

North Somerset Council

Report to the Partnerships, Corporate Organisation and Overview Management Policy and Scrutiny Panel

Date of Meeting: 21 July 2022

Subject of Report: Corporate Services Finance Update

Town or Parish: All

Officer/Member Presenting: Head of Finance

Key Decision: No

Recommendations

That the Panel notes the range of financial information presented in respect of the 2022/23 revenue budgets for the corporate services directorate, including the key risks and issues currently being reviewed by the directorate management team.

1. Summary of Report

This report provides an overview of the annual revenue budgets for the corporate services directorate for the 2022/23 financial year to enable members to understand the core resources allocated to each of the service areas within the directorate, as well as the key drivers that could influence future levels of spending or income receipts during the year.

The report also provides a high-level summary of the notable financial risks and pressures currently being monitored and reviewed by management, in advance of the formal budget monitoring report, which will be prepared at the end of July.

2. Policy

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

The 2022/23 revenue budgets have been set within the context of the medium-term financial planning process, which was approved by Council in February 2022, and which supports the Corporate Plan through the period 2020-2024.

3. Details

3.1. Introduction and context

The Corporate Services directorate is complex in that it provides a range of services that can be accessed by the public and other stakeholders, as well as by colleagues and services who operate elsewhere within the Council, which means that it has many customers. In addition, the directorate also holds and manages budgets centrally, on behalf of the Council as a whole, even though it may not be responsible for managing the decisions, activity or costs that go into these budgets.

Examples of these areas are provided below;

- Services provided to the public or other stakeholders, or which the public can access – customer services, digital website team, register of electors, elections, registrars, scrutiny, insurance, partnerships team
- Services provided to other areas within the council – legal and democratic services, procurement, human resources, health and safety, finance, business intelligence, ICT, exchequer, payroll
- Costs that are held centrally – telephones, postages, office accommodation, insurance premiums, severance, former employees pensions, commercial investments, archiving services (for historical matters)

Some of the functions and services included within the directorate are provided by staff directly employed by the Council, whereas other services are commissioned from external providers. The most significant contracts being;

- Support Services Contract – c£15m - Agilisys – includes ICT, revenues and benefits, contact centre, business support
- Internal Audit and Information Governance Contract – c£400k - Audit West

Further information, which will allow a greater understanding of the corporate services budgets and their make-up, has been provided within the following Appendices attached to this report.

- Appendix 1 provides a list of services and their approved budgets for the year
- Appendix 2 provides a subjective analysis of the approved budget, which shows the types of income and expenditure that is included within the budget
- Appendix 3 provides a summary of the salary staffing budgets within the directorate
- Appendix 4 provides a list of budget savings that are included within the budget
- Appendix 5 provides details of the key risks being monitored at this time
- Appendix 6 provides a list of earmarked reserves held by the directorate, which could be used to deliver defined outcomes, smooth financial impacts, or held to mitigate risk in the future
- Appendix 7 provides additional supporting information which may be useful in either the understanding the base budget or some of the emerging risks

3.2. Financial monitoring for 2022/23

When reviewing the budgets each year a risk-based approach is taken so that the Council ensures that it spends more time looking at those areas that may contain the highest levels of spending or highest levels of risk.

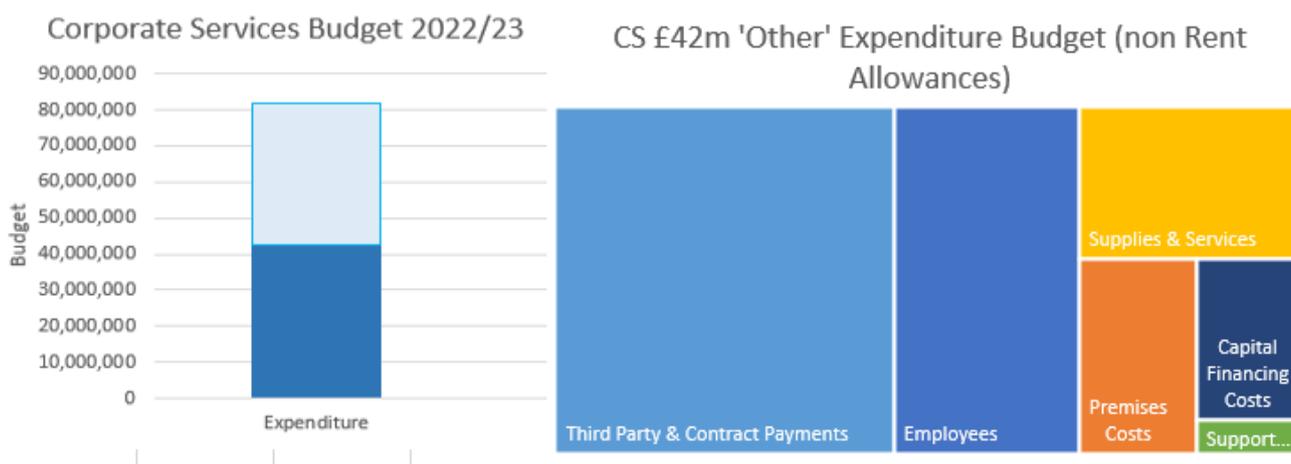
When assessing the risks faced by the directorate in the year ahead it is important to understand the core components of the expenditure budget, the types of costs being incurred, together with any assumptions or factors that may influence the amount of expenditure that might be spent during the year. It is also important to know whether the Council can control any of these factors.

