Bath & North East Somerset Council		
MEETING:	**Cabinet**	
MEETING DATE:	**14th July 2022**	EXECUTIVE FORWARD PLAN REFERENCE: E 3372
TITLE:	**Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2022 to June 2022**	
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 2022/23

EXECUTIVE SUMMARY

a) Revenue budget

The Revenue budget outturn is currently forecast to be £2.6m over budget.

Demand-led placement and package costs continue to cause a significant pressure in Children's Services. Combined with staffing pressures as a result of covering absences within teams and responding to increasing complexity of need, the service is currently forecasting a £2.3m overspend.

Further pressures are being experienced in the Bereavement and Waste Services, while staffing vacancies in Planning and the increased interest on cash balances are providing favourable mitigations.

The renewal of corporate energy contracts in the midst of the cost of living and inflation crisis is resulting in a large increase in costs across the organisation. These costs are being funded in-year from inflation contingency included in the 2022/23 budget and an Inflation Reserve set aside as part of the 2021/22 outturn, while the medium-term increase will need to be considered in the 2023/24 budget planning process.

In addition, there is an in-year SEND placement pressure of £5.7m on the Dedicated Schools Grant (DSG). Mitigation plans are being worked up which includes identifying uncommitted balances within the DSG.

Savings of £11.9m were included in the 2022/23 budget. At present all savings are expected to be delivered, although these will be monitored closely through the year and management action plans identified should delivery of any become at risk.

b) Capital budget

The current position of the 2022/23 Capital Programme is a forecast of £100.9m against a budget of £111.7m. The variance of £10.8m reflects anticipated rephasing of Aequus housing delivery loan drawdowns into future years.

c) Council Tax and Business Rates

There has been a continued reduction in the cost of the Local Council Tax Support Scheme over the first quarter, in line with a fall in working age claimants, with the cost at the end of June £9.86m. This is currently £0.70m below the budget estimate which would lead to a Council Tax Collection Fund surplus if the position remained at this level at year end.

The government announced a new 2022/23 scheme to provide eligible retail, hospitality and leisure properties in England with business rates relief of 50%, capped at £110,000 per business. As at the end of June, relief of £3.5m had been granted under this scheme. The loss of income will be compensated by government grant.

Empty property relief following business closures is £4.9m at the end of the first quarter of the year. This is £0.9m below the £5.8m allowance for empty property relief included when setting the business rate income forecast for 2022/23.

d) Council Reserves

The Council approved 2022/23 revenue budget utilises £5.2m of corporate and service earmarked reserves to mitigate ongoing Covid pressures on the Council's revenue budget.

1 THE ISSUE

1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2022/23, using information available as at the end of June 2022.

2 RECOMMENDATION

The Cabinet is asked:

2.1 To note the 2022/23 revenue budget position (as at the end of June 2022).

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 3.21 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	0.37	0.37	0.00
Economic Development and Resources	11.51	11.54	0.03
Climate and Sustainable Travel	1.25	1.28	0.02
Adult Services and Council House Building	62.27	62.24	(0.03)
Children and Young People, and Communities	30.93	33.33	2.40
Neighbourhood Services	24.42	24.86	0.43
Transport	(6.08)	(6.09)	(0.02)
Planning and Licensing	2.19	1.96	(0.22)
Quarter 1 Forecast Outturn Variance	**126.86**	**129.49**	**2.62**

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

3.4 The current **year-end** forecast is £2.62m over budget position.

Portfolio Commentary

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

Leader of the Council *(on budget)*

The Leader of the Council portfolio holds Events, World Heritage and External Affairs and Partnerships budgets. All three cash limits are forecasting an on budget position.

Economic Development and Resources *(£0.03m over budget)*

Pressures in Corporate Estate linked to the vacant former school site at Culverhay, and high-cost temporary accommodation costs in the Housing Benefit Subsidy budget are part mitigated by higher interest rates on cash balances in the capital financing budget.

Climate and Sustainable Travel *(£0.02m over budget)*

Under recovery of staff costs from projects is causing a minor forecast over spend, but this will be monitored closely throughout the year and may improve with more externally funded projects coming online.

