

North Somerset Council

Report to the Executive

Date of Meeting: 18 October 2023

Subject of Report: Budget Monitor 2023/24 - Month 4

Town or Parish: All

Officer/Member Presenting: Mike Bell, Leader of the Council

Key Decision: Yes

Reason:

Financial values in respect of budget changes are greater than £500,000

Recommendations

The Executive is asked to;

- i. Note the projected revenue budget forecasts as detailed within the report and also the issues and assumptions that underpin the forecasts,
- ii. Note the financial risks being assessed by the council, which may have an impact on future monitoring reports.

1. Summary of Report

This is the second report of the financial year and provides a brief update of the council's revenue budgets after the first four months of the 2023/24 financial year and includes details of the key issues and activities that are likely to have a significant impact on the council's finances during the year. The council has updated its forecast of planned spend for the year and the report details an overspend of **£2.211m**, which equates to 1.05% of the net revenue budget.

This report is still relatively early in the year and so efforts continue to focus upon material areas of the council's budget or those which have identified issues early in the year. The report includes some potential risks that have been identified, as they may feature in future reports should their profiles increase, or the risks are realised and they become real pressures.

Recognising the ongoing impacts that the demand pressures and 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, notably the provision of quality services to those within our communities.

The ongoing impacts and risks associated with the broader economic position mean that the council could be exposed to a rapidly changing environment and so understanding the financial consequences and reporting issues through our monitoring framework have become more important responsibilities than before.

3. Details

3.1. Revenue budget summary – key headlines

Shown below 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, based on the best information available now.

Revenue Budget Monitoring Summary 2023/24					
	Original Net Revenue Budget £000	Month 4 Forecast - July 2023			
		Revised Revenue Budget £000	Forecast Spend to 31 March 2024 £000	Projected Out-turn Variance £000 %	
Service Expenditure Budgets					
Adult Social Services	84,334	85,776	85,534	(242)	-0.28%
Children's Services	30,011	30,115	33,995	3,880	12.88%
Corporate Services	31,241	31,277	31,970	693	2.22%
Place	38,393	38,475	40,249	1,774	4.61%
Public Health & Reg Services	1,374	1,386	1,454	68	4.91%
Sub total - Service Budgets	185,354	187,028	193,202	6,173	3.30%
Other Council-wide Budgets					
Capital Financing & Interest	10,320	10,320	8,039	(2,281)	-22.11%
Precepts & Levies	7,237	7,237	7,237	0	0.00%
Other Non Service Budgets	3,530	3,520	3,543	23	0.64%
Contingency Budget	1,432	1,428	100	(1,328)	-93.00%
Provision for MTFP Risks	375	375	0	(375)	-100.00%
Provision for Additional Pay Costs & Offer above 4%	1,450	1,195	1,195	0	0.00%
Sub total - Non Service Budgets	24,345	24,076	20,113	(3,962)	-16.46%
Total Net Revenue Budget	209,699	211,104	213,315	2,211	1.05%
General Fund Financing Budgets	(209,699)	(211,104)	(211,104)	0	0.00%
NET REVENUE BUDGET TOTALS	0	0	2,211	2,211	1.05%

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 original net revenue budget for the year totals £209.699m (white shaded column)
- The council's revised net revenue budget for the year totals £211.104m (blue shaded column)
- It is forecast that the council will spend £213.315m on delivering services by the end of the year (green shaded column)
- This is £2.211m more than the council has available to spend or had planned to spend when the base budget was approved back in February (yellow shaded columns).

This is the second report to be prepared and shared in respect of the 2023/24 financial year and at an overall level the net overspend is similar to the report considered by the Executive at the meeting in September, which showed a forecast overspend of £2.135m. However, there are changes to some areas of the council's spending plans, which are explained in paragraph 3.2 below.

It is important to recognise that forecasts are made at specific points in the financial year estimates based on the information available at that time and so are likely to continue change over the coming months as more information is gathered, reviewed and assessed. The council will continue to update and refresh these positions and include them within future reports throughout the remainder of 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 3.5 of the report describes some of the options and choices available to mitigate this position over the coming months.

3.2. Significant budget pressures included within the forecast

Reports are presented to each Director and their leadership teams on a monthly basis so that they can review and assess the latest projections being made 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 **net overspend of £2.211m** after releasing its contingency budget and other mitigation measures, 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 before future actions can be considered.

