North Somerset Council

Report to the Executive

Date of Meeting: 22 June 2022

Subject of Report: Budget Monitor 2021/22 - Month 12 Out-turn

Town or Parish: All

Officer/Member Presenting: Ashley Cartman, Executive Member for Corporate Services

Key Decision: Yes

Reason: Financial values contained throughout the report, including virements, are in excess of £500,000

Recommendations

The Executive is asked to;

i. Note the revenue and capital out-turn positions for 2021/22 as detailed within the report and the associated transfer of the **underspend of £0.691m** into the council's general revenue reserve as 31 March 2022

ii. Note the transfer to / from earmarked and capital reserves as set out in **Appendix 4**

iii. Approve the amendments to the revenue budget as detailed in **Appendix 1A**

iv. Approve the amendments to the capital programme as detailed in **Appendix 7**

v. Endorse the indicative spending plans for 2022/23 and beyond in respect of the Discharge to Assess programme as shown in **Appendix 9**, funding for which is held in an earmarked revenue reserve

vi. Delegate authority to the Director of Adult Social Services, with advice from the Section 151 Officer, to increase the relevant expenditure and income revenue budgets in 2022/23 in line with the proposed spend as outlined in paragraph 3.14

1. Summary of Report

This report builds upon a series of monitoring updates considered by the Executive over the past year and provides a summary of the council's financial performance at the end of the 2021/22 financial year now that all of the final information has been received, in respect of both its revenue and capital budgets.

It aims to inform Members of the key components within the out-turn position, together with an understanding of the associated impact that this will have upon the level of reserves that will be held in the council's balance sheet.

The report will therefore provide a link between council's internal monitoring framework which is presented to the Executive throughout the year, and the annual statement of accounts which are more complex and technical in nature and will be published on the council's website once shortly.

2. Policy

The council's budget monitoring is an integral feature of its overall financial and governance processes, ensuring that resources are planned, aligned and managed effectively to achieve successful delivery of its aims and objectives.

The 2021/22 revenue and capital budgets have been set within the context of the council's medium-term financial planning processes, which ultimately support the Corporate Plan. That being said, the council has continued to respond to the sustained effects of the global pandemic which has clearly impacted on a range of council strategies and services over the past 12 months.

3. Details

3.1. Introduction and context

The council's revenue budget for 2021/22 was approved in February 2021 and although was considered robust and deliverable at that time, it was predicated on an operational and financial environment that we still adapting and responding to the sustained impacts of the Covid-19 pandemic.

Whilst it was recognised that the impact of Covid-19 had reduced compared to the previous financial year, the council was aware that it still needed to continue to provide a range of support in the year ahead to many individuals, residents and businesses within the community as well as face potential areas of risk and volatility within its own budget, particularly in respect of shortfalls in income streams.

The council's financial monitoring over the past 12 months has shown that although the gross impacts of Covid-19 have been significant, these pressures have been largely managed and contained through a combination of additional specific government grants as well as the unallocated covid grant given to all councils as part of the 2021/22 local government financial settlement, which means that there has not been a negative impact on the council's financial performance during the year.

Covid impacts have been closely monitored within the relevant areas of the budget and further details have been included within each of the directorate summaries, found in Appendix 2.

It should be noted that these summarise also provide an opportunity to understand the additional pressures faced by managers when delivering services to the public, many of which relate to increased demands for core services.

3.2. Revenue budget out-turn – summary and headline messages

Shown below is a summary of the council's provisional out-turn position as at the end of March 2022. As noted above, the financial monitoring does contain both Covid and non-Covid impacts.

Revenue Budget Monitoring Summary 2021/22					
	Original	Month 12 Out-turn			
	Net Revenue Budget £000	Budget Share %	Revised Revenue Budget £000	Provisional Out-turn £000	Provisional Variance £000
Service Expenditure Budgets					
Adult Social Services	67,905	38.3%	67,955	68,305	349
Children's Services	26,512	15.5%	27,463	26,174	(1,289)
Corporate Services	25,739	13.8%	24,414	24,176	(237)
Place	29,565	17.4%	30,879	31,405	527
Public Health & Reg Services	911	0.5%	919	872	(47)
Capital Financing	10,674	6.0%	10,674	10,669	(5)
Other Non Service Budgets	16,118	8.5%	15,120	15,132	11
Total Net Revenue Budget	**177,423**	**100.0%**	**177,423**	**176,733**	**(691)**
General Fund Financing Budgets	(177,423)		(177,423)	(177,423)	0
NET REVENUE BUDGET TOTALS	**0**		**0**	**(691)**	**(691)**

The table is displayed in the council's standard financial monitoring template and depicts the reported position for each of the 'directorates' in turn, as well as portraying an aggregated picture of all council services, along with the resources used to fund all services.

