North Somerset Council

Report to the Executive

Date of Meeting: 7 September 2022

Subject of Report: Budget Monitor 2022/23 - Month 4

Town or Parish: All

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

Key Decision: YES

Reason: Financial values contained within the report are in excess of £500,000

Recommendations

The Executive is asked to;

i. Note the projected revenue and capital budget forecasts as detailed within the report and also the issues and assumptions that underpin the forecasts,

ii. Approve the in-year amendments to the revenue and capital budgets as detailed in Appendices 1A and 4,

iii. Note the financial risks being assessed by the council, which may have an impact on future monitoring reports,

iv. Support the proposal to submit a report to Council in November to consider any changes that may be required to the approved revenue budget for the current financial year, to ensure that it can deliver against the core responsibility of being able to deliver a balanced budget by the year-end.

1. Summary of Report

This report provides a summary of the council's integrated revenue and capital financial positions after the first four months of the 2022/23 financial year and includes details relating to key issues and activities that are likely to have a significant impact on the council's finances during the year. The initial forecast of the new financial year reflects an **overspend of £4.8m**, which equates to 2.6% of the net revenue budget.

Clearly this is the first report of the new financial year and so efforts have focused upon material areas of the council's budget or those which have identified issues early in the year The report therefore also includes details of some of the potential risks that have been identified at this point in time, as they may feature in future reports should their profiles increase, or the risks are realised and they become real pressures.

Recognising the serious impacts that the current economic climate is having on the council's financial position, the report also provides a high-level overview of the potential solutions, options or decisions that could be considered in order to balance the budget in the current year.

2. Policy

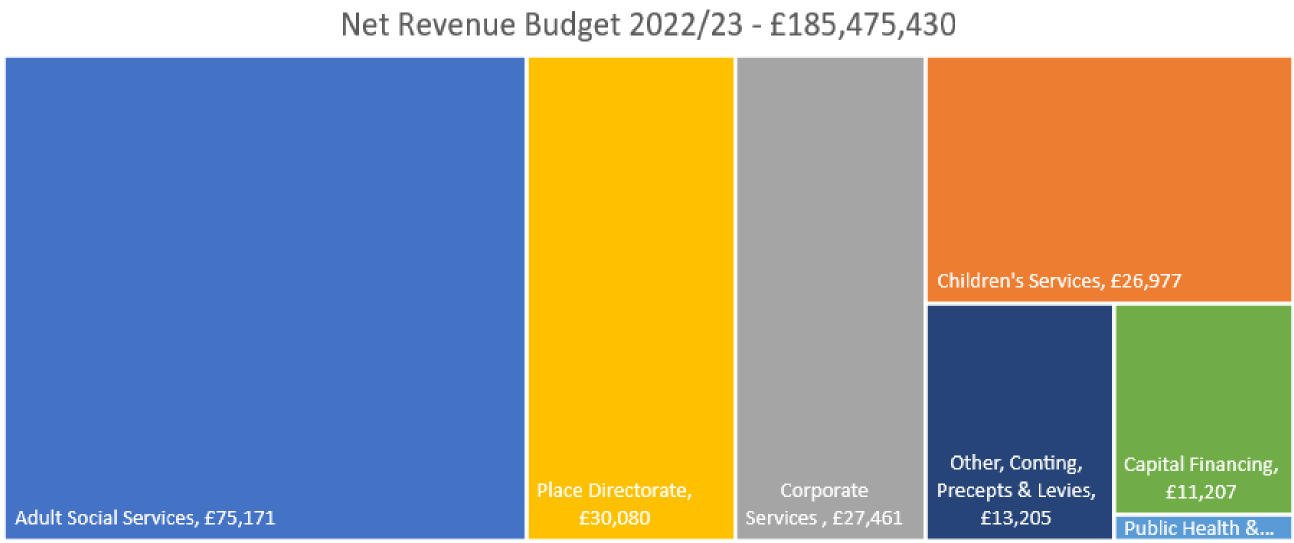
The council's budget monitoring is an integral feature of its overall financial and assurance framework, ensuring that resources are planned, aligned and managed effectively to achieve successful delivery of its aims and objectives.

The significant financial risks and impacts associated with the current cost of living crisis, which have escalated rapidly over recent months, have meant that the financial consequences and reporting process have become more important, albeit more complex than before, particularly when combining both the increased demands for services with the uncertain inflationary pressures contained within many of our costs.

3. Details

3.1. Overview of the annual revenue budget

The council's revenue budget for 2022/23 was approved in February 2022 and the graphic below depicts the size and shape of how this budget is shared across each of the directorates and spending areas. Further details of individual service budgets are provided at Appendix 1.



It can be seen that a significant proportion of the council's budget is allocated to services who provide much valued social care and support to those adults and children most in need within our communities.

The Place directorate holds budgets for many of the public facing services which are recognisable by residents and businesses within their daily lives such as leisure, libraries, waste, highways and sustainable transport and also areas such as planning, place-making and climate change, whereas the corporate services directorate delivers a combination of revenues and benefits and customer services to the public as well as support services to internal customers.