Issue	£000	
Service related pressures		
Children's services – placement costs, including disabled children's packages and community support	3,732	Increased
Increase in Waste disposal costs	1,301	Increased
Home to School Transport costs	368	No change
Adults – care in the community support costs	435	Increased
Wider pressures affecting several / all services		
Potential impact of the pay award	1,194	No change
Changes to the delivery plans of budget savings proposals	533	No change
All other variations within the budget (net)	732	
Material mitigations		
Net increase in interest received on investments	-2,687	Increased
Release of the council's contingency budget	-1,328	No change
Release of corporate provisions for pay and budget savings	-1,569	No change
Hold / defer potential future spending within Adults	-500	Increased
Forecast overspend at Month 4	2,211	

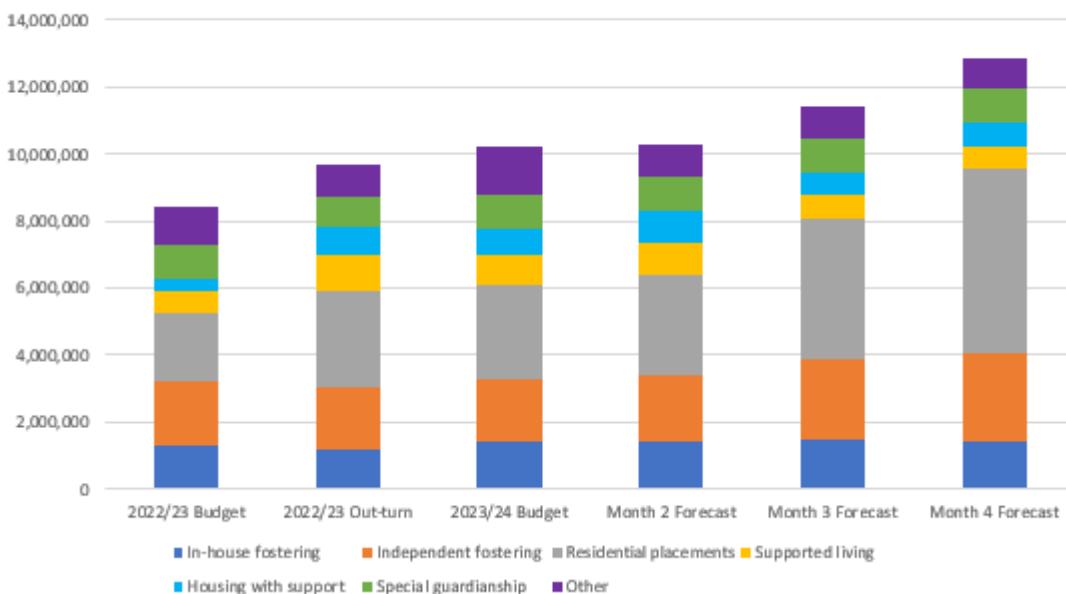
3.2.1. Specific service-related pressures

Children's services – placement costs

As can be seen from the previous monitor the council recognised an overspend on this area of the budget within its earlier report and has undertaken further work to validate spending plans. The forecast has also been updated to reflect the latest number of children who are currently being looked after and the type of placement and support they are being given. The overall numbers of children, as well as their support package can change depending on the individual circumstances.

Despite increasing the budget for the current year through the medium term financial planning process, the numbers of children requiring support and access to services have continued to rise, as have the complexity of need in some cases which means that an increased over spend for the current financial year is being predicted.

Childrens Placements 2022-2024



The directorate leadership team are currently undertaking a review of planned spending for this area with a view to considering the service requirements and strategies that are likely to be needed for the remainder of this financial year, and into the next and how this will impact on future forecasts. Activities will also look at all aspects of the processes that underpin decisions, from data collection and sharing, procurement framework, to decision making and reporting to see if improvements can be made.

Waste services – disposal costs

The initial budget monitoring report for the year indicated that the council would overspend its waste disposal budgets by £1.1m by the end of the financial year, based on assumptions relating to the amount of waste that needs to be disposed of, as well as the price per tonne to dispose of the waste collected.

Over the past few weeks the council has finalised the procurement process for its waste disposal contracts and this has shown that inflation is continuing to impact on the price, increasing it further above budgeted levels. The latest budget forecast for this area is an overspend of £1.3m.

Historically there had been a reduction in residual waste tonnages despite the growing number of properties which resulted in a saving on disposal costs and in previous years this has helped to offset some of the inflation costs.

Unfortunately, the waste service is forecasting for the waste tonnages to plateau and potentially grow meaning that it will no longer be possible to absorb the inflation on the cost of disposal. The council is actively looking into ways that it can encourage residents to recycle more of their waste to reduce disposal costs, which will not only improve the budget position, but it will be better for the environment as less waste would need to go to landfill.