Key messages and headlines which can be taken from the table above are;

- The amount of money the council had approved for spending during the year was £177.423m (blue shaded column)

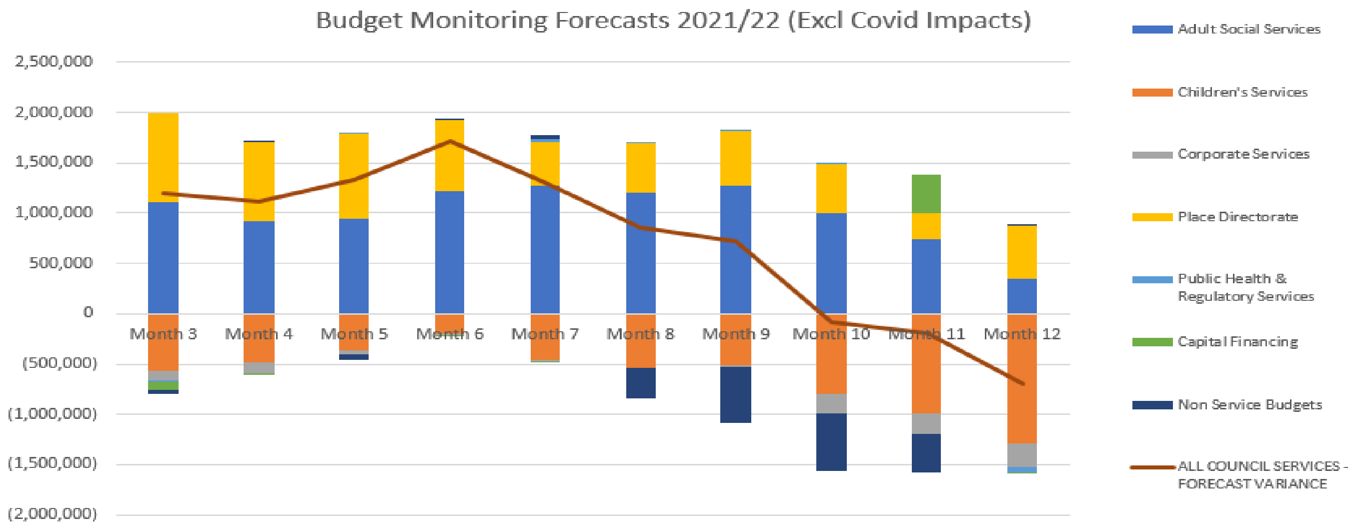
- The provisional out-turn position indicates that the council has spent £176.733m on delivering its services, which is **less** than the approved budget (yellow shaded column)

This means that the council has achieved an **under spend of £0.691m** on its overall net revenue budget for the year, which is an excellent outcome given the challenged faced by many services over the past year.

This sum will be transferred into the council's General Fund Reserve and be held to mitigate against unforeseen future risks and pressures.

The council has therefore maintained delivery of core services to residents and the wider community, managed its budget to remain within the approved financial limits, and also increased the level of its general reserve by £691k – taking the balance to **over £9.7m** at the end of the year, **or 5.5%** of the net revenue budget for the year.

The chart below shows how the council has continued to monitor and update its financial forecasts throughout the year, with some or all of this information being reported to a range of stakeholders including the Corporate Leadership Team, the Executive, Scrutiny Panels and Audit Committee as appropriate. Financial monitoring information is also integrated within the council's performance management framework.



Officers across the council have worked hard over recent months to review all areas of the budget to identify mitigations which could be used to offset the financial pressures faced in some notable areas, many of which have arisen because of increased levels of demand.

3.3. Revenue budget out-turn – Covid-19 income streams and impacts

Several of the council's budgets have continued to be impacted by Covid-19 over the course of the past year, whether this be as a result of additional expenditure being incurred, support being given to individuals, business or contractors, or losses in planned income. Some of these outcomes have been funded by specific ring-fenced Covid grants and other areas have been funded from the council's general Covid grant, which has no conditions or restrictions.

The information noted below highlights the more significant Covid related income sources and has been extracted from each directorate position to enable the scale of a council-wide 'Covid' position to be understood.

Covid related income reflected within the revenue budget	**Specific Grant £000**	**General Grant £000**	**Sales Fees & Charges £000**	**Furlough Grant £000**	**Total Income £000**	Material Covid grants
Adult Social Services	7,460	0	0	0	**7,460**	Infection Control & Testing, Workforce Recruitment & Capacity Fund
Children's Services	1,174	0	56	3	**1,233**	Covid Winter Grant, Education Well-being, Various schools grants
Corporate Services	1,292	0	144	0	**1,437**	Household Support Fund
Place	3,193	0	306	5	**3,504**	Leisure, Transport, Active Travel, Bus Support, Discretionary grants to Individuals and Businesses
Public Health & Regulatory Servic	7,223	0	0	0	**7,223**	Local Outbreak Management Plan, Contain Outbreak Management Fund, Clinically Extremely Vulnerable
Non Service	260	4,975	1	0	**5,236**	New Burdens funding, unallocated grant
Council Tax Support	1,923	0	0	0	**1,923**	Provide discretionary council tax support scheme
	22,525	**4,975**	**507**	**8**	**28,016**	

Covid grant conditions have been reviewed to ensure that any unspent monies are accounted for appropriately.

3.4. Revenue budget out-turn – other significant budget variances and key issues

All elements of the council's operational revenue budgets have been monitored and forecasts shared with senior officers and Members throughout the course of the year. Although it should be noted that given the scale and breadth of services provided by the council, as well as the complexity of its financial arrangements, the council's budget monitoring assurance framework focuses on exceptions, i.e. whilst the council reviews all areas of its budget performance, it only actively reports on those areas of the budget that are shown to have a material difference when compared to the budget that was approved for the year or which may require additional review or investigation.