The budgets for public health and regulatory services look fairly small on the chart, although are much larger in terms of gross expenditure; a large proportion of these services are funded through a specific public health grant which is ring-fenced and must be off-set against the associated expenditure.

The council's revenue budget also contains;

- £11m for capital financing; this is the council's way of setting aside money each year to repay costs associated with any borrowing that has been undertaken to fund investments in large capital projects
- £13m for other expenditure; this area of the budget largely contains elements that that are not directly linked to specific services but are where the council is required to pay levies, precepts and joint arrangements, e.g. environmental agency levy, apprentice levy, magistrates court precept, town and parish council precepts and the contribution to the shared coroners and mortuary services.

This area of the budget also contains the council's corporate contingency budget of £1.5m, which is the only area of the budget without spending plans or calls against it at the start of the year. It forms part of the council's financial risk management mitigation plans and is essential given the many and varied assumptions included when setting the budget, any of which could change during the year.

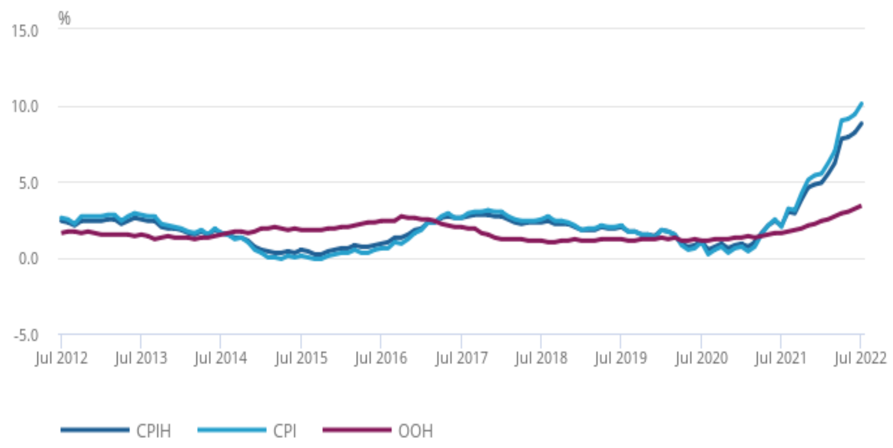
3.2. Financial context

When preparing the budgets for the year ahead many assumptions and sources of data are used to ensure that resources are allocated to services that need them and at levels that are appropriate and relevant to the anticipated costs that are likely to be incurred during the year.

Assumptions will be made for both the **volumes of activity** that the council will need to provide, i.e. how many houses will need their waste to be collected, how many roads will need to be repaired or how many residents will need to be supported by social care teams. Assumptions will also be made about our future **costs**, i.e. how much the council will need to spend to deliver its services in the year ahead.

Managers will often look at existing cost profiles and then build on them using a range of indices that are relevant to the particular cost or the service area, although as much of this work is undertaken some time before the financial year actually starts, indices are estimated or use forecast datasets.

Other councils follow the same approach and for many years the process has worked well however, as noted above, the budget for the current financial year was approved in February 2022, at a time when the economic backdrop for the country was much different than it is now.
Over the past six months inflation has risen rapidly, driving up the costs of things that we all buy in



our ever-day lives, notably things such as energy, fuel and food, as well as any services that we might use.

In many ways the council is no different to those individuals or businesses as the things that we need to buy to deliver our services, so is also being impacted by the same inflationary pressures, which means that our costs are increasing. Given the scale and size of our budget, the potential financial impacts can be much more significant.

Unfortunately the choices and options available to the council to overcome these pressures are limited because the majority of our income, i.e the money that we receive to fund the budget each year, is capped. The grants given by central government for the year were fixed in February 2022, as were the amounts of council tax and business rates that residents and business need to pay. This means that the council will have to look at other ways to balance its budget this year.

Whilst the council has often described its financial position as challenging in recent years, because it has had to deal with reductions in government funding at the same time as growing levels of demand for services, the current economic situation has magnified and exacerbated these challenges enormously.

The financial outlook for the 2022/23 financial year feels exceptionally difficult, and unfortunately all available sources of information seem to indicate that this is likely to continue beyond the end of the year and on into the medium-term, which means that the council will need to make some very difficult decisions in order to deliver both a balanced budget in this year and then to be able set a balanced budget for next year.

A further report on the council's medium term financial planning considerations has been prepared and is elsewhere on the agenda for this meeting, although many of the issues will be relevant to both reports as the council's financial planning and monitoring processes and the risk assessments that underpin them, are fully integrated.