Adult Services and Council House Building *(£0.03m under budget)*

The current forecast position for Adult Social Care at this early stage of the year, is a balanced position. This reflects the reduced number of package placements seen during 2021/22 which has continued into 2022/23 and makes allowance for the impact of the expected demand for package placements for Hospital discharges. Funding for a Hospital Discharge pathway has been agreed by the Integrated Care Alliance (ICA) board for 2022-23, during which time transformation work will take place to determine a longer term approach through prevention and early intervention. Future demand on Adult Social Care is expected to return to, and exceed, previously seen levels during this financial year. The risk of additional demand when these levels return is expected in both package numbers and complexity of social care cases.

The level of future demand is still undetermined but is expected to cause pressure on existing budgets together with the inflationary pressures being seen in the provider market. Discussions are on-going with providers as to the impact of these market pressures. Alongside this, a new Fair Price of Care review is underway to determine current costs as part of the requirements under the present social care reforms.

Housing are forecasting a £0.03m favourable budget position and is a result of staffing underspends.

Children and Young People, and Communities *(£2.40m over budget)*

The Children and Young People segment of this Portfolio is over budget by £2.32m. The main driver of this over budget position is the continuing pressures from 2021/22 across the demand-led placement and package budgets.

Pressures are due to the increased demand (17% rise in numbers in Joint Agency Panel placements and 9% rise in the numbers in Residential placements from 2020/21 to 2021/22) and increased packages of care and support costs needed, due to the increased needs our Children and Young People are presenting 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. New pressures from supporting unaccompanied asylum seeker children are also included totalling £0.13m. In total, these areas are £1.47m over budget.

Staffing pressures across the frontline areas of Children's Social Care total £0.40m. This is the result of covering absences within teams, whilst also responding to increasing demand levels and complexity of need. Across Children's Services and Education there is pressure on staffing budgets for 2022/23 of £0.30m, this will be monitored through the year.

A further new pressure of £0.10m for 2022/23 is due to additional costs of support asylum seeker children into education.

This forecast includes the full achievement of transformation savings budgeted of £1.21m across Children's Services in relation to increasing the usage and availability where appropriate of Foster Care provision.

Customer Services are forecasting a pressure of £0.08m linked to staffing levels.

Schools DSG *(£5.69m over budget, plus an overspend of £13.44m carried forward from 2021/22)*

The DSG has a forecast overspend of £5.693m 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 £6.8m however mitigating actions have identified £1.1m of savings.

The local Authority has submitted its first draft of a recovery plan to the DFE as part of the Safety Valve Programme and we await comment in early July. The Safety Valve Programme will provide additional support and funding to the Local Authority to eradicate the deficit over a number of years.

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. Bids for new free schools as part of a DFE programme are also being made with a bid for both an Alternative provision schools and new Special School planned.

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. Further guidance is expected to be released regarding this by the DFE and DCLG shortly.

Neighbourhood Services *(£0.43m over budget)*

The main crematorium chapel at Haycombe is closed between April and August for major capital improvement works. As a result there is a significant reduction in cremations and memorial sales in Bereavement Services, resulting in a £0.25m forecast pressure. The remainder of the portfolio forecast overspend falls within Waste, where staffing levels are at full capacity and therefore the budgeted turnover factor is unlikely to materialise.

Transport *(£0.02m under budget)*

Staff vacancies are creating a minor underspend across the portfolio.

Planning and Licensing *(£0.22m under budget)*

The Planning and Licensing services both have staff vacancies at present and as such the portfolio is forecast to come under budget during this financial year. Planning applications are lower than budgeted at present, and these will be monitored closely throughout the year.

REVENUE BALANCES, CONTINGENCY AND RESERVES

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

Key Reserves

3.7 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 01/04/2022 £'m	Projected Use / Commitments £'m	Estimated Balance 31/03/2023 £'m
Revenue Budget Contingency	3.74	(0.54)	3.20
Financial Planning and Smoothing Reserve	3.56	(1.38)	2.18
Transformation Investment Reserve	2.40	(2.40)	0.00
Covid Contingency Reserve (Govt grant)	4.57	(4.57)	0.00
Restructuring & Severance Reserve	1.90	0.00	1.90

Reserves and Flexible Capital Receipts

3.8 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 2022, this has now been updated to reflect the re-profiled requirement and re-phasing into 2022/23 as follows:

	Actual Usage 2017/18 to 2020/21 £'m	Actual Usage 2021/22 £'m	Available Balance £'m	Est Total Usage £'m
Flexible Capital Receipts	7.93	0.16	3.41	11.50

3.9 Unapplied capital receipts of £3.129m was carried forward from 2021/22 and £0.374m has been received in 2022/23 so far with a further £4.372m budgeted for receipt in 2022/23.

