Bath & North East Somerset Council		
MEETING:	**Cabinet**	
MEETING DATE:	**13th July 2023**	EXECUTIVE FORWARD PLAN REFERENCE: E 3467
TITLE:	**Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2023 to June 2023**	
WARD:	**All**	

AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1 – Revenue Monitoring Commentary

Appendix 2 – Key Scheme Capital Monitoring Commentary

Appendix 3 (i) & 3 (ii) – Proposed Revenue Virements & Revised Revenue Cash Limits 2021/22

Appendix 4 (i) & 4 (ii) – Capital Virements & Capital Programme by Portfolio 2023/24

EXECUTIVE SUMMARY

a) Revenue budget

The Revenue budget outturn is currently forecast to be £3.96m over budget.

Demand-led placement and package costs continue to cause a significant pressure in Children's Services. Combined with pressures on Home to Schools Transport arising from market pressures, including reduced availability of drivers, cost inflation and reduced tendering activity for many routes, the service is currently forecasting a £3.2m overspend.

Pressures in the Corporate Estate service linked to the holding costs of vacant buildings and the costs of maintaining the estate, alongside temporary accommodation costs exceeding that which can be offset through housing benefit subsidy, are further adding to the adverse forecast financial position.

High levels of visitor numbers to Bath city centre have resulted in a strong start to the year for both Heritage and Parking services income, while higher interest rates and reprofiling of borrowing costs have resulted in favourable forecast capital financing and interest variances, which partially mitigate the aforementioned pressures.

In addition, there is an in-year SEND placement pressure of £6.9m on the Dedicated Schools Grant (DSG). The local Authority has agreed with the DFE a Safety Valve Programme plan that will provide additional support and funding to the Local Authority to eradicate the deficit over a number of years.

Savings of £14.4m were included in the 2023/24 budget. At present £10.3m savings are forecast as delivered, with the remainder either being mitigated through alternative measures, or included as unachievable in the service forecasts. Savings delivery will be monitored closely through the year and management action plans identified when delivery is at risk.

In light of the forecast over budget position, Directors are actively developing mitigation plans to manage this position in year, and an update will be provided in the Quarter 2 monitoring report.

b) Capital budget

The current position of the 2022/23 Capital Programme is a forecast of £92.8m against a budget of £95.0m. The variance of £2.2m reflects anticipated rephasing of Aequus housing delivery loan drawdowns into future years.

c) Council Tax and Business Rates

The cost of the Local Council Tax Support Scheme over the first quarter is in line with budget at £9.3m.

The government announced a new 2023/24 scheme to provide eligible retail, hospitality and leisure properties in England with business rates relief of 75%, capped at £110,000 per business. As at the end of June, relief of £6.4m had been granted under this scheme. The loss of income will be compensated by government grant.

Empty property relief following business closures is £3.8m at the end of the first quarter of the year. This is £1.0m below the £4.8m allowance for empty property relief included when setting the business rate income forecast for 2023/24.

d) Council Reserves

The Council holds general unearmarked reserves of £12.6m, this is held corporately to manage in year financial pressures that cannot be mitigated within existing budget levels.

1 THE ISSUE

1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2023/24, using information available as at the end of June 2023.

2 RECOMMENDATION

The Cabinet is asked:

2.1 To note the 2023/24 revenue budget position (as at the end of June 2023).

2.2 To note the revenue virements listed for information only in Appendix 3(i).

2.3 To note the capital year-end forecast detailed in paragraph 3.19 of this report;

2.4 To note the changes in the capital programme including capital schemes that have been agreed for full approval under delegation listed in Appendix 4(i).

3 THE REPORT

3.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.

REVENUE BUDGET

3.2 Service Directors have been asked to outline the actual expected outturn for the year and the reasons to date for over / under budget forecasts. For revenue budgets which are forecast to be over budget, the Directors are expected to seek compensating savings to try and bring budgets back to balance.