3.3. Revenue budget summary – key headlines

Revenue Budget Monitoring Summary 2022/23					
	Original	Month 4 Forecast			
	Net Revenue Budget £000	Revised Revenue Budget £000	Projected Out-turn £000	Forecast Projected Variance £000	%
Service Expenditure Budgets					
Adult Social Services	75,158	75,171	75,379	209	0.28%
Children's Services	26,989	26,977	28,219	1,243	4.61%
Corporate Services	27,553	27,461	27,727	266	0.97%
Place	29,989	30,080	31,397	1,317	4.38%
Public Health & Reg Services	1,374	1,374	1,360	(14)	-1.01%
Capital Financing & Interest	11,207	11,207	10,168	(1,039)	-9.27%
Other Non Service Budgets	13,205	13,205	13,260	55	0.42%
Incremental impact of pay offer	0	0	1,603	1,603	0.00%
Impact of energy procurement	0	0	1,207	1,207	0.00%
Total Net Revenue Budget	**185,475**	**185,475**	**190,322**	**4,847**	**2.61%**
General Fund Financing Budgets	(185,475)	(185,475)	(185,475)	0	0.00%
NET REVENUE BUDGET TOTALS	**(0)**	**(0)**	**4,847**	**4,847**	**2.61%**

Dedicated Schools Deficit - in-year			3,841		
Dedicated Schools Deficit - Cumulative	**13,447**		**17,288**		

Shown above is a summary of the council's financial forecast after the **first four months** of the year, using information provided by budget managers across the council. This indicates how much the council believes that it will spend on delivering its services by the end of the year, although given that we are only part of the way through the year, the figures will contain some estimated values.

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.

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

- The council's approved net revenue budget for the year totals **£185.475m** (white and blue shaded columns)

- Managers forecast that the council will spend **£190.322m** on delivering services by the end of the year (yellow shaded column)

- This is **£4.847m more** than the council has available to spend or had planned to spend when the budget was approved back in February.

Clearly, this is the first report to be prepared and shared in respect of the 2022/23 financial year and information has been gathered whilst managers are still trying to assess and quantify impacts to their service budgets, both operationally as well as in terms of changing costs.

It is important to recognise that these forecasts are likely to change over the coming months as more information is gathered, reviewed and assessed and so the financial reporting will continue to be updated and refreshed throughout the year.

The council has a legal requirement to balance its budget at the end of each year and so it must give consideration of how this overspend would be funded if the position remained unchanged.

Section 3.6 of the report describes some of the options and choices available to mitigate this position although given the scale of the initial overspend and the wider economic situation, the council understands that it may need to move relatively quickly in the coming months to ensure that appropriate decisions can be taken in a timely manner to enable preventative measures and mitigations to be implemented, so that they can make a positive impact on the budget before the end of the financial year.

3.4. Significant budget pressures included within the forecast

The council's financial monitoring processes are consistently applied and embedded across all directorates and service areas. Each month the finance service collaborates with senior managers who have been given specific financial responsibilities, to review and assess the key risks and issues being faced by services so that they can prepare a forecast which accurately portrays the financial performance likely to be achieved at the end of the financial year.

Reports are presented to each Director and their leadership teams so that they can review and assess the latest projections by their budget managers and identify and approve any actions arising or mitigations which may need to be implemented in the future.

An extract of the monthly reporting information from each Director is included within this report and can be found in **Appendix 2**. These summaries fulfil the requirements of the constitution as they provide a detailed breakdown of material financial variances when compared to the budget, that are forecast to occur within each service area.

These summaries do contain many operational challenges within the budgets and analysis of these variances would usually form part of the main body of the report. However, given that the council is forecasting a significant overspend of **over £4.8m**, this section of the report now provides focus on the **main factors** that are driving the overspend so that the core issues can be understood; it will be seen that these are largely outside of the council's control.

Issue	**£000**
Service related pressures	
Children's services – placement costs	1,201
Home to schools transport costs	1,254
Wider pressures affecting several / all services	
Inflation on contracts, including fuel	1,000
Inflation on pay (gross cost, up to £2.2m)	1,603
Inflation on energy	1,207
Material mitigations	
Increase in interest received on investments	-1,027

3.4.1. Specific service-related pressures

Children's services – placements

Over the past two years in particular, the council has had relatively low numbers of looked after children when compared with other similar authorities, and it has been very successful in managing the costs of those placements.

Net expenditure in 2021/22 (£7.8m) was 23% less than it was in 2019/20, largely because of lower numbers of children looked after, meaning that a £1.5m underspend was reported. As a result, and supported by the information held at the time, the 2022/23 budget for looked after children was reduced by £960k.

However, since the time that the budget was set, the number of looked after children has slowly risen (from 191 at the end of the calendar year, to 199 at the end of July). More notably, there has been a small number of new and unexpected placements in residential care, where the average unit cost of a placement is approximately £240,000 per annum. These placements partly relate to the complex needs of the young people concerned, but also reflect the lack of more cost-effective and appropriate placement options, such as in-house or independent fostering.

Detailed work is ongoing to develop plans for these young people and to ensure that the placements are "stepped-down" to more appropriate and cost-effective ones as soon as possible. However, even with these plans built into the financial forecasts, it is anticipated that there will be an overspend in the region of £1.2m in this area of the budget.