General Fund Un-Earmarked Reserve

3.10 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 £11.9m and £13.2m to meet those risks in the 2022/23 financial year. The reserve has a current uncommitted balance of £12.6m in line with the level reported in the 2022/23 Budget Report.

SAVINGS PERFORMANCE

3.11 The 2022/23 revenue budget approved savings of £11.87m. It is too early to assess the delivery of all agreed proposals. However, these will be monitored over the coming weeks and will be reported in more detail in the quarter 2 monitoring report.

3.12 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

3.13 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 reallocation of cashlimits to the new Cabinet Portfolio structure following the Council AGM Meeting on 12th May 2022.

COUNCIL TAX, COUNCIL TAX SUPPORT AND BUSINESS RATES

3.14 The number of people claiming Local Council Tax Support (LCTS) has continued to fall since the peak experienced in 2020/21 as a result of the economic impact of the pandemic. The 2022/23 tax base allowed for the same number of recipients as at the end of November 2021 to continue into 2022/23 with budgeted costs of LCTS set at £10.56m. The cost at the beginning of April was £10.20m and there has been a gradual reduction over the first quarter, in line with a fall in working age claimants, with the cost at the end of June £9.86m. This is currently £0.70m below the budget estimate which would lead to a Council Tax Collection Fund surplus if the position remained at this level at year end. The number of working age claimants at the end of June was 5,988 compared to the budget assumption of 6,385. The reduction is due to claimants ceasing to be entitled to LCTS, for example where they have returned to employment.

3.15 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

3.16 The government announced, as part of the Chancellor’s Budget Statement in October 2021, that it would introduce a new retail, hospitality and leisure business rate relief scheme for 2022/23. This follows previous relief schemes for these businesses that operated during 2020/21 and 2021/22. The 2022/23 scheme provides for 50% business rates relief, capped at £110,000 per business for eligible properties.

3.17 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 £3.5m had been granted.

3.18 The government announced a new £1.5bn Covid-19 Additional Relief Fund (CARF) in March 2021. The fund is available to support those businesses affected by the pandemic, but that are ineligible for existing support linked to business rates. Guidance on the fund was issued on 19 December 2021 and the relief will be processed during 2022/23. The CARF allocation for Bath & North East Somerset area is £4.3m of which the Council's share is £4.0m. The negative impact on the Collection Fund of granting the relief will be fully mitigated by s31 compensation grant received from the government.

3.19 Empty property relief was £4.9m at the end of the first quarter which is a reduction of £0.3m on the 2021/22 year end position and is below the £5.8m allowance included when setting the business rate income forecast for 2022/23. 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.

3.20 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 2022/23 budget. The balance on the Business Rate Reserve as at 1st April 2022 was £5.942m, this includes the £2.2m transfer from the reserve approved in the 2022/23 budget report.

