



## **2022/23 Revenue Budget Monitoring Report for the Period Ending 30 June 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 1 September 2022.

### **Public Interest**

3. This report gives an early forecast of the revenue budget variations for the 2022/23 financial year. It also 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 budget virements made under delegated authority as detailed in Appendix A.
  - c. Notes the forecast year-end reserves position shown in Appendix B.

### **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.



# South Somerset District Council

7. This is the first report for the financial year, and it covers the period 1 April to 30 June 2022. The projected position should be regarded as a reasonable indication of possible differences between actual and budgeted spend and income for the year.

## Summary of the Current Financial Position and Forecast Outturn

8. A summary of the budget position is shown below in Table 1, the budget is analysed by categories of expenditure and income, and also provides a forecast outturn for 2022/23.
9. As at the end of June 2022 the forecast revenue budget position is an **over spend** at year end of **£614,685**, which is a **3.12% variance**. The year-to-date position suggests an overspend of some £3.98m: however this is a result of cash flow and timing differences and do not reflect the underlying forecast for the year end position.
10. However, there are significant budget pressures arising from the national Pay Award proposals, rising interest rates, and the cost of living crisis which are very likely to mean that the outturn overspend position will be higher than the forecast reported in this report, possibly by some £970k (which would mean a total forecast year end overspend of £1.6m). These pressures are discussed in paragraphs 31 to 39. The quarter two report will include forecast overspends when the current pressures are better understood and will set our management action to be taken to mitigate the overall financial impact.

Table 1

	Year to date - April to June 2022			Forecast Outturn 2022/23		
	Budget	Actual	Variance	Budget	Forecast	Variance
<b>Expenditure</b>						
Employees	£5,554,220	£4,579,100	(£975,119)	£21,625,370	£21,660,509	£35,139
Premises	£1,527,487	£1,524,094	(£3,393)	£3,457,660	£4,110,285	£652,625
Transport	£181,220	£169,485	(£11,735)	£816,020	£815,324	(£696)
Supplies & Services	£2,720,863	£2,787,212	£66,349	£8,883,490	£8,895,469	£11,979
Third Party Payments	£7,016,862	£8,013,906	£997,044	£18,774,650	£18,775,388	£738
Housing Benefits payments	£6,837,038	£5,959,274	(£877,764)	£27,348,150	£27,348,150	£0
Capital Financing	£281,222	£12,937	(£268,285)	£1,219,280	£1,219,280	£0
Revenue Reserve transfers	(£1,083,395)	£14,414	£1,097,809	(£692,850)	(£692,850)	£0
	£23,035,518	£23,060,423	£24,905	£81,431,770	£82,131,555	£699,785
<b>Income</b>						
Government grants	(£17,024,168)	(£13,591,159)	£3,433,009	(£38,177,280)	(£38,177,280)	£0
Other grants and contributions	(£106,890)	(£29,416)	£77,474	(£1,159,240)	(£1,158,101)	£1,139
Sales	(£575,489)	(£617,123)	(£41,634)	(£2,182,830)	(£2,185,211)	(£2,381)
Fees and charges	(£4,775,982)	(£6,285,357)	(£1,509,375)	(£17,712,320)	(£17,616,128)	£96,192
Investment income	(£99,431)	£1,894,573	£1,994,004	(£2,485,780)	(£2,665,830)	(£180,050)
	(£22,581,959)	(£18,628,482)	£3,953,477	(£61,717,450)	(£61,802,550)	(£85,100)
<b>Net Budget</b>	<b>£453,558</b>	<b>£4,431,940</b>	<b>£3,978,382</b>	<b>£19,714,320</b>	<b>£20,329,005</b>	<b>£614,685</b>

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



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

Table 2	Year to date - April to June 2022			Forecast Outturn 2022/23		
	Budget	Actual	Variance	Budget	Forecast	Variance
Chief Executive	£298,395	£261,505	(£36,890)	£1,949,580	£1,949,580	£0
Commercial Services	£1,084,919	(£654,052)	(£1,738,971)	£2,736,700	£3,389,435	£652,735
Place & Recovery	£165,970	£393,830	£227,860	£532,200	£532,200	£0
Strategy & Support Services	£3,621,837	£5,001,573	£1,379,736	£10,292,500	£10,254,450	(£38,050)
Service Delivery	(£4,717,563)	(£570,916)	£4,146,647	£4,203,340	£4,203,340	£0
<b>Net Budget</b>	<b>£453,558</b>	<b>£4,431,940</b>	<b>£3,978,382</b>	<b>£19,714,320</b>	<b>£20,329,005</b>	<b>£614,685</b>

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

12. 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.

### Employees

13. The budget is currently showing a significant underspend due to a number of vacancies across the authority. It is still early in the year and recruitment is underway so it is not anticipated that there will be a significant variance at year end. The quarter one forecast does not include the impact of the national pay award proposals.

