5,997,260	(£2,519,118)	£10,903,430	£9,829,120	(£1,074,310)
Service Delivery	£3,032,699	£7,340,820	£4,308,121	£4,304,770	£4,508,380	£203,610
Net Budget	£14,781,052	£14,853,568	£72,515	£19,781,270	£19,363,810	(£417,460)

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

14. Managers have provided a forecast of expenditure and income for the year, in order that any potential variances are identified and reported, the key variances are outlined below.

15. At the February District Executive meeting, the committee consented to the request from the Council's partly owned company, SSDC Opium Power Limited, to distribute the half-year profit generated in 2022/23 as a dividend. The projected year underspend of £417k includes the Council's share of this dividend.

Employees

16. The budget is currently showing a significant underspend due to several posts remaining vacant across the authority. With a quarter of the financial year remaining the number of vacant posts is expected to remain at a similar level. Any posts that become vacant will be reviewed in line the with LGR recruitment protocol.

17. The spend on agency staff has increased during the year due to challenges of recruiting due to LGR. The underspend to date, and the year end figure is the variance after taking account of the additional cost incurred when using agency staff.

Premises

18. There is anticipated to be a small underspend in respect of premises insurances at year end. The budgets in respect of utilities were revised due to the increasing costs which were widely anticipated, the spend to date and the forecast for the year is expected to remain within the allocated budget.

Transport

19. The budgets are currently showing an overspend and the year end position assumes that the budget will be exceeded. With the cost of fuel remaining high, the spend in this area is difficult to predict due to the ongoing price fluctuations.

20. However additional expenditure has been incurred in respect of purchase of equipment, these purchases cannot be capitalised due to the low value but in this budget will be exceeded at year end.

Supplies and Services

21. This category of expenditure covers a wide range of costs and the current overspend of £646k shown at the end of the third quarter is a combination of several factors including:

- There are running costs in respect of the elections in May 2022 of £309k, however the income to offset this overspend has been received from Somerset County Council and the relevant Parish Councils so the net position is nil.
- There is additional spend in respect of consultants and legal fees.
- There is additional spend in respect of network charges, software and hardware maintenance. An element of the additional costs has been partially offset by underspends on rental and copy charges, and telephony related costs.
- Additional costs have been incurred in respect of the 2020/21 external audit of accounts. The final audit fee has been reviewed and agreed by the Public Sector Audit Appointments board and the additional costs have been included in the figures being reported.
- Funding from earmarked reserves (£235k) has also reduced the overspend further.

Third Party Payments

22. Although the position as at 31 December shows an underspend, this is 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 £8.5m.

23. Other spend in this group relates to the contractual payments to the Leisure facilities contractor and payments in respect of Somerset Waste Partnership.

24. The budget in respect of Waste and Recycling was revised as part of the quarter two budget review. The budget was revised to incorporate the projected underspend for the Council as advised by the waste partnership. Based on the figures provided in December, there is an anticipated increase in the spend for the year which has resulted in a projected overspend of in the region of £117k.

Housing Benefit payments

25. As at 31 December the budget is showing an underspend of £1.828m, which is likely to be caused by timing issues, the forecast position is in line with the budget at year end.

Capital financing

26. There is currently an underspend on the capital financing budgets as at 31 December, this is due to the profiled budget being incorrect. The budget profile will be revised to reflect the anticipated expenditure for the remaining part of the financial year.
27. The budget in respect interest payable on external borrowing was increased to reflect the interest in increase rates and the level of external borrowing that is required to fund an element of the capital programme. Whilst higher rates of interest are being incurred, the level of external borrowing is less than anticipated.

Revenue Reserve transfers

28. The approved budget included a significant amount of funding from earmarked reserves to fund various expenditure items. These would generally be to fund employee costs or project expenditure. The required funding from the various reserves is less than anticipated due to posts being vacant or the project work not progressing as anticipated. The unused funding will remain in the earmarked reserve and will transfer to the new authority from 1 April 2023.