Home to school transport

The forecast overspend relating to home to school transport in the current financial year is £1.2m. This position is as a result of a number of factors.

Demand for transport for children and young people with Special Educational Needs and Disabilities (SEND) continues to increase and the transport packages are often expensive, especially if the placement is out of area.

There are a limited number of **providers** within the area who can offer the services required. Recent issues including driver shortages and fuel inflation are causing a 30% to 50% increase in contract tenders resulting in an increase in costs for the council.

For the past two years the council has received ring-fenced funding for Home to School Transport to help offset the incremental financial cost of providing Home to School Transport during the pandemic. Whilst the funding has now ceased, some of the **increased costs** have remained due to individual transport arrangements for some pupils.

It should be noted that although it is early in the financial year, the forecast position does include an estimate for new contracts and increased levels of demand which are due to start in the new academic year in September 2022.

The annual calculation of future demand levels is always difficult because it is based upon a series of assumptions regarding potential future numbers of children who may require transport, some of which could be within the area (although not all), all of which will have differing requirements and support. The base assumptions included within the budget for the current financial year were lower than needed and so work is underway between the Transport and SEND teams to share information in order to improve forecasting in the future.

It is also likely that we will see the financial position for Home to Schools Transport change later in the year once the actual costs of any new contracts and demand are known.

3.4.2. Broader pressures affecting all directorates

<u>Inflation on contracts, including fuel</u>

Many of the council's larger contracts include specific provision to ensure that costs are maintained at current prices after taking into account inflationary factors. Each contract includes a range of indices that are relevant to the specific area, for example, the waste contract is indexed for fuel, CPI and a pay award increase; the support services contract follows a similar approach in that approx 70% is uplifted for staffing increases, and the remaining 30% is uplifted by CPI, recognising the external drivers associated with third party cost increases.

Each directorate has included specific provision for the contracts within their areas but in total, it is estimated that the council will spend approximately £1m more on its contracts during 2022/23. It is important to recognise that most of this increase will become part of the established base position and so will also be an issue for future years.

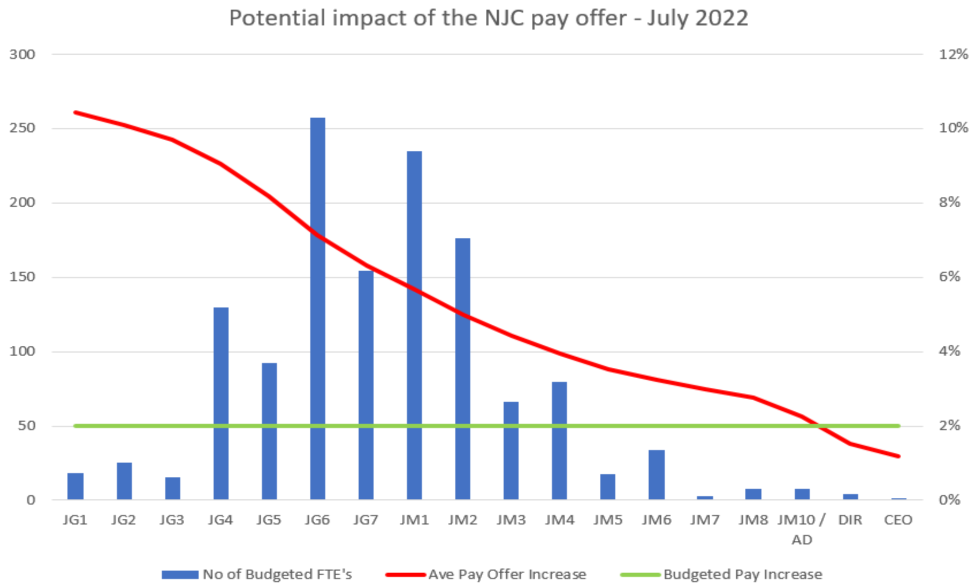
<u>Inflation on pay - £1.6m</u>

Staff working in local government have their pay and conditions determined by a negotiating body, the National Joint Council (NJC) for local government services. The NJC is made up of representatives from UNISON, other trade unions and the employers.

Each year the council includes provision within its budget to reflect a potential increase in its pay bill, although given that negotiations often take place after the budget has been set an estimate has to be used. The council's 2022/23 revenue budget includes provision equivalent to a **2%** increase in pay, which is similar to the assumptions used by many other councils at the time.

On 25 July 2022 the employers' side of the NJC made a final pay offer to local government employees, the main component of which is a **flat rate increase of £1,925** on all pay points with effect from 1 April 2022. The headline offer means that it will be worth a 10.5% increase to those at the lower end of the pay scale, reducing as a proportion of salary for those staff who are higher up the scale.

The exact timescales for reaching an agreement on this issue are not yet known as the trade unions are currently consulting with their members which will take some time, e.g. the initial Unison consultation is due to run until 19 September, although there could be other ballots after that point, depending on the first results.