### Premises

14. At the end of the first quarter these budgets are currently showing a slight underspend. At this stage the full effect of the utility price increases are difficult to forecast and have yet to be felt but there is a significant risk of an overspend. These budgets will be monitored closely in the coming months.
15. The budget monitoring process has identified that certain budgets associated with holding the commercial property portfolio are not in line with actual spend. As a result, there is currently a forecast year end overspend of £664k in this area.
16. The Finance team and Property Services team are undertaking a review of the spend and income budgets in this area. The quarter two revenue budget monitoring report will include an update on this work and any potential impact on the 2022/23 budgets.
17. If a budget increase is required in respect of commercial investments, management action will be taken across the council to mitigate the forecast pressure.



### Transport

18. The budgets are currently showing an overall under spend. Within this budget area fuel costs are showing an overspend position, which is not unexpected given the increase in prices. However, this is offset by underspends in travel allowances and other related costs.

### Supplies and Services

19. This category of expenditure covers a wide range of costs and the current overspend of £66k shown at the end of the first quarter is a combination of several factors including:
- There are running costs of the elections in May 2022 of £309k, which will be recouped from Somerset County Council and the relevant Parish Councils.
  - The communications and computing costs are currently showing an underspend of £351k. This is because most of these costs are incurred in the latter half of the year. Due to the rate of inflation this is another area of the budget that will be monitored closely as there are some concerns that increases in contract prices may impact on the budget.
  - There is currently a forecast underspend of £130k as there is reduced spend in the Arts & Entertainment Service because audiences have still not returned to pre-pandemic levels. This is also having an impact on fees and charges income, see paragraph 28 for further details on the income shortfall.
  - The forecast underspend in Arts and Entertainment is offset by a forecast overspend in respect of external audit fees, this is anticipated to be in the region of £135,000. The additional costs are due to the additional work required in respect of the 2020/21 external audit of accounts. The final audit fee is reviewed and agreed by the Public Sector Audit Appointments board.

### Third Party Payments

20. Although the current position shows an overspend, 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

21. At this stage the budget is showing a underspend of £877k, which is likely to be caused by timing issues, the forecast position is in line with the budget at year end.

### Capital financing

22. There is currently an estimated underspend on the capital financing budgets as at 30 June, 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.
23. The interest payable on external borrowing which sits within this expenditure group is expected to exceed the budget due to interest rates increasing. However, no variance has been included at this stage. Please see paragraphs 32 to 35 below.

### Government Grants

24. The budget variance of £3.4m 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. At the end of quarter one the Council had not received the £2.7m due in respect of the final claim for 2021/22.

### Other grants and contributions

25. Income received from grants and contributions is currently below budget. The figures are reflecting the effect of year end adjustments where income due to the previous financial year had not been received at the end of quarter one. The variance is the result of this timing issue and in most cases the income due was received in July.

### Sales

26. There is currently a small surplus shown in sales income of £42k, and the forecast sales income is broadly in line with the budget.

### Fees and charges

27. The fees and charges are currently showing a surplus against budget; however, this is because commercial properties rental income is front loaded so effectively two quarters income is received in quarter one.
28. The forecast outturn is currently a small deficit due to a shortfall in admission charges within the Arts & Entertainment Service.



## South Somerset District Council

29. There are several income streams relating to demand led services where there are forecast shortfalls, but it is hoped that these will recover as the year progresses:

- Horticulture - £89,000
- Planning application fees - £84,000
- Car Parking fees - £59,000

### Investment income

30. The variance to date in this area is in respect of accrued income which has not been received to date. The current year-end projection for income from investments is that income receivable will exceed the budget by in the region of £180k.

## **Budget Pressures – Interest Rates, Pay Inflation and Cost of Living Crisis**

31. There are a number of budget pressures that are known but where a variance has not been included in the current forecast outturn position. Further work is needed to accurately quantify them, to identify possible management action to mitigate the costs and to identify if they can be financed from elsewhere in the overall agreed budget. The quarter two budget monitoring report will give an update on these issues.

### Increasing Interest Rates

32. 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 1.75% as of 4 August 2022. The Council's treasury management advisors released their economic and interest rate forecast in early August after the latest base rate rise.

33. The advisors are forecasting the bank rate to rise to 2.75% by December 2022, with a 0.50% rise predicted for September and 0.25% increases predicted in November and December 2022.

34. 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 largely on the amount of expenditure incurred on the capital budget. The latest forecast is that external borrowing will be in the region of £155m at the end of the 2022/23 financial year.

35. 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 £1.402m. The 2022/23 approved revenue budget for interest payable is £1.125m meaning a budget pressure of £0.277m is currently anticipated.