This way budget managers, senior leaders and Members can review any service areas which could potentially provide an opportunity or a concern, depending on the type of variance being reported. Care is taken to review and assess which of these issues are likely to be one-off in nature and which may continue to be a feature in future years. These ongoing pressures are fed into the council's medium term financial planning processes meaning that they are considered within the context of understanding and approving budget plans for future years.

A detailed analysis of the reporting information from each Director is included within this report and can be found in **Appendix 2**. Each of these summaries provide;

- an overview showing the total budget delegated to each director,
- how this budget has been allocated across different services,
- how much the relevant director has spent on service delivery at the end of the year,
- a listing of any material budget variances that have arisen

However, a summary of the largest variances or most notable issues which have arisen during the current financial year have been extracted and are listed below. Many of these issues have been described in detail in previous reports or are being actively considered by the relevant policy and scrutiny panel as part of their annual work-plans.

£m	Significant or notable budget variances
2.221	Individual care and support packages within Adult Social Care
-1.252	Reduction in Adult Commissioning and Service Delivery costs
-0.648	Reduction in Housing related spend following receipt of grant
-8.293	Additional income from Integrated Care S256 Agreements
8.293	Transfer into earmarked reserves (Adults and Healthier Together Matched Funding)
-1.539	Underspend in placement costs for children looked after
0.527	Increased costs of community support and supporting children with disabilities
0.363	Increased costs of support service contract and associated budgets
-0.391	Net reduction in property related costs, partly off-set through increased income
0.462	Net overspend in Home to School Transport budgets (gross £0.960m)
0.544	Increased costs associated with Planning services and activites
-0.367	Net underspend in staffing related budgets
-0.324	Net reduction in highways, electrical and traffic management services
-1.324	Release of the council's contingency budget
-4.218	Underspend on the council's corporate covid budget
5.542	Transfer into earmarked reserves (financial risk reserve and covid reserve)
-0.287	All other budget variances within the council's revenue budget
-0.691	**Total net under spend achieved in 2021/22**

As noted above, the net under spend of £0.691m will be transferred into the General Fund Reserve.

3.5. MTFP savings proposals 2021/22

Included at **Appendix 3** is a schedule of the budget reductions and savings plans that were incorporated into the 2021/22 base budget, together with an assessment showing the status and progress for each of the plans, as well as an indication of the final values achieved by the end of the year.

Despite the ongoing challenges faced over the past year, these items remain a feature within the monthly budget monitoring processes and are regularly reviewed by directorate leadership teams. The out-turn assessment indicates that whilst not all of the original savings plans were achieved in full, the overall quantum of savings was reached as a result of other savings achieving more than originally intended. These savings will remain within the base budget and managers will be required to ensure that delivery plans are put into place for future years, or alternative plans brought into replace any areas where that may no longer be possible.

3.6. Spending on priorities

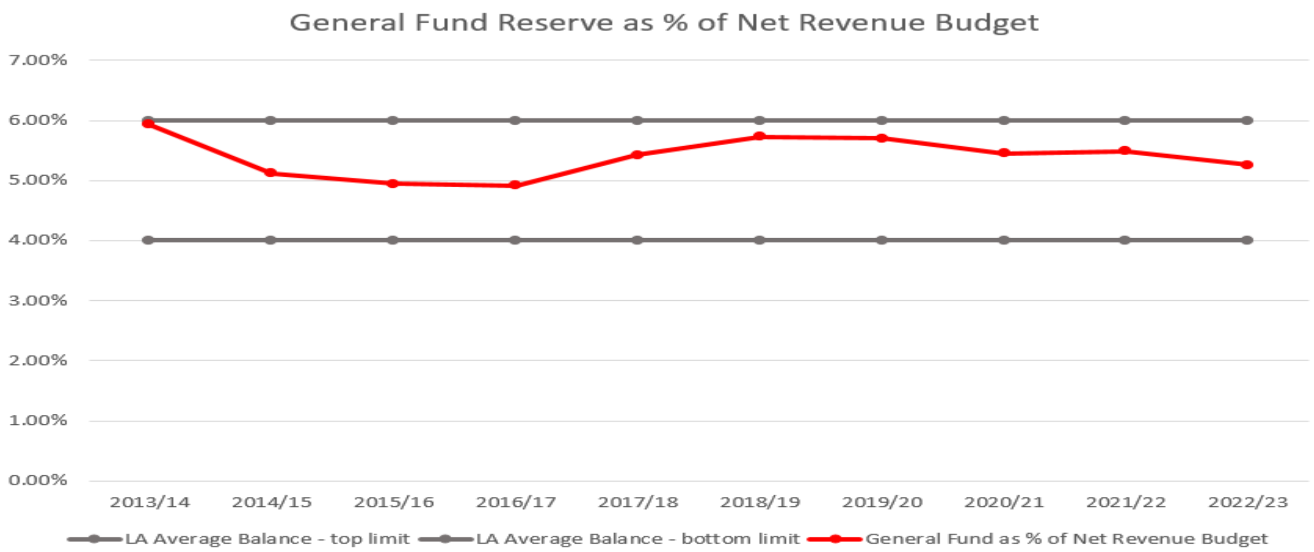
Over recent years in addition to core spending on essential services, the council has also focused resources on delivering priorities reflected within the Corporate Plan. In the 2021/22 revenue budget £1.1m of funding was included to provide targeted investment in a range of community inspired projects to facilitate improvement outcomes. **Appendix 4** provides further information on the areas selected and some of the projects undertaken. Additional investment of £750k was included within the capital programme to support improvements in the ‘Great Lakes’, these being in Clevedon, Portishead and Weston.