However, although the final offer presented by the employers **has not** been accepted, the council has used the information shared by the NJC to undertake some modelling to understand what the financial impact might be, should it, or a similar offer be accepted in the future.
As the offer is a flat rate sum for each pay point, the impact for each council will be different depending on how many staff they have at each grade. The chart shows the staffing profile for North Somerset as well as the budgeted and offered increases and is clearly much higher than the base provision.

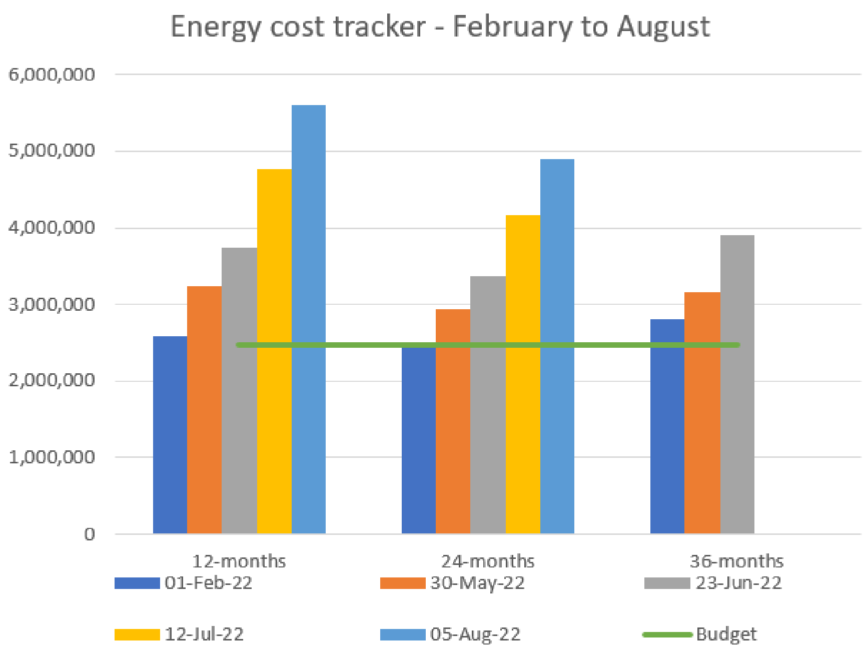
The **total cost** of the increase is estimated to be in the region of **£3.5m** per annum, although part of this is already funded because the council has provision for a 2% increase included within the 2022/23 base budget. It is assumed that some of the increase will be charged to other elements of the council's budget, which have specific funding sources of their own, such as schools, public health and capital projects. The council also has a small balance set aside in an earmarked reserve which it can release to fund any unbudgeted pay related pressures in the year because the final pay award last year was lower than budgeted. This means that if the pay award was agreed at the offer level, the council would incur an overspend of **£1.6m** in the current financial year.

This issue is more serious because the higher costs would continue into future years as they would become part of the council's base budget going forward. This means that it is necessary to add this cost as a new pressure within the medium term financial plan for 2023/24 onwards. Given that the earmarked reserve balance can only be used to fund costs once, the ongoing pressure would be **£1.8m**.

Inflation on energy

In May 2022 Council considered a commissioning and procurement report for new energy contacts, as the current ones are due to end at the end of September, with a recommendation for the new contracts to be from a net zero green energy source. The report noted that the council's budget currently include provision for £2.5m to fund electricity and gas energy costs, which are predominantly used in buildings and street lighting.

Recognising the pricing and volatility within the energy market over recent months the report approved giving delegated authority to the S151 Officer, in consultation with the Executive Member for Corporate Services and other officers to achieve the best price possible using support from the council's energy consultants, noting that a contract for 12-24 months was the best approach.



Since that time the market prices have been tracked by the energy consultants and shared with the S151 Officer and the procurement team so that a contract decision can be made, and the chart shows the latest position, along with the available budget.

Although no decisions have yet been made on what length of contract to enter into, or at a specific pricing point, it is clear to see that all options are significantly higher than the council's available budget.

The council could continue to monitor this area and hold it as a 'risk' rather than include a forecast overspend within its month 4 financial position however, considering the scale of the issue and the expiry dates of the current contracts, it is prudent to recognise these costs to enable it to be included within the mitigation discussions.

The latest monthly forecast assumes an annual contract cost of £4.9m, which is £2.4m higher than the current budget, part of which (i.e. at least **£1.2m**) will be incurred before the end of March 2023.

Rates will continue to be monitored and the forecast updated when final decisions are made, although there is a risk this could be at even higher levels than now. This issue could also continue into future year and so would need to be considered within the medium term financial plan.

Investment interest

Whilst the majority of economic impacts are creating pressures within the council's financial position, the increase in interest rates is having a positive impact on the amount of money that the council can earn on its surplus cash-flow balances. The month 4 position anticipates that the council generate approximately £1m more than the approved budget this year and this is being used to offset some of the areas described above.