3.3 A summary by Portfolio of the revenue position as at the end of the first quarter is shown in the table below:

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Leader of Council	(0.42)	(0.41)	0.01
Climate Emergency and Sustainable Travel	1.33	1.23	(0.11)
Council Priorities and Delivery	9.03	9.07	0.04
Resources	10.21	10.30	0.09
Economic And Cultural Sustainable Development	(2.04)	(1.71)	0.33
Adult Services	59.70	59.87	0.17
Children's Services	31.65	34.94	3.29
Highways	(1.31)	(1.93)	(0.62)
Neighbourhood Services	24.29	24.76	0.47
Built Environment and Sustainable Development	2.61	2.90	0.29
Quarter 1 Forecast Outturn Variance	**135.06**	**139.01**	**3.96**

Note1: Some of the figures in this table are affected by rounding.

3.4 The current **year-end** forecast is £3.96m over budget position.

3.5 In light of the forecast over budget position, Directors are actively developing mitigation plans to manage this position in year, and an update will be provided in the Quarter 2 monitoring report.

Portfolio Commentary

3.6 Key variances and associated actions by Portfolio are as follows, a more detailed breakdown can be found in Appendix 1:

Leader of the Council *(£0.01m over budget)*

The Leader of the Council portfolio holds the Housing Delivery Vehicle, Emergency Planning and External Affairs and Partnerships budgets. There is a minor staffing pressure forecast within Emergency Planning.

Climate Emergency and Sustainable Travel *(£0.11m under budget)*

Recovery of staff costs from projects in the Environmental Monitoring team is causing a favourable financial position for the portfolio.

Council Priorities and Delivery *(£0.04m over budget)*

Some minor staffing pressures in Human Resources (£0.04m) and Corporate Governance (£0.04m) are partially offset by a small salary underspend in Corporate Strategy and Communications (£0.04m).

Resources *(£0.09m over budget)*

Unmet savings targets in Legal services are contributing to a £0.20m pressure within the service, while increased use of temporary accommodation for the homeless is provided at a cost higher than the claimable subsidy, resulting in a forecast £0.45m overspend in Housing Benefit Subsidy. This is partially offset by an under budget forecast on borrowing costs as a result of reprofiling capital programme spend (£0.50m), and increased income from investment interest (£0.20m) as a result of higher interest rates than anticipated at budget setting.

Economic And Cultural Sustainable Development *(£0.33m over budget)*

The Corporate Estate is forecasting an adverse budget position of £0.94m resulting from high costs of un-let buildings and an ongoing savings target to reduce maintenance costs across the estate. This is partially offset by a strong start to the year in Heritage Services, where retail and admission income net of costs is forecast to be £0.64m in excess of budget.

Adult Services inc Leisure *(£0.17m over budget)*

The current forecast position for Adult Social Care at this early stage of the year, is a balanced position as underlying variances will be covered by a transfer from the Adult Social Care Reserve funds (£2.4m). The forecast use of reserves is to cover adverse variances in the Learning Disability and Autism Pooled Service (£2.7m) which are partially offset by underspends within other areas of the specialist service. This adverse variance reflects the impact of both the increase in the number of packages in 2022/23 (activity and cost) and the known demand in year. Work continues to review this activity.

The increased level of cost demand being seen in 2022/23 is continuing into 2023/24 and commissioners are working with providers on this to determine future requirements and the planning to meet them.

An established interim pathway is in place and is a continuation from the last 2 years, whilst the numbers currently in this arrangement have been high, this was forecast for the first quarter and a reducing trend is now being seen. This pathway continues to support the reduced activity need for long term care.

Leisure Services are currently forecasting an overspend of £0.17m, this is due to the level of fee income being received being below the expected value.

Children's Services *(£3.29m over budget)*

There are two main drivers of this over budget position, one the continuing pressures from 2022/23 across the demand-led placement and package budgets, and two the increasing pressures from ongoing cost increases across Home to School Transport (HTST).