3.7. Reserves – general revenue reserves

The council’s general reserve balance at the start of the year was £9.053m, which equated to approximately 5.1% of the original net revenue budget of £177.423m. This reserve is not usually held to fund spending priorities, instead it seen as a working balance to cover unforeseen or unavoidable financial risks.

It has been anticipated in monitoring reports throughout the year that the only draw on these reserves would be the potential requirement to fund any residual over spend remaining at the end of the financial year however, as noted from above, the council has managed to achieve an under spend of £0.691m on the revenue budget which means that the closing balance on the reserve will **increase to £9.744m**, or approximately **5.5%** of the net revenue budget.

Although the optimum level of general reserves to hold is a subjective decision for each council to consider dependent upon many risk factors, a general rule of thumb, often widely supported by external auditors, indicates that a minimum level should equate to between 4-6% of the authority’s revenue budget and therefore as can be seen from the chart below, current level of £9.744m is within desired levels.



That being said, the council is acutely aware of the current economic factors that have started to emerge over recent months, specifically in respect of rising inflation rates which are driving up the costs for many of the council's services and will create significant areas of risk and pressure within the 2022/23 budget. The council has started to implement a series of measures to understand those areas likely to be most affected by these issues and also evaluate the potential impact so that it can establish a detailed financial strategy and action plan, not only for the 2022/23 financial, but also one that will feed into the medium term financial planning processes.

3.8. Reserves – usable reserves

In addition to the general reserve balance the council also has a series of reserves which it can use to support spending within the revenue or capital budget, smooth impacts across financial years or hold to cover future financial risks. These are known as '**usable**' reserves and are held on the council's balance sheet.

Ear-marked reserves are largely created in order to;- provide resources for a range of one-off programmes, invest in planned future expenditure or service improvements, deliver the outcomes required by unconditional service related grants received from the government and / or external partners, or to provide the council with cover from potential financial risks.

Their planned use is part of an effective strategic financial plan although it should be noted that;

- some of these reserves are more 'general' in nature whereas other reserves are 'earmarked' and held for specific purposes

- some of these reserves are more regulated and need to follow prescribed guidance, whereas other reserves have a degree of flexibility or choice

Directors manage these resources alongside revenue budgets and routinely share details of the planned transfers between reserves and their revenue budgets within the monthly budget monitoring framework, and these have been included within each of the published reports over the past year.

An updated summary combining all of the council's usable reserves is provided at **Appendix 5**, which reflects the opening balance at the start of the financial year, together with the final balance held in the reserve at the end of the financial year. A more detailed schedule which identifies movements into, or out of the council's revenue budget will be included within the statutory accounts which will be published over the next few weeks.

At an overall level the schedule shows a positive or healthy position in that the overall level of usable reserves held by the council has increased from £101.344m to **£120.542m** over the year. However, given the ongoing context of the pandemic and the rising inflationary rates it is extremely important to understand the significance of the balances held in some of these reserves at the year-end, any regulatory framework surrounding them, as well as their planned future use, which means that they are currently fully allocated, and therefore not available to fund new pressures, initiatives or priorities within the revenue budget. Recent modelling and profiling undertaken has been included at the end of the Appendix to provide an overview of the councils strategic financial planning in this area.

An overview of material items transferred into reserves at the end of the 2021/22 financial year is shown below;

- **Covid-19 response and risk reserve – £4.5m** – over the course of the pandemic the government has provided a range of unallocated funding packages to local government in order to help defray some of the pressures experienced within their financial plans and revenue budgets. A proportion of this funding has been applied to finance impacts within the 2021/22 revenue budget whilst other sums have been transferred into earmarked reserves to fund risks, plans and initiatives which will be delivered in future years.

- **Section 256 Agreements reserve(s) - £5.6m (Adults) and £2.472m (Corporate)** – in April 2022 the Executive were advised that the council had entered into partnership arrangements with the Clinical Commissioning Group (CCG) to facilitate joint working on a range of integrated care related projects and initiatives. As a result, the council received significant amounts of income that were not included within its original budget. Given that this income is supported by S256 agreements and can only be used to deliver the agreed outcomes, the monies have been transferred into earmarked reserves to support spending in future years.

- **Collection fund smoothing reserve - £10m** – as noted in para 3.10 below, the council is required to account for an unusual situation within its revenue budget at the end of the 2021/22 financial year. The council has been awarded a Section 31 grant to compensate it for changes to the national business rate relief scheme, which resulted in a significant loss of business rate income previously due to the council. Due to the accounting arrangements associated with the Collection Fund, the loss of income will be recognised in a future financial year, whereas the S31 grant has been received in the current financial year, and so the grant has been transferred into the smoothing reserve so that it can be applied at the appropriate time. These monies cannot be used for any other purpose.