Similarly, it is also important to understand what income the directorate is expecting to receive, where will the income come from, what is it for, as well as any factors which might change the sums due in the future.

The following sections look at the key risks that may impact on the corporate services revenue budget during 2022/23.

3.2.1 Expenditure related risks

The charts below show that the directorate has approval to spend a total of **£82m** delivering services during the year. Approximately £40m of this will be spent on providing housing related support to residents, in the form of rent allowance payments, and the remaining £42m will be spent on all of the other services that are delivered by the directorate.



The amount of expenditure actually incurred by the Council over the course of the year will vary depending on a range of factors, some which will be driven by external factors that are outside of the Council's control, whilst others will be influenced by decisions taken by the Council. The information below provides an overview on the main elements of the corporate services expenditure budgets and some of the assumptions that underpin them:

- Rent allowances – expenditure levels will change depending on the numbers of claims made by residents and payments made using Government rates. All elements are outside of the Council's control, although it should be noted that rent allowance payments are subsidised by the Government which does reduce the Council's exposure to risk.
- Contract costs – will change depending on volumes and values;
 - Volumes – the type and nature of services required by the council,

- Values – the annual contract price, that will rise each year to take into account inflationary clauses, and which are often linked to external indices or measures.

The largest contract within the directorate delivers a range of internal Support Services and is required to increase by a combination of Retail Price Index (RPIX) and the value of the Council’s own pay award. The Council has provided the known amount for RPIX within the base budget, and a 2% allowance for the staff pay award.

- Employee salary costs – will also change depending on volumes and values;
 - Volumes - how many staff are employed / how many posts are vacant,
 - Values - the value or rate of pay – a significant factor will be the amount of the annual pay award increase which is approved by the employers and trade unions through the National Joint Council (NJC) for local government; and is obviously outside of the Council’s control. The revenue budget includes provision for a 2% increase in pay – the actual increase will be known later in the year once agreed, following a series of discussions and negotiations.
- Premises costs – some of the Council’s premises costs will either be fixed for the year or may not vary too much from the budgeted values, however areas to note that may change are;
 - Energy prices – the Council’s rates will increase in October and so could be higher than the amounts budgeted,
 - Repairs and maintenance costs – which will fluctuate depending on building survey reports,
- Supplies and services – many of these costs are directly linked to levels of activity and so future spending throughout the year will be variable and could be higher or lower than budgeted sums. Examples of cost drivers for this area include; the numbers of letters posted by the Council, the amount of phone calls or mobile data units used by staff, the volumes of transactions processed through the bank accounts.

3.2.2 Income related risks

The base budget assumes that the directorate will receive over **£54m** of income during the year, and the chart below shows the types of income budgets that are held and managed within the directorate, along with commentary on the assumptions and risks associated with the main areas.

Corporate Services Income Budgets 2022/23



- Rent allowances – **c£40m** - the Department for Work in Pensions receive detailed reports from the Council at points during the year so that they can monitoring

spending across the different categories of support given. Subsidy rates are applied to each category so that the Council can then forecast future income streams. Whilst the Council cannot directly influence the numbers of claims made or associated spending, its actions can influence subsidy levels as lower rates are applied to overpayments or errors.

- Commercial investments – the Council’s budget assumes that it will receive over **£5m** from its two commercial investments during the year. The majority of income is expected to come from tenants to cover both their rent and service charges, with £900k expected from car parking charges. There are various risks associated with these budgets, the majority of which are outside of the Council’s control.

The Council recognises that there are a range of risks associated with such investments and has established a Smoothing Reserve as part of its mitigation measures.