Demand-led placement pressures are due to a mix of increased demand, especially in the area of Unaccompanied Asylum Seeker Children (UASC) and increased packages of care and support costs needed, due to the increased needs our Children and Young People continue to present with. There are also continued increased costs as a result of the complex packages of care needed for those with the highest need in the Disabled Children's Team (DCT). In total these areas are £2.3m over budget, with the majority of overspend from the areas of Residential, UASC and DCT.

HTST has a pressure of £0.8m. This is due to significant pressure from ongoing market forces creating cost pressures when procuring HTST, including reduced availability of drivers, cost inflation and reduced tendering activity for many routes.

Schools DSG *(£6.9m over budget, plus an overspend of £13.45m carried forward from 2022/23)*

The DSG has a forecast overspend of £6.9m in 22/23 made up of significant pressures on SEND. The SEND pressures are estimated based on current pupils identified with Education, Health and Care (EHC) Plans of £8m however mitigating actions have identified £1.1m of savings.

The local Authority has agreed with the DFE a Safety Valve Programme plan that will provide additional support and funding to the Local Authority to eradicate the deficit over a number of years. In 2022-23 the DFE provided and additional £7.68m of DSG funding to support the pressures in SEN and have committed to providing a further £11.54m over the next 6 years including £1.65m in 2023-24.

Further work on opening the provision of local SEND places at schools in the area will help reduce the pressure and extensive analysis of the specific cost pressures is being conducted to look to reduce the overspend.

Capital Bids for new free schools as part of a DFE programme have been successful for a new Special School and funding towards a new residential special school has also been agreed. A further bid for an Alternative provision school is in the pipeline and an outcome to this bid is expected shortly. These capital projects will result in significant additional provision locally that will ease the financial burden of utilising independent specialist provision.

Any overspend on the DSG is currently ringfenced to the grant allocation and the Department for Education (DFE) have issued guidance to restrict the supporting of the pressures from council revenue funding. This ring fence has been extended by the DFE and DCLG until March 2026.

Highways *(£0.62m under budget)*

Parking income is exceeding budget across the majority of locations. This, combined with a number of staff vacancies means the service is forecasting a £0.62m favourable budget position at this early stage in the year.

Neighbourhood Services *(£0.47m over budget)*

Pressure on both staffing budgets and recyclates sales is creating a £0.26m pressure in the Waste service, while staffing pressures also exist in the Parks and Bereavement service (£0.13m) and Customer Services (£0.07m).

Built Environment and Sustainable Development *(£0.29m over budget)*

Market conditions are having an adverse impact on both Planning (£0.11m) and Building Control (£0.16m) income.

REVENUE BALANCES, CONTINGENCY AND RESERVES

3.7 The current Employer's national pay offer for 2023/24 is estimated at 7%, which is significantly higher than the 4% increase included in the budget. Consequently, all corporate contingency budgets have been earmarked to fund the gap which is currently estimated at £2.4m. Service budgets will be adjusted once the final pay award is agreed.

3.8 The current forecast revenue position includes planned and approved use of earmarked reserves as set out in the table below.

Key Reserves

3.9 The following table shows the balances of key reserves at the beginning of the year, planned use, and expected balance at the year-end based on current forecast:

	Balance as at 01/04/2023 £'m	Projected Use / Commitments £'m	Estimated Balance 31/03/2024 £'m
Revenue Budget Contingency	3.47	(0.33)	3.14
Financial Planning and Smoothing Reserve	3.20	(0.69)	2.51

Transformation Investment Reserve	1.89	(1.89)	0.00
Covid Contingency Reserve (Govt grant)	3.35	(3.35)	0.00
Restructuring & Severance Reserve	1.81	0.00	1.81

Reserves and Flexible Capital Receipts

Flexible Capital Receipts are being utilised for revenue spend that results in ongoing revenue savings. A five-year estimated use of £11.5m was agreed as part of budget setting in February 2023, this has now been updated to reflect the re-profiled requirement and re-phasing into 2023/24 as follows:

	Actual Usage 2017/18 to 2021/22 £'m	Actual Usage 2022/23 £'m	Available Balance £'m	Est Total Usage £'m
Flexible Capital Receipts	8.09	0.16	3.25	11.50

3.10 Commitment has been approved to allocate £1.35m to the Council's "Being our Best" programme that will identify future organisational efficiencies.