- **City-Region Deal reserve - £5.9m -** the City-Region Deal reserve is a technical reserve used to account for the council's share of resources which will be pass-ported into the accountable body for use at a later date.

- **Capital grants and receipts - £15.5m -** the council holds a variety of assets, the majority of which are either operational and used to deliver services or held as a long-term investment to generate capital appreciation, or alternatively, deliver a return into the annual revenue budget. Capital receipts are generated when the council sells an asset - although there may be timing differences linked to asset sales and capital expenditure, all of the council's capital receipts have been allocated as funding for schemes and projects within the approved capital programme.

  In addition to revenue grants, the council also receives capital grants which are ring-fenced to fund projects and schemes within the capital programme, meaning that they cannot be reallocated for alternative purposes.

As in previous years the Finance Service have undertaken a detailed review of earmarked reserves as part of their closure of accounts work-plan in order to ensure that all reserve balances are appropriately held and are still aligned to key council priorities. Whilst noting that the level of reserves has increased, the review highlighted that the majority of reserves were in fact contractually committed, allocated to agreed projects and programmes or being held to cover risks and uncertainties associated with either the pandemic or inflationary risks.

3.9. Reserves – unusable reserves

In addition to 'usable' reserves, which can be used to support spending through the revenue budget or capital programme, the council's balance sheet also includes a small number of '**unusable**' reserves.

These are funds that cannot be used to provide services or used for day to day running costs as they are either largely linked to areas that have 'unrealised gains or losses' or support technical adjustments required within the statutory accounts. A summary of these reserves has been included at the top of Appendix 5.

However there are several reserves which may impact on the council's revenue budget in the short-term and these include; the Collection Fund Adjustment Account, the Dedicated Schools Deficit Account and the Pooled Funds Adjustment Account. The collection fund movements have already been reflected within the council's medium term financial plan, whereas the other two reserves have statutory over-rides in place which means that the council is legally required to account for these balances in this way, until such time as regulations are updated. It is anticipated that there may be changes to the guidance for these areas.

The Revaluation Reserve, the Pensions Reserve and the Capital Adjustment Account are unlikely to have a significant impact on the revenue budget in the same way and will be held on the balance sheet for longer-periods of time and will change as a result of future valuations, capital spending and asset disposals.

3.10. Schools Budgets and the Dedicated Schools Grant

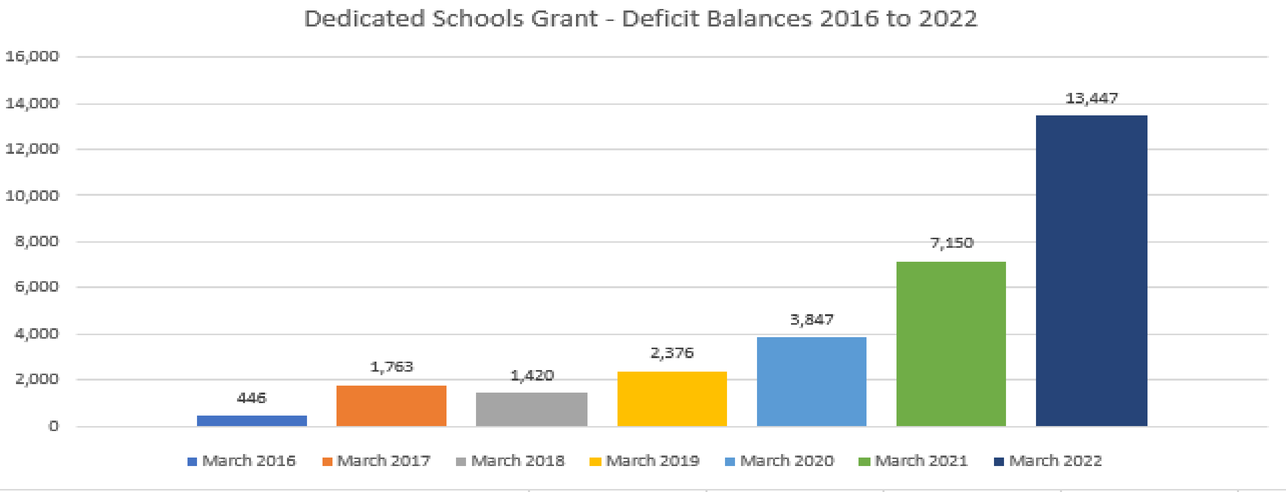
The Dedicated Schools Grant (DSG) is a ring-fenced grant, which must be used in support of the schools' budget. The majority of the funding is for academies and is paid direct to them by the Department for Education (DfE), using the formula agreed by the Strategic Schools Forum for funding all schools in North Somerset, whether they be maintained or not. The council's total DSG allocation for 2021/22 is approximately £183m and is shown in the table below.