- Support services trading income – the Council currently generates £1.8m of additional income through trading some elements of its support services contract, although there is minimal risks associated with such arrangements as the Council only acts as an intermediary and the net income retained by the Council is 1%. If organisations wanted to stop these services, then the Council would serve notice and stop the contract payments to Agilisys.
- Grant income – the Council expects to receive nearly £1m from grant income sources during the year. Some of these grants are relatively stable although others are less so as they are dependent on specific factors which may vary over time, e.g. the Housing Benefit (HB) Administration Subsidy grant is linked to the numbers of HB claimants, which has been reducing over time following the introduction of Universal Credit, which means that there is a risk that the grant income will also reduce compared to the amount budgeted.
- Property related income – the Council currently receives income from its properties, notably from tenants for their occupation of space within the town hall and castlewood. Some rental agreements and licences cover multiple years, whereas others are annual, which means that there is an element of risk in respect of the amount of income that the Council will receive during the year. Risks were raised during the Covid period, when many organisations re-assessed their operational arrangements and some curtailed their spatial requirements.

This area of the budget will continue to be closely monitored as part of the Council’s Office Accommodation Strategy workstream so that all financial impacts are reviewed and reflected within the future business case.

- Reserves – the approved budget assumes that £1.6m of income (net) will be credited to a range of services during the year, to off-set associated expenditure. Given that reserves are one-off, it is important to understand why they are being used and ensure that costs are controlled so that they remain within the agreed funding level. The majority of reserve transactions planned for 2022/23 relate to one-off items such as the Household Support Grant and transformation related projects.

3.2.3 Corporate Services risks for 2022/23

Appendix 5 provides a summary of the material financial risks currently being reviewed and assessed within the directorate revenue budget this year. The summary is presented so that all risks associated with a service area can be seen together, and this is also helpful because it allows service leads to understand the budget risks alongside each other, particularly if there are related issues.

The table gives details of the revenue budget, a range of potential budget variances that 'could possibly' occur during the year, as well as an initial indicative view of the potential out-turn position at the end of the financial year.

It is important to recognise that this assessment has been made very early in the financial year and is only based on the information held at this time. It is very likely that these values will continue to change throughout the year as more information is gathered and fed into the monitoring process or as actions are taken by service leads to reduce or mitigate these risks.

The gross value of these risks are £1.133m although mitigations have been identified which reduces this sum to £0.919m.

Further detailed work will be undertaken with each nominated budget managers as it is their responsibility to load a forecast into the agresso financial management system a monthly basis, which details their spending plans as well as their income proposals.

The finance team review these forecasts and meet to discuss the underlying assumptions, risks, further actions and mitigations with managers during the remainder of the monthly process, so that a shared reporting position can be agreed, along with key messages.

3.3. Looking ahead to the medium term financial plan (MTF)

As well as the current year financial position, the finance team also work with managers to look ahead to the future, as the Council operates a rolling mediums term financial planning process. The latest MTFP was approved by Council in February 2022 and it is currently in the process of being updated, which will take into account changes or impacts that may affect costs and prices payable in future years.

The February report did highlight a budget gap for future years, which is where the forecast spending levels are higher than the income that is likely to be received. This means that action will need to be taken to close the budget gap so that the Council can approve a balanced budget, through a combination of reducing future levels of spending, or increasing income.

Early discussions show that the revised MTFP will impact on the future budgets of corporate services directorate and so managers are working to forecast and confirm what these impacts may be – it is likely that they will include the following;

- Changes to the cost of providing services in the future, i.e. taking on board some of the information described in section 3 above, and also
- Looking at ways to reduce costs of providing corporate services, or ways to increase income in the future, so that the overall directorate budget can be lowered

Further information will be provided in later reports, when discussions are at a more advanced stage.

4. Consultation

The Council's financial monitoring process ensures that all managers with responsibility for financial impacts are fully engaged and communicated. Forecasts are routinely shared with the Directorate Leadership Team and then escalated to the Corporate Leadership Team, the Executive Member for Corporate Services and onto the Executive.

5. Financial Implications

Financial information is contained throughout the report and appendices.

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

There are no direct or specific climate change and environmental implications associated with the recommendations within this report although they remain an important factor in many areas of the council's revenue and capital budgets and are considered and integrated where appropriate.

8. Risk Management

The material risks contained within the corporate services revenue budget are described within Section 3 of this report and in Appendix 5.

9. Equality Implications

There are no specific equality implications with regard to the recommendations contained within this report, although it is important to note that individual savings proposals that have been incorporated into the revenue budget are supported by an Equality Impact Assessment.

10. Corporate Implications

With continuing financial pressures and demands for services, it is essential that the Councils' limited resources continue to be prioritised and allocated in line with the identified priorities, and that controls and measures are put in place to ensure that spending aligns with approvals granted.

11. Options Considered

Not applicable.

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Appendices:

Appendix 1 – approved net revenue budget

Appendix 2 – subjective analysis of the revenue budget

Appendix 3 - salary staffing budgets

Appendix 4 - MTFP budget savings

Appendix 5 - key financial risks

Appendix 6 - earmarked reserves

Appendix 7 – other supporting information

Background Papers:

Council report, February 2022 – Medium Term Financial Plan & Revenue Budget 2022/23