3.5. Significant risks being held and monitored, not included within the forecast

The council's financial monitoring processes not only capture and forecast projections of income and expenditure, they also assess areas of risk that may materialise at some point during the financial year, or document situations that may require the council to consider providing support or incurring additional expenditure at some point.

However, given that the council's budget for both the current and future years is not yet balanced, then any decisions to increase spending beyond approved or current levels would be deemed inappropriate and could contravene requirements within the Constitution. The only exceptions to this would be to ensure the continuation of statutory services, although even this would need to be a decision taken by Council, who would be required to identify areas where discretionary or non-essential spending should cease before the new spending is commenced. The following areas are currently being monitored as risks - although no additional spending for these items has been included within the forecast position.

Support to adult social care providers

With the CPI reaching 10.1% in July, the director of adult social care is considering what action might be needed to support residential care providers during the remainder of the year as they have seen their costs rise in recent months. Such a decision would not only increase the value of the council's overspend in the current financial year but would also likely continue into future years as they would be held within the base contract calculations.

It is worth noting that these cost increases are taking place at the same time as the Government mandated "Fair Cost of Care" exercise. As part of the Social Care Funding Reforms, councils have been asked to work with adult social care providers to determine the actual costs of delivering care, with a view that this will give context to a Market Sustainability Plan to be published later in the year. Any changes that may be proposed as part of the Social Care Reforms will in theory, be funded by additional government grant, although as funding for this area has yet to be confirmed, there is a high risk that there may be a short-fall in the future. This issue would be included within the MTFP risk register.

Support to other providers, e.g. bus services, supported bus routes, leisure providers

The current issues around energy prices and fuel prices are causing significant financial impacts for other contractors and providers who deliver services on behalf of North Somerset Council. Whilst contractually the council is not obliged to fund anything in addition to contractual inflation, the council may have to consider the consequences of not providing any additional support in these areas.

There is regular dialogue to understand the current situation and to work together to mitigate where possible, the most severely impacted are likely to be our Leisure providers due to the energy requirements associated with running swimming pool facilities, although bus and transport services are also affected by such pressures.

Further movement on current forecasts

Any of the issues described within sections 3.4 or 3.5 of the report, or indeed any of the budget variances included within the director summaries shown at Appendix 2, do have the capacity to change within future reports because the forecasts are based on a range of estimates and assumptions. There are very few parts of the council's budget that are fixed and unlikely to change however, every effort will be made by budget managers over the coming weeks to not only validate as many of the underlying forecasts as possible, but also to try and mitigate areas of overspending within their service areas.

No significant overspends are currently being reported in relation to adult social care. However, it should be noted that is it early in the financial year and there is a strong likelihood that costs will increase given the increases in demand that are being experienced. Delays in treatment and surgery, deterioration and de-conditioning during and since the Covid-19 pandemic and a lack of capacity are all leading to increases in need.

3.6. Options on how to close the budget gap

When setting the budget before the start of each year the council considers the robustness of the estimates and assumptions, as well as plans and strategies that could be used to deliver a balanced budget should unexpected pressures or events materialise.

The table shown in **Appendix 3** provides a range of options that are available for the council to consider, along with some commentary to enable a broader understanding of the implications for each area. In summary these are;

- Directors to manage their own areas of overspending through areas such as reviewing vacancy and recruitment decisions, reducing areas of non-essential or discretionary spending
- Release the council's contingency within the forecast
- Use of the corporate risk reserve and undertake a wider review of earmarked reserves
- Take some emergency budget decisions to reduce costs and generate more income
- Request additional resources
- Use of the general revenue reserve

Before making decisions to mitigate the overspend it is important to understand whether the issue is one-off in nature, or likely to continue into a future financial year. If the issue is one-off, then it may be appropriate to consider using a one-off mitigation measure in the current year. However, if the issue is likely to continue into future years' then a more sustainable funding solution must be found.

3.7. Impact on reserves and balances

3.7.1. General reserves

The council's general revenue reserve balance at the start of the year was £9.744m, having been increased slightly at the end of the last year following an underspend. This balance equates to 5.25% of the net revenue budget and whilst it was considered as acceptable in relation to the risks identified when setting the budget in February, it would no longer be seen as adequate when incorporating the level of inflationary risk currently being experienced.

Given that the forecast overspend is currently £4.8m, it is recommended that other actions are implemented as soon as possible to reduce the risk of the council needing to draw down funding from this reserve at the end of the financial year because the risks are likely to be maintained or grow and so a reduced balance would not be sustainable to support future years.

3.7.2. Earmarked reserves

The council's earmarked reserves at the start of the year were higher than in the previous years and as a total can be considered as part of mitigating actions against one off budget pressures.