Government Grants

29. The budget variance to date of £6.1m relates to Housing Benefits Subsidy that the Council receives towards the Housing Benefit payments. The subsidy is paid based on an estimate of the value of housing payments that will be made during the year. Any shortfall in income received during the year will be recouped at the end of the financial year once the final claim is submitted.

Other grants and contributions

30. Much of the year end variance in this area is in relation to the grant received to the fund the spend on the cost of elections held in May 2022.

Fees and charges

31. The year end variance in respect of fees and charges relates to a shortfall of income from planning application fees and the income receivable in respect of the contract for maintenance of housing association land.

Investment income



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32. The investment income is anticipated to be higher than the budget with a surplus of £615k. Most of the additional income is in respect of the share of the dividend payment from the Council's partly owned company (see paragraph 15).

Budget Pressures – Interest Rates and Pay Inflation

33. There continues to be a number of budget pressures that are known, the review of the revenue budgets as part of quarter two budget monitoring identified the anticipated additional budget requirements for these areas. The Senior Leadership Team and budget holders have continued to monitor these areas and variances have been forecast where an additional pressure is anticipated over and above the approved budget.
34. Additional narrative on each of these areas of pressure are described further below.

Increasing Interest Rates

35. The Bank of England have increased interest rates from 0.75% at the start of the 2022/23 financial year to the current rate of 4.00% as at 3 February 2023. The Council's treasury management advisors released their economic and interest rate forecast after the latest Monetary Policy Committee at which the Bank of England increased interest rates by 0.50% to the current rate.
36. The advisors are forecasting a further rise in the bank rate to 4.25% in March 2023. The advisors are currently expecting the MPC to cut interest rates in the first quarter of 2024 with a rate of in the region of 3% expected by 2025. It should be noted that the timing and the extent of the rates cut remains highly uncertain.
37. 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 investment. In terms of interest payable, this is dependent on the level of current and future external debt of the council. This in turn depends on the amount of expenditure incurred on the capital budget. The latest forecast is that external borrowing will be in the region of £149m at the end of the 2022/23 financial year.
38. Based on the projected interest rates provided by the Council's advisors and the estimated external borrowing requirement, the interest payable on external debt for 2022/23 is projected to be in the region of £1.460m. The 2022/23 revised revenue budget for interest payable is £1.856m.

Local Government Pay Award

39. The 2022/23 pay award has been agreed and implemented, the budget pressure was included in the revised budgets approved in December 2022. The 2022/23 approved revenue budget included an assumption that the pay award would be 2%. The agreed pay award was structured differently and included a £1,925 increase on all points in the pay scales. The financial impact of this proposal was an estimated budget pressure of £0.696m.

Budget Virements

40. 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

41. All budget virements above £50,000 will be reported to District Executive in the quarterly budget monitoring reports for information and transparency.
42. There are no virements greater than £100,000 requiring District Executive approval in the October to December 2022 period. There were no budget virements greater than £50,000 that require noting in the same reporting period.

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 £10.232m has been allocated as at the 31 December 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 December 2022, SSDC had processed 141 successful requests and the amount awarded was £32,330.
45. The in-year collection rate for Council Tax for this time period is 80% for 2022/23 compared to 80.60% for the same period last year. At the end of December 2022, the total of £16.807m outstanding debt relating to previous years had been reduced by £3.97m.

Non-Domestic Rates

46. The in-year collection rate for Non-Domestic Rates for this time period is 79.4% for 2022/23 compared to 73.15% for the same period last year. At the end of December 2022, the total of £7.089m outstanding debt relating to previous years had been reduced by £2.89m.



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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%.

Earmarked Reserves

48. 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.
49. The new authority's implementation Executive recently requested that all 5 Councils look to protect the revenue resources where possible. Therefore, a detailed review of the revenue resources being funded from earmarked reserves has been undertaken. This has resulted in an additional £2m of revenue reserves and £4m of earmarked reserves, which are used for funding the capital programme, being protected for use by the new authority.
50. Table 3 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 by Full Council when the budget was set in February 2022. A detailed breakdown is given in Appendix B.