3.11 Unapplied capital receipts of £3.842m were carried forward from 2022/23, with no receipts in 2023/24 received so far and £9m budgeted for.

General Fund Un-Earmarked Reserve

3.12 The General Fund Un-Earmarked Reserve is retained to meet the Council's key financial risks. The risk assessment has set a range of between £11.6m and £12.8m to meet those risks in the 2023/24 financial year. The reserve has a current uncommitted balance of £12.6m in line with the level reported in the 2023/24 Budget Report.

SAVINGS PERFORMANCE

3.13 The 2023/24 revenue budget approved savings of £14.38m. Delivery of these savings will be monitored throughout the year, with £10.29m forecast as achieved at the end of June, representing 72% delivery. Of the £4.09m not currently achieved, £2.97m are being mitigated through savings elsewhere in the respective service, £0.12m of savings are delayed and £1.00m are resulting in unavoidable pressures.

3.14 The Council's financial position, along with its financial management arrangements and controls, are fundamental in continuing to plan and provide services in a managed way, particularly in light of the medium-term financial challenge. Close monitoring of the financial situation provides information on new risks and pressures in service areas, and appropriate management actions are then identified and agreed to manage and mitigate those risks.

Revenue Budget Virements

3.15 Any revenue budget virements which require Cabinet approval are listed in Appendix 3(i). Technical budget adjustments are also shown in Appendix 3(i) for information purposes, as required by the Budget Management Scheme. Appendix 3(ii) details the allocation of cashlimits to the new Cabinet Portfolio structure following the Council Annual Meeting on 25th May 2023.

COUNCIL TAX, COUNCIL TAX SUPPORT AND BUSINESS RATES

3.16 The 2023/24 tax base allowed for the same number of recipients as at the end of November 2022 to continue into 2023/24 with budgeted costs of LCTS set at £9.27m. The cost at the end of June is broadly in line with budget at £9.28m. The number of working age claimants at the end of June was 5,864 compared to the budget assumption of 5,803 and the number of Pensioner claimants was 3,432 compared to the budget assumption of 3,469.

3.17 The actual outturn position on LCTSS and the impact on the Council Tax collection fund will depend on a number of variables, including the change in number of claimants and the period claimants remain eligible for support whilst seeking employment and this will continue to be monitored closely during the year.

Business Rates

3.18 The government announced, as part of the Chancellor's Autumn Statement in November 2022, that it would introduce a new retail, hospitality, and leisure business rate relief scheme for 2023/24. This follows previous relief schemes for these businesses that operated since 2020/21. The 2023/24 scheme provides for 75% business rates relief, capped at £110,000 per business for eligible properties.

3.19 The Council will be recompensed for the reduction in business rate income arising from this relief via a s31 compensation grant. As at the end of June, retail relief of £6.4m had been granted.

3.20 Empty property relief was £3.8m at the end of the first quarter which is a below the £4.8m allowance included when setting the business rate income forecast for 2023/24. The forecast overall impact on the business rates collection fund position will be reviewed during the second quarter and the position in relation to reliefs will be closely monitored.

3.21 As set out in the Budget Report, any surplus or deficit on the Business Rate Collection Fund and associated income will be transferred to or from the Business Rates Reserve for consideration as part of the Business Rates calculations for future years and this position will be reflected in the 2024/25 budget. The balance on the Business Rate Reserve as at 1st April 2023 was £8.7m, this includes the £7.24m transfer from the reserve approved in the 2023/24 budget report.