They do form part of the council's overarching financial strategy to ensure that financial issues are smoothed across financial years where appropriate, and also to support the council's longer-term financial sustainability, and so will therefore be used to; meet obligations agreed in previous years, support economic recovery, fund service plans, regeneration and place-making investments, deliver corporate plan priorities as well as provide against risk and uncertainty.

Although they could be considered as part of the overarching mitigation plans for the current financial year, it is important to understand why reserves are being held, along with the potential spending profiles and planned outcomes associated with each one.

3.8. Capital budgets

The capital programme covers the period up to 2026/27, with particular focus and attention given for the 3-year period 2022-2025. The programme covers all aspects of the councils' services and has been built up in several phases following different stages of approval.

Appendix 3 provides details of all schemes currently included within the latest programme – the summary shows that the overall programme totals **£339.378m**, with £170.372m expected to be delivered during the current financial year.

A significant focus of the new Capital Programme, Planning and Delivery Board (CPPD) has been to ensure that spending plans are more accurately aligned within our financial reporting. This improvement within the governance framework not only enables readers to understand delivery plans, it also ensures that resources and the associated financial implications are fed through each of the council's strategies. For example, more up to date spending plans improves the council's cash-flow forecasts, which in turn could improve investment decisions. More focus on the accuracy of spending plans also improves the forecasting information, which is likely to reduce areas of overspending.

Over recent months the CPPD Board have introduced an assessment for each of the projects within the approved programme into its monitoring process, using the council's risk management framework.

The latest assessments that have been shared by the project managers have been included within Appendix 3 to enable a greater understanding of how the projects are progressing. Those projects without an assessment at this stage are either yet to be started or are awaiting their

Impact		Likelihood				
		1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
5	Critical	5	10	15	20	25
4	High	4	8	12	16	20
3	Medium	3	6	9	12	15
2	Low	2	4	6	8	10
1	Negligible	1	2	3	4	5

assessment to be validated by CPPD and will be included within future reports.

Those schemes that have been assessed as Red are noted below;

Expansion of Flax Bourton Mortuary – the council's annual revenue budget includes a contribution towards the shared coroners and mortuary services, which are provided by Bristol City Council on behalf of the 4 local authorities within the West of England. The service, which utilises the mortuary building located in Flax Bourton, has identified that the storage facilities on the site are no longer fit for purpose and need to be upgraded. As an example, for the past five years additional storage space has been provided through temporary, prefabricated, refrigerated units sited outside of the main building within a gated compound adjoining, although this capacity is too small and needs to be expanded.

During 2021/22 Bristol City Council developed a capital scheme to expand the main building in order to meet the revised operational storage requirements. All four local authorities followed their individual governance routes and approved funding towards the scheme costs. At that time the total scheme costs were £1.254m, with the North Somerset share being £237k.

A recent report from the operational lead has advised that following a procurement exercise the projected costs have increased by over 61%, largely as a result of inflationary factors and scarcity of supplies. It is anticipated that the scheme will now cost £2.2m, which means that the amount that North Somerset will be required to pay will be £417k, an increase of £179k. The scheme has been scrutinised by the project managers and the revised cost includes value engineering decisions through changes to design scope and materials.

Given that there are statutory requirements associated with the delivery of this service, the section 151 officers of the four councils are in dialogue with their respective directors of public health to understand if there are any remaining funds held within the Covid COMF grant balances. If all councils are able to identify additional funding by September, then the scheme will be able to proceed at this cost price, although North Somerset's governance process would require approval for an increase in the capital programme to the revised level. If all councils are unable to identify funding, then the viability of the scheme may need to be reassessed as costs could continue to rise further, meaning that further options would need to be explored.

Metrowest Rail – there have been many issues associated with this major capital project which have not only been reflected within the risk assessment score discussed at CPPD, they have also been shared at Council through the reporting framework. It can be seen from the most recent report that risks associated with funding streams have reduced because additional resources have been identified and some of the expenditure related risks are also likely to reduce if the Department for Transport take responsibility for aspects of delivery risk. The project will continue to be closely monitored and further updates will be included within future reports.

Resources have been allocated for each of the schemes within the programme and records show that £223.7m will be financed by external grants and contributions, £103.7m by borrowing and the remaining £11.9m by other council resources, such as capital receipts and reserves.

Appendix 4 lists out all of the changes which have been reflected within the programme during the current financial year, which require retrospective approval from the Executive although a short summary is provided below.