To help the council has recently trialled a new system called Quatro in some parts of the district, which uses a specially designed wheelie bin with four compartments to collect and store recycling and waste materials. The trial bins used a specialist lorry with a unique lift mechanism to match the compartments of the bin with the lorry's collection chambers.

Participants responded positively to the trial overall and feedback showed that the trial bin made it easier for them to sort their recycling and waste. It also stopped recycling from being blown away on collection day, so reduced litter. However, residents using the 370 litre version of the bin found that it was too large which meant that it was more difficult to move on collection day and so future trials may be planned using a 240 litre bin.

3.2.2. Mitigations and opportunities

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 update has revisited earlier forecasts and it is now anticipated that the council will generate at least £2.6m more than the approved budget this year, which will be used to offset some of the pressures described above.

This area will be kept under review to see if further interest can be generated during the latter part of the year.

3.3. 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.

This information is collated by each director and shared within their commentaries, copies of which have been included at **Appendix 2** of this report however, a separate table bringing together some of the more material financial risks has also been included. Modelling shows that if all of these risks were to materialise then the council could be exposed to further challenges of c£3.5m in a full financial year.

3.4. Balancing the budget

When setting the budget before the start of each year the council will consider 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 base budget for the current financial year includes several provisions as part of its risk management and mitigation measures which can be used to fund some of the financial pressures including;

- £1.432m General contingency budget
- £1.450m Provision for pay costs linked to changes in the pay structure and increases above 4% pay award
- £0.375m Provision to cover any delays to MTFP savings plans

As can be seen from the summary table in section 3.1, the majority of these provisions have been released and are already included within the net overspend of £2.211m, which means that additional mitigations will be required to reduce the overspend over the coming months. The corporate leadership team are implementing a range of actions within their services such as reducing and deferring discretionary or non-essential spending and reviewing opportunities for greater integration with external partners to share costs and also maximise income streams.

In the event that these measures are not successful then the council could consider drawing on its reserve balances, although whilst reserves do form part of the council's risk management strategies, they can only be used as a one-off measure and once spent would impact on the council's ability to respond to potential pressures in future years.

Whilst these measures focus attention on achieving a balanced budget by the end of the financial year, consideration must also be given to how the pressures and risks described within this report will feed through into the council's medium term financial planning process because if solutions are short-term, then the underlying challenges will remain present and cause continue to cause concern in future years.

3.5. Impact on reserves and balances

3.5.1. General reserves

The council's general revenue reserve balance at the start of the year was £10.162m, having been increased slightly at the end of the last year following an underspend. This balance equates to 5% of the net revenue budget for the current financial year (excluding town and parish precepts), which is within the parameters of the council's reserves strategy approved as part of the budget setting.

Given that the forecast overspend is currently £2.211m 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. This is because the council is also holding many other risks which are likely to be maintained or even grow and so a reduced general fund reserve balance would not be sustainable to support future years.

3.5.2. Earmarked reserves

The council has a series of other reserves which have previously been ear-marked or ring-fenced for a specific purpose and the overall balance on these has remained at broadly similar levels over the past 18 months, although there have been changes within individual sums.

These reserves do have the potential to be considered as part of mitigating actions against some of the one-off budget pressures noted above, as they form part of the council's overarching financial strategies although it is important to understand why reserves are being held, along with the potential spending profiles and planned outcomes associated with each one.

They are currently being used to;- ensure that financial issues are smoothed across financial years where appropriate, support the council's longer-term financial sustainability; meeting obligations agreed in previous years, support economic recovery, funding service plans, regeneration and place-making investments, deliver corporate plan priorities as well as provide against risk and uncertainty.

3.6. Collection Fund

Each year 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 pay for the services we provide.

This income is reflected 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 council tax and business rate income generated across the North Somerset area. It should be noted that whilst the Collection Fund is administered by the council, monies collected belong to a range of stakeholders, for example;

- Council tax – collected on behalf of North Somerset Council, Avon Fire Authority, the Police and Crime Commissioner for Avon and Somerset and each of the Town and Parish councils
- Business rates – collected on behalf of North Somerset Council (49%), Central Government (50%) and Avon Fire Authority (1%)

The accounting arrangements for the Collection Fund are more complex and are 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.

All surplus or deficit positions generated at the end of each year are transferred into an 'unusable' reserve, shared proportionately across all the preceptors, and then reflected as an actual transaction within the accounts in subsequent years.

This means that although we will closely monitor the financial performance of the collection fund activities in the current financial year, the financial impacts will be felt in future years. A summary of the financial performance for each area is noted below, with further information provided in **Appendix 2**.