Reserve Type	Balance as at 01/04/2022 £'000	Transfers		Estimated balance as at 31/03/2023 £'000
		To £'000	From £'000	
Capital	(5,184)	(500)	1,456	(4,228)
Revenue	(25,093)	(3,550)	7,679	(20,964)
SSDC useable Reserves	(30,277)	(4,050)	9,135	(25,192)
S31 Grant Reserve	(6,513)	0	3,310	(3,203)
Total Earmarked Reserve Balances	(36,790)	(4,050)	12,445	(28,395)

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

51. 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.
52. A transfer to the LGR earmarked reserve of £1m was approved in February 2022 as part of the 2022/23 annual budget. This amount was set aside in the reserve to fund the spending pressure associated with the staffing capacity gaps anticipated during 2022/23.

53. The committed spend to date is £800k meaning there is a balance remaining on the reserve of £200k. Minimal spend is anticipated to the end of the financial year, the balance remaining will transferred to the new authority.

General Fund Balance

54. The General Fund Balance comprises of an unallocated revenue reserve available to fund unforeseen emergencies and costs. The balance held at 1 April 2022 was £6.556m.
55. 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.

Financial Implications

56. As part of monitoring, an assessment of risk has been made and details of the current key financial risks are listed in the table below with an update from the responsible officer.

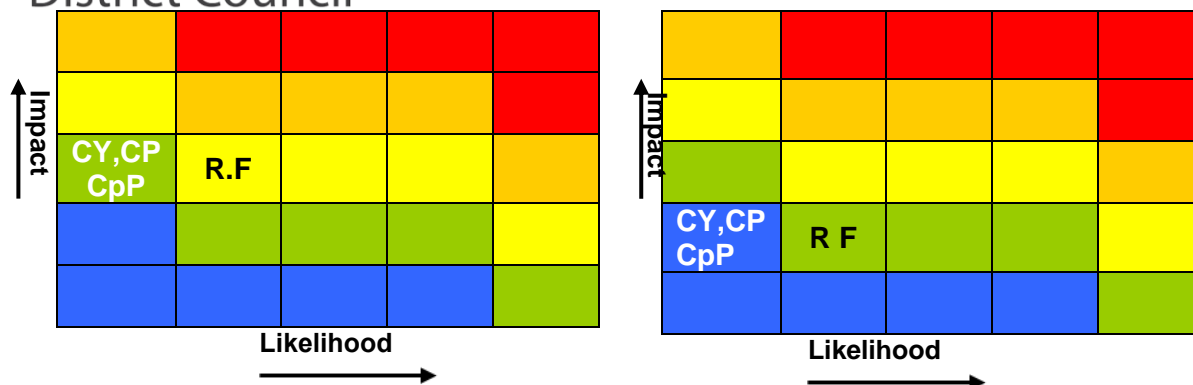
Current Risk	Responsible Officer	Officer's Update
Interest Rates	S151 Officer	Interest rates are anticipated to continue to increase for the remaining part of the financial year as explained in this budget monitoring report. A rise in interest rates increases the cost of borrowing but a positive impact will be seen on the return on the Council's investments.
Cost of living and inflation	S151 Officer	We continue to review the potential impact of the cost of living crisis on our budgets and services.
Business Rate Income	Director-Service Delivery	The collection rate is up by 6.25% compared to the same period in the previous year quarter 3. This is a volatile measure affected by the timing of summonses and payments made by large businesses.
The Council Tax Support Scheme	Director-Service Delivery	The original budget for 2022/23 is £10.918m and a total of £10.232m has been awarded as at 31 December 2022. 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 2023.

Risk Matrix

Risk Profile before officer recommendations Risk Profile after officer recommendations



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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

57. 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

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

Equality and Diversity Implications

59. 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

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

Background Papers

61. Budget setting report to Full Council in February 2022 and Quarter 2 Revenue Budget Monitoring and Revised Estimates report to Full Council in December 2022.