### Local Government Pay Award

36. The 2022/23 pay award has yet to be agreed, a final offer has been proposed by the employers and the various unions will consult their membership on the offer during August, September and October.
37. The 2022/23 revenue budget included an assumption that the pay award would be 2%. The pay offer is structured differently and does not include a percentage increase but a £1,925 increase on all points in the pay scales. The financial impact of this proposal is an estimated budget pressure of £0.696m. Due to the pay award not being agreed to date, the impact on the revenue budget has not been included in the outturn figures in this report.

### Cost of Living Crisis

38. The quarter two budget monitoring report will update District Executive on a review being undertaken on forecast budget pressures that may arise from price inflation and due to increased service demands.
39. In addition, it is anticipated that the spend in respect of Council Tax Support will increase due to more households becoming eligible for this support due to loss of income. Work on identifying the additional spend is also being undertaken and the associated pressure on the revenue budget will be included in the quarter two budget monitoring report.

### **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.

<b>Authoriser</b>	<b>Limit</b>	<b>Finance advice required from</b>
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 period April to June 2022.





## South Somerset District Council 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 £10.186m has been allocated as at the 30 June 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 June 2022, SSDC had processed 2 successful requests and the amount awarded was £885.35.
45. The in-year collection rate for Council Tax for this time period is 28.17% for 2022/23 compared to 28.21% for the same period last year. At the end of June 2022, the total of £16.807m outstanding debt relating to previous years had been reduced by £1.879m.

### Non Domestic Rates

46. The in-year collection rate for Non-Domestic Rates for this time period is 34.71% for 2022/23 compared to 27.49% for the same period last year. At the end of June 2022, the total of £7.089m outstanding debt relating to previous years had been reduced by £931k.
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. 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.

Table 3

Reserve Type	Balance as at 01/04/2022 £'000	Transfers		Estimated balance as at 31/03/2023 £'000
		To £'000	From £'000	
Capital	(4,999)	(570)	5,569	0
Revenue	(25,093)	(4,683)	14,352	(15,424)
<b>SDDC useable reserves</b>	<b>(30,091)</b>	<b>(5,253)</b>	<b>19,921</b>	<b>(15,423)</b>
S31 Grant reserve	(6,513)	0	3,310	(3,203)
<b>Total Earmarked Reserve Balances</b>	<b>(36,605)</b>	<b>(5,253)</b>	<b>23,231</b>	<b>(18,627)</b>

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

50. 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.
51. 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.
52. The committed spend to date is £328k meaning there is a balance remaining on the reserve of £672k. It is anticipated that the £1m set aside will be fully spent in 2022/23.

## General Fund Balance

53. 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.
54. 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.

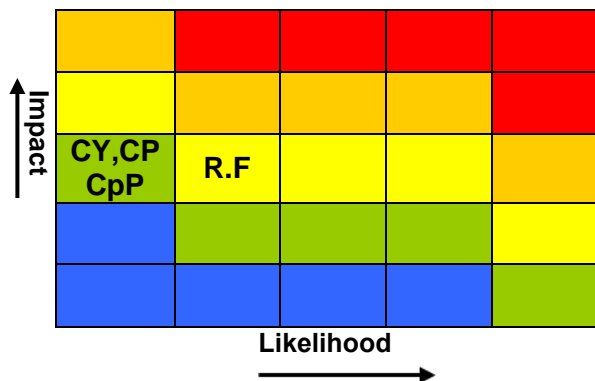
## Financial Implications

55. 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.

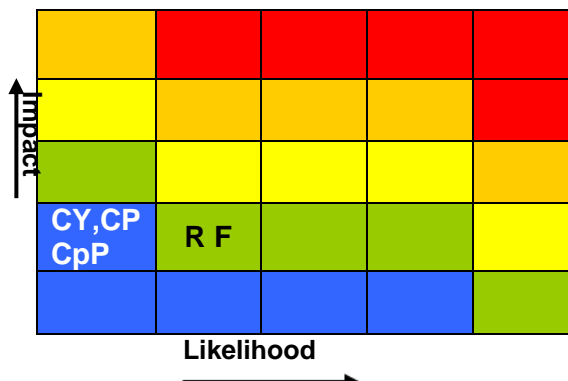
Current Risk	Responsible Officer	Officer's Update
Interest Rates	S151 Officer	Interest rates are anticipated to continue to increase for the remaining part of the financial year as explained in this budget monitoring report. A rise in interest rates increases the cost of borrowing but a positive impact will be seen on the return on the Council's investments. An update of the likely increased cost to the council's revenue budget will be given at quarter 2.
Pay Award	Chief Executive	Whilst the national Pay Award has not yet been agreed, the offer made by the employers is higher than that assumed back in February 2022 in the Budget Report. An estimate of the quantum of the cost pressure has been given in this report and an update will be given to District Executive in quarter 2.
Cost of living and inflation	S151 Officer	We are currently undertaking a review of 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 7.22% compared to the same period in the previous year quarter 1. 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 £10.186m has been awarded as at 30 June 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



### 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

56. 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

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

## Equality and Diversity Implications

58. 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

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

## Background Papers

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