Council tax

The forecast at month 4 shows a projected **deficit of £0.584m** in respect of council tax which is a 'net' position made up from the following movements in core assumptions;

- - £0.317m Improved collection rates and lower bad debt provisions
- - £0.122m Lower levels of council tax support being required
- +£0.128m Lower levels of completed housing growth compared to the budget
- +£0.895m Higher numbers of discounts and exemptions being awarded in-year

The main discount being awarded in year continues to be the single person discount which gives a reduction of 25% from the liability for those adult residents who live by themselves. This pattern follows a trend in recent years which has seen significant growth in this area, both at a local and national level. Efforts were made to increase the baseline assumptions when setting the budget for the current financial year although numbers have increased beyond the budgeted change. The council operates an annual review process during the year to ensure that entitlements remain valid and this exercise could change the forecast. Further updates will be provided later in the year.

Business rates

The council's budget for 2023/24 reflected the latest information shared by the Valuation Office in respect of its new Rating List, which came into effect on 1 April 2023. This new List is part of a rolling programme which looks to reassess and update the rateable values for the majority of properties across the country every 3 years.

Over recent months the Valuation Office have revised many of the changes included on the new List for properties located within the South West of England which means that the underlying tax base for North Somerset is different to the approved budget. The impact of these changes are likely to mean that business within the district will pay less business rates, which means that the council will not receive as much income.

The majority of this short-fall will be offset by a compensating grant from the Government as there are processes in place to ensure that revaluation changes should have a neutral impact on local councils, although the monitoring does show that there will be a timing difference for the council because the compensating grant will be received in the current financial year, whereas the deficit on the collection fund will materialise next year. The council will therefore transfer the grant into a smoothing reserve so that it can be matched against the deficit in 2024/25.

There are other movements being forecast for business rates in the year, which contribute towards the total projected **deficit of £1.153m** and details are included at Appendix 2.

3.7. Dedicated schools budget

The Dedicated Schools Grant (DSG) is a ring-fenced grant included with the council's overall revenue budget, which must be used to fund the schools' part of the budget.

Much of the grant is directly allocated fund the operational costs associated with schools, although the government also provides other funding within 'blocks' for supporting children with higher needs, early years provision, as well as a small element for central costs.

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 nor in the financial table in section 3.1.

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.

The monitoring for the first four months of the year shows that these pressures are likely to continue until such time as the council's measures and mitigations included within the Safety Valve (SV) improvement programme are implemented and begin to deliver the required outcomes.

DSG Budget Monitoring Summary 2023/24				
	Revised Revenue Budget £000	Forecast Spend to 31 March 2024 £000	Projected Variance £000	Excl DfE SV Funding £000
Extract of budgeted DSG spend & projected in-year pressures;				
Top Up Funding	16,312	20,377	4,065	
Out of County Placements	6,931	8,761	1,830	
SEN equipment & Other costs	634	845	211	
Bespoke Education Packages	1,045	1,517	472	
High Needs, Nurture Groups & SS Contract	1,253	1,285	32	
Sub total re projected in-year (surplus) / deficit			6,610	
Dedicated Schools Deficit - bal b/fwd 1 April 2023			9,685	18,125
Projected overspend for 2023/24			6,610	6,610
Receipt of Safety Valve Funding for year 2			(2,110)	0
Dedicated Schools Deficit - proj c/fwd March 2024			14,185	24,735
Safety Valve Forecast Deficit for 2023/24				24,015
Comparison to Savety Valve agreement - slight behind target				720
				3.0%

This table shows a high-level forecast of the in-year DSG position along with the impact this would potentially have on the cumulative deficit at the end of the year.

The Safety Valve programme is a joint arrangement between the council and the Department for Education who are working together to place schools onto a sustainable financial footing over a five-year period and although the council is reporting an overspend within the DSG budgets, these are broadly in line with the Safety Valve baseline submission, which recognises that the required interventions will take time before they deliver outcomes.

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 ongoing uncertainty surrounding the 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	Inherent risk score	Residual Likelihood	Residual Impact	Residual Risk Score	Comments
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	HIGH	4	4	HIGH	This reflects the council-wide position which incorporates many risks with a potential financial impact at the highest level within the matrix
Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium-Term Financial challenge	HIGH	4	4	HIGH	This reflects the current position at this time although it is expected to change as we progress nearer to setting the budget for the years ahead

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 sustained challenges within 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 finance service work plan 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 2023/24 and summary of virements

Appendix 2 Financial commentaries from each director

Background Papers:

Exec report – February 2023, Medium Term Financial Plan and Revenue Budget update

- September 2023, Budget Monitoring Report 2023/24, Month 3

Council report – February 2023, Council Tax Setting 2023/24