Block	Total DSG (£m)	Deductions (£m)	DSG payable to NSC (£m)	Notes
Schools	141.093	128.948	12.145	Formula driven funding for individual schools, including academies
Central Services	1.793	0	1.793	Funding, admissions, inclusion and historic borrowing costs
High Needs	28.534	3.436	25.099	Special schools, Top-Up Funding, Alternative Provision,
Early Years	11.813	0	11.813	Formula driven funding for individual providers
TOTAL	**183.233**	**132.384**	**50.850**	

Although spending on schools' budgets and the DSG grant are included within the councils' annual revenue budget, any surplus or deficit that may arise at the end of each financial year must be held separately to other council services and is transferred into a reserve on the balance sheet, these sums are not included within the general fund balance.

Over recent years the council, along with many other local authorities have experienced significant pressures within the High Needs block, which is the area of the budget which funds special schools and alternative provision, as well as top-up funding to cover the costs for children with special education needs and disabilities who require additional support in their school and learning environment. In large part, the increasing deficit reflects the 108% increase in the number of children and young people with an Education, Health and Care Plan (EHCP) from 2016 to 2021, and a 23% increase in the last year.

The graph below shows the level of DSG deficit held since 2016.



Medium term measures to mitigate spending increases include the implementation the Specialist and Alternative Provision Review and Education Commissioning Strategy, which includes the following key projects: -

- The submission and progression of a bid to the DfE as part of the Wave 13 SEND and AP Provision Free School Bid, for a 65-place Emotional and Mental Health (SEMH) Special School within North Somerset
- The commencement of the programme and statutory process to deliver an expansion to Baytree Special School to a new site with facilities for 65 new places for pupils with severe and profound learning disabilities.
- Expansions to Westhaven and Ravenswood Special Schools
- Further specialist units to support young people

Recent modelling, which takes into account forecasts for the increasing number of young people requiring specialist provision, indicates that, in the absence of a further exceptional funding injection from the government, there is little prospect of reducing the overall deficit in the short term, although it is possible that the in-year deficit could reduce by 2024/25.

Officers discussed our DSG Management Plan with officials from the Department for Education (DfE) at the end of July 2020 and again in September 2021. They raised no concerns about our approach, although they are keen to monitor progress against the five key themes of our SEND Improvement plan, which are as follows, and for us to quantify the likely positive impact on the DSG deficit.

- Identifying SEND earlier
- Supporting increased inclusion in mainstream schools
- Early Help - right support, right time, right place
- Developing local provision
- Evaluating outcomes and improving the value of high-cost placements

On 17 February, the Council received notification that we are invited to take part in the “safety valve” intervention programme with the DfE in the second half of 2022/23. The aim of the programme is to agree a package of reform to the high needs system in order to address the DSG deficit. The programme requires local authorities to develop substantial plans for reforms with support and challenge from the DfE to place the DSG and the high needs system as a whole on a sustainable footing.

3.11. Collection Fund out-turn

The council annually levies charges on both residents and businesses through council tax and business rate demands and this locally generated income is used to help pay for services. The budget for the 2021/22 financial year shows that the council expects to receive over £154m of income from these sources, which equates to over 87% of the original net revenue budget.

The income is recognised within the council's accounts as a 'precept' which is drawn against the collection fund, which is a ring-fenced arrangement used to administer all related income on behalf of the following parties;

- Business Rates – North Somerset Council (49%), Avon Fire Authority (1%), Central Government (50%)
- Council tax – North Somerset Council, Avon Fire Authority, Police & Crime Commissioner for Avon & Somerset, Town and Parish Councils

The accounting arrangements for the collection fund are more complex and are actually different to other parts of the council's budget and mean that the council will levy and receive the same fixed annual budgeted sum each year, irrespective of any in-year movements which have arisen during the course of the year. All surplus or deficit positions generated, are transferred into an 'unusable' reserve, shared proportionately across all of the preceptors, and then reflected as an actual transaction within the accounts in subsequent years.

This means that although we have been closely monitoring the financial performance of the collection fund during the year to understand the impact that the Covid-19 pandemic has had, impacts will largely feature in future years. The out-turn positions for each of the areas are noted below.

Business rates

The out-turn position in respect of business rates income shows that there is a deficit of £8.061m at the end of the 2021/22 financial year, and the council's share of this is £3.950m.

It should be noted that a significant proportion of the income short-fall relates to the government policy of awarding of additional relief granted to businesses who operate within the retail, hospitality and leisure sectors in an effort to continue to support them through the pandemic.

The government has been clear that this was the continuation of a national policy decision which will be fully funded and so the council will receive 100% reimbursement for all relief awarded under the policy. The reimbursement mechanism used by the government is via a Section 31 Grant, which has been recognised as income during the 2021/22 financial year.

However as noted above, the business rate deficit on the collection fund will not show in the council's annual accounts until the 2022/23 financial year, and so the council has transferred all of the Section 31 retail relief grant income into an ear-marked usable reserve at the year-end in order to smooth the accounting impacts across both financial years.

Council tax

The out-turn position in relation to council tax shows a small in-year deficit of £0.193m compared to budgeted position at the start of the year, and the council's share of this is £0.161m. The loss is the combined result of several factors although largely relates to an increase in the amount of discounts and reliefs awarded to households, most notably the single persons discount.