NORTH SOMERSET COUNCIL CAPITAL PROGRAMME SUMMARY	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	TOTAL £000
Original approved capital expenditure budget 2020/21 (@P9);	**94,798**	**99,181**	**17,978**	**0**	**0**	**211,957**
Movements approved during 2021/22 in quarter 4 (Jan-March)	2,273	0	0	0	0	**2,273**
Planned Additions to the capital Programme - Executive, Feb 2022	38,722	0	0	0	0	**38,722**
Slippage of approved budgets from 2021/22 (Out-turn position)	48,582	0	0	0	0	**48,582**
Opening budgets for 2022/23	184,375	99,181	17,978	0	0	**301,534**
Changes agreed April to June 2022;						
Additions < £1m - per scheme	2,858	0	0	0	0	**2,858**
Additions > £1m - per scheme - Baytree school (April Executive)	3,202	0	0	0	0	**3,202**
Rephasing of the spend profile	(51,847)	11,498	35,349	0	5,000	**0**
Realignments / reductions	(4,456)	0	0	0	0	**(4,456)**
Revised budget at June 2022	**134,131**	**110,679**	**53,327**	**0**	**5,000**	**303,137**
Changes agreed in July 2022;						
Additions < £1m - per scheme	661	0	0	0	0	**661**
Additions > £1m - per scheme - MetroWest (July Council)	35,580	0	0	0	0	**35,580**
Revised budget at July 2022	**170,372**	**110,679**	**53,327**	**0**	**5,000**	**339,378**

A small number of these changes have been the subject of individual reports to the Executive in recent months due to their scale, for example the increase in the MetroWest Rail project, or as a result of procurement and commissioning plans, whilst others of a smaller scale have been through the director or Section 151 governance decision making process in accordance with financial regulations.

The most significant element of change in financial terms relates to the re-profiling of budgets, as noted above, to ensure that they are aligned to realistic spending plans.

A full list of all changes to the capital programme is therefore included within this report for completeness.

4. Consultation

The report has been developed through consultation with the council's corporate leadership team, and also with each of the departmental leadership teams. Discussions and briefings on financial matters are an established part of the relationships with directors and Executive Members.

5. Financial Implications

Financial implications have been included throughout the report.

The detailed values included throughout the report include all of the council's forecast expenditure, income receipts as well and any proposed transfers to or from reserves as this enables a more transparent representation of the council's finances to be shared should any funding decisions or further action required; the values therefore, exclude any technical accounting adjustments such as impairment or depreciation.

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 including balancing their budgets each year from within their own resource allocations, 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 to ensure that the councils spending is within the approved limits, is an integral part of the financial administration process.

Further requirements are contained within the Local Government Act 1988, Section 114 (3) which provide for instances whereby the chief finance officer of an authority makes a judgement that the expenditure of the authority in a financial year is likely to exceed the resources available.

7. Climate Change and Environmental Implications

Both of the reports presented to the Executive at this meeting, in terms of **monitoring of the budget for the current year** and also setting budgets for future years, will be impacted by the increasing costs of energy, which does provide an opportunity to highlight these issues.

Whilst there are no specific climate related impacts to note at this stage, it is clear that climate and environmental related implications will be at the forefront of our thinking when considering underlying service policies, priorities and strategies associated with the revenue budget, as well as through formulating investment plans and determining options to make reductions in our energy usage and associated costs to ensure a more sustainable future.

8. Risk Management

The council's Strategic Risk Register includes two risks associated with the financial planning:

- Risk that we do not manage budgets effectively in-year, including by not implementing and delivering the savings or transformational projects required to meet the financial challenge.

- Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium-Term financial challenge.

The council's Corporate Leadership Team routinely review the budget monitoring forecasts as well as significant risks which may emerge from within directorate risk registers or operational activities, which may also have a financial consequence.

In addition, the Corporate Leadership Team also have regular planned session to ensure that they can support the process to share options which will deliver a balanced budget for future years through the development of the Medium Term Financial Plan.

However, given the significant changes to the wider economic situation and the uncertainty that this is having on the council's own financial position, it is recognised that such risks have escalated over recent months. The financial risk register has been updated to reflect more inflationary factors and risks and work is being carried out to understand the impacts that this may bring so that appropriate mitigation can be implemented or alternative options considered.

9. Equality Implications

There are no specific equality implications with regard to the recommendations contained within this report although it should be noted that the council has utilised additional Government funding to support vulnerable residents whether appropriate, financial support to those providing essential services, and working in partnership with community groups.

Individual savings proposals incorporated into the revenue budget for the current financial year are supported by an Equality Impact Assessment.

10. Corporate Implications

The Corporate Plan and MTFP, along with the supporting financial monitoring processes and performance management framework are vital tools to help align effort across the organisation and ensure that services are all are focused on delivery to agreed community and organisational priorities.

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. The Corporate Plan continues to be reviewed in the light of emerging risks and pressures and steps are being taken to assess timeframes and monitor key outcomes.

11. Options Considered

None – the council is legally required to set a balanced budget and to implement a robust financial framework to ensure that spending is aligned to available resources and all available options to achieve this are considered within the details above.

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Appendices:

Appendix 1	Revenue budget details for 2022/23 and summary of virements
Appendix 2	Financial commentaries from each director
Appendix 3	Options to close the budget gap
Appendix 4	Capital budget monitoring for 2022/23
Appendix 5	Schedule of capital budget virements – to be approved

Background Papers:
Exec Report – February 2022, Medium Term Financial Plan and Revenue Budget update
Council Report – February 2022, Council Tax Setting 2022/23