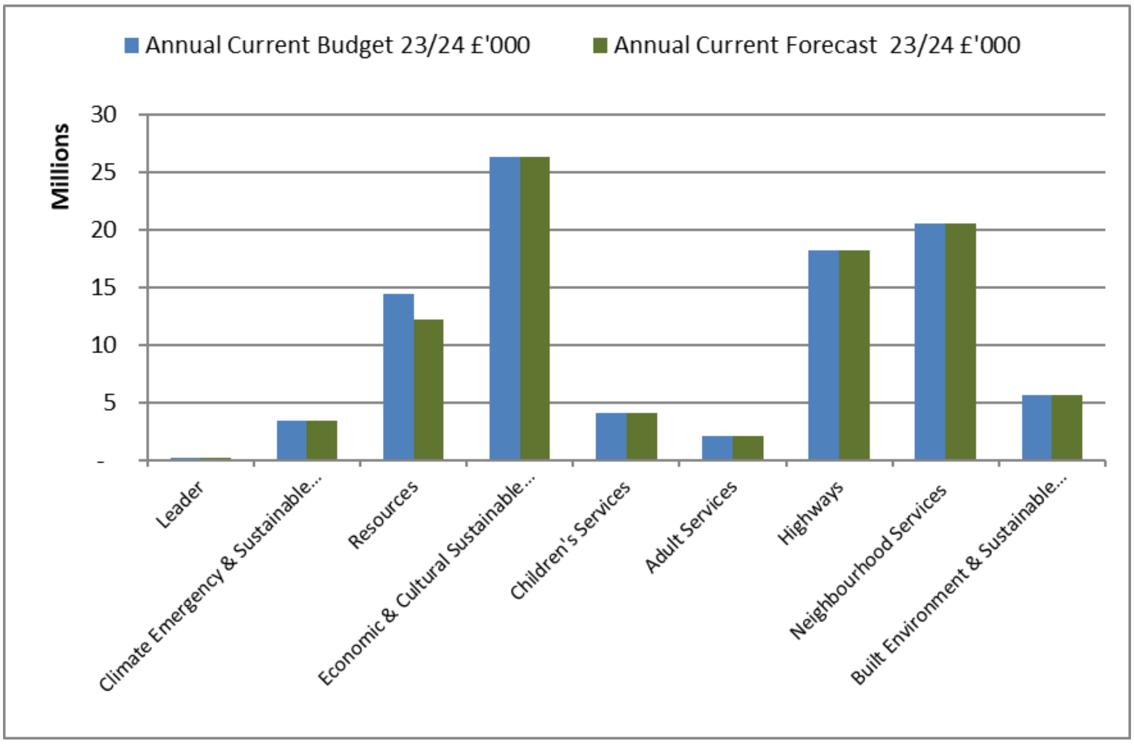
CAPITAL BUDGET

3.22 The current position of the 2023/24 Capital Programme is a forecast of £92.8m against a budget of £95.0m. The variance of £2.2m in the Resources portfolio reflects the revised profile of forecast future loan drawdowns by the Council's housing company moving to 2024/25 and future years. The following table show a summary of the current position by Cabinet Portfolio. The full breakdown of the Capital Programme by Portfolio can be found in Appendix 4(ii) with key scheme commentary in Appendix 2. Appendix 4(i) sets out budget changes actioned since the February Budget setting. Appendix 4(ii) also illustrates the rephasing from 2022/23 reported for approval in the Revenue & Capital Outturn 2022/23 report, which is also on this meeting's agenda.

Portfolio Summary Monitor	Annual Current Budget 2023/24 £'000	Forecast 2023/24 £'000	In-Year Variance 2023/24 £'000	*Forecast Re-phasing to 2024/25 £'000*
Leader	174	174	-	-
Climate Emergency & Sustainable Travel	3,364	3,364	-	-
Resources	14,428	12,228	(2,200)	(2,200)
Economic & Cultural Sustainable Development	26,399	26,399	-	-
Children's Services	4,116	4,116	-	-
Adult Services	2,085	2,085	-	-
Highways	18,269	18,269	-	-
Neighbourhood Services	20,594	20,594	-	-
Built Environment Sustainable Development	5,584	5,584	-	-
Grand Total	**95,014**	**92,814**	**(2,200)**	**(2,200)**

Note2: Some of the figures in this table are affected by rounding

The graph below illustrates the value and forecast against budget for all in year capital budgets by Cabinet Portfolio:



Capital Commentary

3.23 Programmes are reporting to budget at this early stage of the year, the key in-year variance on the programme being:

- **Economic Development and Resources**- £2.2m variance for Property Company Investment, where the current Aequus Construction activity forecast expects some schemes to progress from 2024/25 onwards, resulting in later draw-down of loans from the Council.