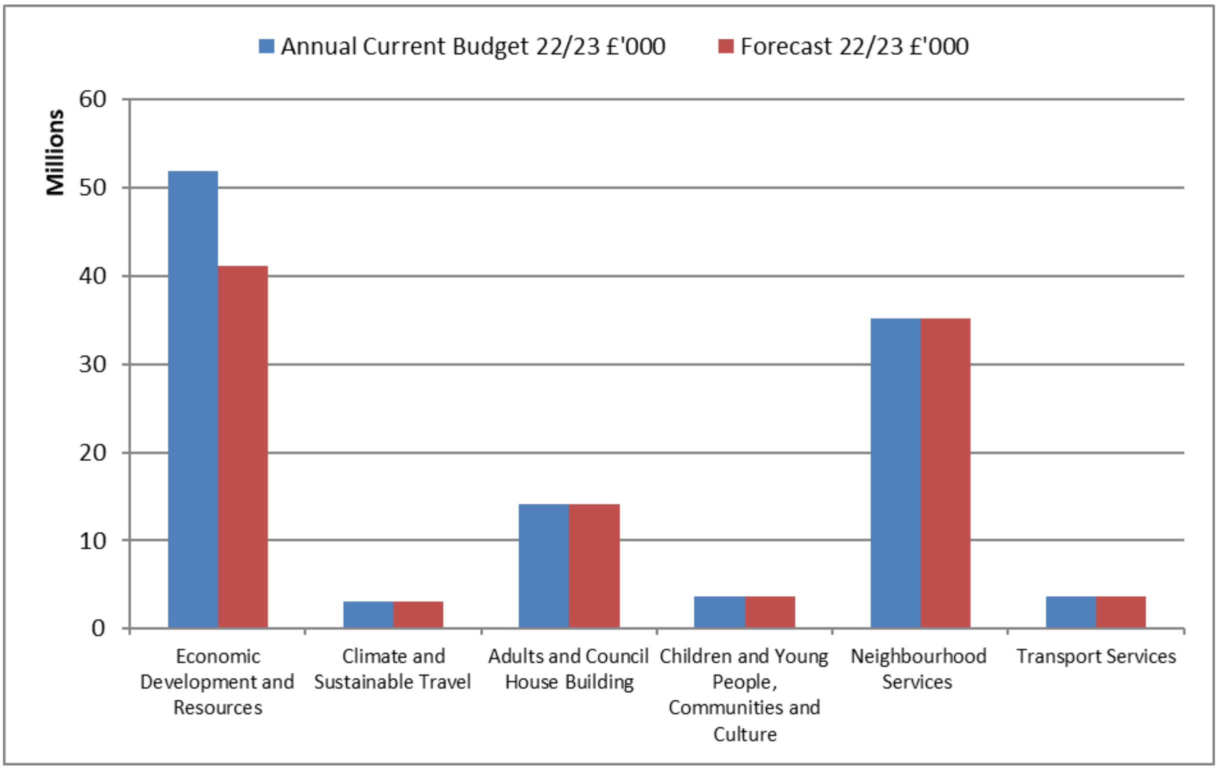
CAPITAL BUDGET

3.21 The current position of the 2022/23 Capital Programme is a forecast of £100.9m against a budget of £111.7m. The variance of £10.8m in the Economic Development & Resources portfolio reflects the revised profile of forecast future loan drawdowns by the Council's housing company moving to 2023/24 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 2021/22 reported for approval in the Revenue & Capital Outturn 2021/22 report, which is also on this meeting's agenda.

Portfolio Summary Monitor	Annual Current Budget 2022/23 £'000	Forecast 2022/23 £'000	In-Year Variance 2022/23 £'000	*Forecast Re-phasing to 2023/24 £'000*	*Other Variance 2022/23 £'000*
Economic Development and Resources	51,938	41,168	10,769	10,769	0
Climate and Sustainable Travel	3,117	3,117	0	0	0
Adults and Council House Building	14,089	14,089	0	0	0
Children and Young People, Communities and Culture	3,660	3,660	0	0	0
Neighbourhood Services	35,251	35,251	0	0	0
Transport	3,631	3,631	0		0
Grand Total	**111,685**	**100,916**	**10,769**	**10,769**	**0**

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

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

- **Economic Development and Resources**- £10.8m variance for Property Company Investment, where the current Aequus Construction activity forecast expects larger schemes to progress from 2023/24 onwards, resulting in later draw-down of loans from the Council.

RISKS

The key risks to the budget were outlined in the Councils 2022/23 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
Reinstated government restrictions in the event of new variants impacting vaccine success	Possible	High	This is certainly a material risk, whilst not one the Council has direct control over, every step is being put in place to follow government guidance following the recommendations of our Director of Public Health.
Operational budget pressures due to latent demand and backlog	Possible	High	There is the risk of built-up demand on Council services and backlog because of operational activity being diverted to managing the Covid 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.	Possible	High	Current modelling has been prudent anticipating a material impact in 2021/22. There are risks in the retail & hospitality sector from a challenging labour market that is impacting recruitment to these sectors, so this may have an impact on business viability and 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.
The income from Heritage Services may not recover in the short term.	Possible	High	Continue to monitor income levels and impact on business plan in light of changing customer expectations and international travel. We anticipated income will not fully recover in the medium term and growth was built into the medium terms financial plan between 21/22 and 24/25.
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	Possible	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 increased by around 1% since the start of the financial year. The current forecast from our treasury management advisors is that borrowing rates will remain under upward pressure in the short term on inflation and central bank policy expectations, and investor uncertainty. Yields are forecast to decline over the medium term as weak growth places pressure on central banks to ease policy. 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 2022/23 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, in the short to medium term the Council should not rely on capital receipts as a key funding source.

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 2022 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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