At the start of the year the government provided the council with a specific grant of £1.922m so that it could help to mitigate against future council tax losses and also enable the council to support households who may be affected by the sustained impacts of Covid-19 by funding a discretionary scheme. During the year the council awarded over £1.273m of funding to eligible residents through its discretionary council tax support scheme.

Covid Funding

As in previous years the government continued to provide financial support to councils who may have suffered losses in their collection fund accounts as a result of Covid-19. This support mechanism allows councils to spread estimated losses over a period of three financial years and then funded through a specific collection fund losses grant. The values for this are included within the detailed analysis for Resources included in Appendix 2 although are not considered material.

3.12. Capital budget out-turn

Appendix 6 presents Members with a detailed schedule showing all of the schemes included within the council's approved capital programme, which included the budget for the current years and the following three financial years. This shows that the council's overall programme totals £308.598m, **£94.368m** of which relates to the 2021/22 financial year.

The capital summary shows that the council has spent £45.389m during 2021/22, which equates to 48% of its budget for the year, although has placed commitments for scheme totalling a further £20.192m which would increase the spending to 70% of the annual budget, which is much more in line with recent years.

Officers are currently reviewing how much of the unspent balance will be required in future years and as a result this some budgets will be 'slipped' and included within next years' programme in line with delivery and completion of the schemes.

Capital expenditure incurred during the year will be transferred to the council's balance sheet as a long-term asset if it has been spent on increasing our asset base, for example, expenditure incurred on buying back sheltered leasehold properties, the building of the new secondary school (Winterstoke Hundred) or monies spent on increasing or enhancing our infrastructure network.

Expenditure incurred during the year which has not resulted in a council owned asset will be charged to the revenue budget as a technical accounting adjustment, for example, projects relating to the expansion of academy schools to deliver more school places, or capital grants given to housing association providers.

In addition to the capital expenditure costs, the schedule also provides details of how these schemes will be funded in the future and what types of resources will be used. The largest proportions of the programme will be funded following the award of external grants and contributions (£215.776m), capital receipts from the sale of assets (£15.778m), deposits and reserve balances brought forward from previous years (£2.341m) and by increasing the council's long-term borrowing (£74.704m).

Funding used during 2021/22 to finance actual levels of capital expenditure were as follows;

- £35.746m grants and contribution sources, some of which were received in-year and some in previous years
- £ 2.109m capital receipts
- £ 2.712m capital deposits and reserves
- £ 4.822m long-term borrowing

Whilst this summary provides information in respect of the final out-turn position for the year, the underlying financial monitoring and governance processes have highlighted increasing areas of financial risk in some areas.

The council recognises the benefits of delivering major capital investment within communities across the district but does however note that such projects may be impacted by a range of issues, some of which could result in a future budget pressure. As a result the council is currently undertaking a detailed piece of work to try to quantify the levels of financial risk within all of its capital projects, also taking the opportunity to note and understand some of the mitigation measures already in place, for example, contingencies held within project budgets, fixed priced procurement opportunities, regular assessment by quantity surveyors. The outcomes of this review will be presented to the relevant governance boards in the first instance before being included within future monitoring reports.

3.13. Capital budget amendments

Appendix 7 details changes to the approved capital programme reflecting re-phasing of capital works, new projects, and other decisions recommended for approval by the Capital Programme, Planning and Delivery (CPPD) Board or the Section 151 Officer. This in an ongoing process and forms part of the governance arrangement and so these changes do require formal approval through this report.

The Department for Transport (DfT) announced on 19th April 2022 that there was a further delay to consent for construction of MetroWest Phase 1. The Development Consent Order application for the scheme – which would re-open the Portishead to Bristol rail line and enhance local passenger services on the Severn Beach and Westbury/Bath to Bristol lines - was first submitted to the DfT in November 2019.

Following the announcement, council officers and executive members have been working with WECA colleagues to lobby the DfT for support to manage risks and close the significant funding gap which has arisen from cost pressures and delays to the scheme. Whilst the exact scale of the project budget deficits has remained commercially sensitive due to ongoing procurement processes, a report will be brought to full council on the 22nd July 2022 which will update members on progress and outline next steps for the scheme.

3.14. Statutory report of the revenue out-turn position

Each year the council is required to publish details of its financial activities within the annual Statement of Accounts, so that they are available for review by members of the public and other interested parties, and also for inspection by external auditors.

The deadline for publication of the draft Accounts is usually 31 May however due to Covid-19, this requirement has again been deferred until 31 July 2022, as it is recognised that councils currently have other priorities to consider at this time. Finance officers are continuing to progress and it is anticipated that the councils' full set of draft accounts for 2021/22 will be published on the website shortly. The statutory date for local authorities to publish the audited statement of accounts has also been deferred, with the revised date being 30 November.

Local authorities in the United Kingdom are required to prepare their formal accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which is issued by Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code specifies the principles and practices of accounting specifically for local authorities, and does include differences to other organisations, although the statutory accounts are still required to provide a true and fair view of the financial position, and also reflect a summary of the transactions of the council during the course of the year.