RISKS

The key risks to the budget were outlined in the Councils 2023/24 Budget Report, in compliance with the Council's decision-making risk management guidance. These have been reviewed and are listed below, along with any additional emerging risks:

Risk	Likelihood	Impact	Risk Management Update
Operational budget pressures due to latent demand and backlog	Possible	High	There is the risk of built-up demand on Council services and backlog post pandemic. This may result in one-off cost pressures to clear the backlog.
Long term impacts on the Councils Commercial Estate over and above anticipated levels.	Likely	High	There are continuing risks in the retail & hospitality sector from rising inflation and a challenging labour market, so this is impacting market rent levels and the income from Council tenants.
Contract inflationary pressure	Likely	High	With increase in wage, energy and fuel costs, Council contracted services are at risk of above budget price increases. This is an economic risk that has been recognised in the budget with a corporate inflation contingency for known areas that cannot be mitigated through activity management.

Volatility in income from Heritage Services.	Possible	Medium	Continue to monitor income levels and impact on business plan in light of changing customer expectations and international travel.
Impact on Reserves	Possible	High	Without additional government grant in recognition of unfunded inflationary pressures there is the risk that Council reserve levels are not enough to manage in-year and future years risk.
Interest rates increase	Likely	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFS. Borrowing rates have continued to increase since the budget was set, as the Bank of England tackles more persistent inflation pressures. The latest forecast from our treasury management advisors is that longer term borrowing rates will eventually start to fall from current levels once service inflation and wage growth eases, with Bank of England rate cuts forecast from Q2 of 2024. However, rates will remain relatively higher than in the past with continued elevated volatility. The Council will continue to consider shorter term borrowing options alongside the PWLB.
Volatility and uncertainty around business rates	Likely	High	The impacts of the current economic challenges will increase the volatility and uncertainty around business rate income. In 2023/24 this risk will be partly offset by the extension of the business rate relief scheme for Retail, Leisure and Hospitality businesses. We continue to monitor arrears, CVAs, and liquidations with a specific reserve held to manage in-year volatility.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Possible	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. An assessment is made as part of the budget process to ensure that revenue reserves are sufficient to meet these risks. The capital programme methodology looks to de-risk projects wherever possible.
Changes to Government Policy that affects future funding	Likely	High	Need to monitor and continue to highlight impact
Brexit risks	Likely	Medium	The short to medium term impacts of Brexit on the Councils supply chain and labour market may result in contractual cost pressures from customs tariffs that previously did not apply.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations.
Capital receipts in the areas identified are insufficient to meet target	Possible	Medium	There is a risk that a depressed market will impact on current values.

4 STATUTORY CONSIDERATIONS

4.1 The annual medium-term financial planning process allocates resources across services with alignment of these resources towards the Council's corporate priorities. This report monitors how the Council is performing against the financial targets set in February 2023 through the Budget setting process.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

6.2 The substance of this report is part of the Council's risk management process. The key risks in the Council's budget are assessed annually by each Director, with these risks re-assessed regularly as part of the budget monitoring process.

7 CLIMATE CHANGE

7.1 The Medium Term Financial Strategy and budget process aligns resources towards the corporate priorities and objectives set out in the Corporate Strategy, which includes tackling the climates emergency. This report monitors the Council's financial performance against those budgets. and therefore does not include any decisions that have a direct impact on Climate Change.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Directors, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

9.2 Consultation was carried out at meetings and via e-mail.

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Background papers	N/A
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