As a result of the specific legislation the council's 'statutory accounts' **do** include transactions and adjustments which are not fully reflected within the monthly budget monitoring reports presented to Members, as they are technical in nature and <u>do not</u> directly impact on the council taxpayer. Examples of such adjustments include items such as depreciation of the council's asset base, the profit or loss on the disposal of fixed assets, and the impacts of the annual changes and revaluations within the council's pension fund liabilities.

Appendix 8 provides a summary of the council's revenue budget out-turn position for 2021/22 which is displayed in the standard monthly budget monitoring presentation, as well as the format required within the statutory accounts. This enables a comparison of the different reporting formats and provides a reconciliation between the two.

The financial summary shows that the council;

- has achieved an underspend of £0.691m on its revenue budget for the year which means that this will be transferred into the General Revenue Reserve are required (see column 1),

- has made a net contribution into its reserves of £13.671m (see column 2)

- has reflected a net surplus of £16.212m when providing services within its Comprehensive Income and Expenditure Statement at the end of the year (see column 6).

The appendix also shows that the council has reflected £1.849m of technical adjustments which have been reversed out within the council's unusable reserves, using statutory mechanisms to avoid a financial impact on the council taxpayers of the area. A full breakdown of these adjustments has also been included within Appendix 8.

Please note that small roundings may appear within these some extracts and financial tables which will be corrected within the published accounts.

3.15. Section 256 Integrated Care agreement

Members will recall that the Bristol, North Somerset and South Gloucestershire (BNSSG) Clinical Commissioning Group (CCG) has made a number of contributions to the council via the Integrated Care S256 agreement, the latest of which were reported at the Executive meeting on 29 April 2022.

After spending in relation to the social care schemes that were approved at the last meeting of the Executive, a balance of £4.356m will remain in the earmarked reserve. The S256 agreement requires that this funding is prioritised to fund transitional costs and mitigate risks associated with the delivery of the Discharge to Assess Business Case, which is a jointly funded programme of projects designed to reduce the length of stay in hospital (and the number of beds commissioned) through prioritising rehabilitation and reablement in the community.

Examples include recruitment and retention initiatives for domiciliary care, social work assessment and discharge support capacity, the continuation of the purchase by the CCG of Pathway 3 beds, due to difficulties in recruiting support to Pathway 1 and delayed benefits to the CCG in reducing the use of acute beds.

Each area of spending will go through an approval process within Healthier Together, through either the Commissioning Arrangements and Finance Group (bids up to £250,000) or the Discharge to Assess Programme Board (bids over £250,000); both these groups have representation from both North Somerset Council and the CCG.

It is proposed that, following the approval process described above, the required increase to Adult Social Care budgets and associated spend should be delegated for approval to the Director of Adult Social Services with advice from the S151 Officer.

4. Consultation

The report has been developed through consultation and engagement with the council's corporate leadership team, directorate leadership teams and with nominated budget managers.

5. Financial Implications

Financial implications are contained throughout the report.

6. Legal Powers and Implications

The Local Government Act 1972 lays down the fundamental principle by providing that every local authority shall make arrangements for the proper administration of their financial affairs, although further details and requirements are contained within related legislation. The setting of the council's budget for the forthcoming year, and the ongoing arrangements for monitoring all aspects of this, is an integral part of the financial administration process.

7. Climate Change and Environmental Implications

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are considered by service managers when creating and monitoring their budgets and may be referenced or noted, where appropriate, throughout the report or associated appendices.

8. Risk Management

The council maintains a financial risk register to enable it to understand a wide range of risks that may give rise to a financial consequence or impact. This is reviewed on a monthly basis alongside the detailed budget monitoring forecasts and results are shared with the Corporate Leadership Team as a supporting document within their financial discussions. The financial risk reserve is integrated with other risk registers held by the council including those which may support both operational service delivery as well as strategic issues. Given that it is a live register it is updated to reflect current year risks as well as those that may be considered over the medium term.

9. Equality Implications

The 2021/22 revenue budget incorporates savings plans approved by Members in February 2020 all of which are supported by an equality impact assessment (EIA). These EIAs have been subject to consultation and discussion with a wide range of stakeholder groups to ensure all risks have been identified and understood.

10. Corporate Implications

There are currently no specific corporate implications within the report. The relationship between the budget process and its continued ongoing monitoring arrangements have to be fully integrated if the council is to achieve the required financial outcomes it requires. Members will be aware that robust financial management and strong internal controls will play a key part in delivering successful service outcomes as well reducing financial risk.

11. Options Considered

None.

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Appendices:

Appendix 1	Revenue Budget Monitoring Summary 2021/22 & Approved Virements
Appendix 2	Directorate Budget Monitoring Summaries – showing key variances
Appendix 3	Monitoring of the 2021/22 MTFP Savings
Appendix 4	Summary of Investment Priorities
Appendix 5	Summary of Reserves
Appendix 6	Monitoring of the Capital Programme 2021/22
Appendix 7	Summary of Changes to the Capital Budgets – to be approved
Appendix 8	Reconciliation of the Revenue Budget Out-turn Statement 2021/22
Appendix 9	Discharge to Assess spending plans 2022/23

Background Papers:

- Executive, February 2021 – Medium Term Financial Plan and Capital Strategy reports, which incorporate the 2021/22 revenue and capital budgets
- Executive, September 2021 to April 2022 – Budget monitoring reports