

Report to: **Executive**

Date: **25 January 2024**

Title: **Month 7 Revenue Budget Monitoring Report 2023/24**

Portfolio Area: **Finance - Cllr J Brazil**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: 15 February 2024

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**RECOMMENDATION:**

**That the Executive:**

- 1. RESOLVES to note the forecast income and expenditure variations for the 2023/24 financial year and the overall projected surplus of £16,000 (0.1% of the total Budget £11.738 million). This is very close to a break-even position; and**
- 2. RECOMMENDS to Council to update the current virement limits within the Constitution, as shown in Section 10 of the report.**

**1. Executive summary**

- 1.1 This report enables Members to monitor income and expenditure variations against the approved budget for 2023/24 and provides a forecast for the year end position.
- 1.2 The gross service expenditure budget for 2023/24 was set at £44.3 million (£11.738 million net). This report identifies a projected surplus of £16,000 which is 0.1% of the overall budget set for 2023/24 of £11.738 million. This compares to a surplus of £79,000 projected in the last monitoring report as at the end of July 2023.

## 2. Background

### 2.1 Regional and national context

2.2 The Covid-19 pandemic drew into sharper focus the financial challenges faced by Local Authorities which have existed for some years. There remains outstanding a number of Local Authority Government reviews into Local Authority funding to reset the way local Councils are funded and the mechanism for the distribution of funding.

### 2.3 Financial Monitoring arrangements

2.4 The Council's financial procedure rules require that reports must be made on budget monitoring on a regular basis to the Executive as part of the Council's arrangements for budget management.

## 3. Outcomes/outputs

3.1 **Budget overview** - Table 1 below provides an analysis of the projected variances against budget.

**TABLE 1: 2023/24 BUDGET FORECAST**

	<b>2023/24 Budget expenditure /(income)</b>	<b>Budget variations</b>			<b>Note</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>	
<b>APPROVED BUDGET</b>				<b>11,738</b>	
<b>Reductions in expenditure/additional income</b>					
<b>Customer Service &amp; Delivery</b>					
Salary Savings	11,425	2%	(240)		A
<b>Place and Enterprise</b>					
Car parking income	(3,412)	7%	(230)		B
Dartmouth Lower Ferry income	(1,077)	12%	(130)		C
Follaton House rental income	(309)	13%	(40)		D
Employment Estates income	(1,117)	16%	(180)		E
<b>Other Comprehensive Income &amp; Expenditure</b>					
Investment Income	(800)	115%	(920)		F
Additional Business Rates pooling gain	(300)	23%	(70)		G
<b>Sub total of variations</b>				<b>(1,810)</b>	

<b>Increases in expenditure/reductions in income</b>					
<b>Customer Service &amp; Delivery</b>					
Pay Award for all employees (incl. Waste & Cleansing manual workforce)	280	200%	559		H
ICT Software & Support Contracts	558	34%	190		I
Waste and Cleansing (see Appendix C for further detail)	7,740	1%	95		J
<b>Strategy &amp; Governance</b>					
Planning income	(1,084)	18%	200		K
Planning advertising costs	111	54%	60		L
Insurance	434	30%	130		M
<b>Place and Enterprise</b>					
Car Parking payment collection fees	1,622	4%	70		N
Utility Costs	1,200	12%	140		O
Homelessness – temporary accommodation costs	339	103%	350		P
<b>Sub total of variations</b>				<b>1,794</b>	
<b>PROJECTED OUTTURN</b>				<b>11,722</b>	
<b>PROJECTED SURPLUS FOR 2023/24</b>				<b>(16)</b>	

***There is projected to be an overall surplus of £16,000 when compared against the Revenue Budget set for 2023/24.***

### **Notes**

- A. **Salary Savings** - a saving of £240,000 (2% of the salaries budget) is currently projected for 2023/24 mainly resulting from vacancies.
- B. **Car parking income** – additional income of £203,000 has been received as at 31 October 2023 due to extra usage of the car parks. The current projection for 2023/24 is additional income of £230,000 for the year.
- C. **Dartmouth Lower Ferry income** –it is currently anticipated that additional income of £130,000 will be received in 2023/24. This equates to 12% of the annual income target for Dartmouth Lower Ferry of £1.077m.
- D. **Follaton House rental income** –it is currently anticipated that additional rental income of £40,000 will be received in 2023/24.
- E. **Employment Estates income** – employment estates income is currently projected to be over budget by £180,000 in 2023/24 due to high occupancy rates and regular rent reviews.

- F. **Investment income** – investment income is currently anticipated to be up by 115%, which equates to additional income of £920,000 in 2023/24. The latest forecast is projecting investment income of £1.720m in 2023/24. This follows the increases in interest rates as the Bank of England (base rate is currently 5.25%) looks to tackle surging inflation. The Council engages treasury management advisors (Link Asset Services) to provide specialist advice on all aspects of treasury management.
- G. **Additional business rates pooling gain** – The Council is part of the Devonwide Business Rates Pool for 2023/24. The pooling gain for this year is predicted to be £370,000, which is £70,000 higher than the budgeted amount.
- H. **Pay award** – the impact of the proposed local government employer's pay offer for 2023/24 of £1,925 per scale point or a 3.88% increase for Scale Point 44 upwards, is significantly higher than the current budget provision of £280,000 (3%). The proposed pay award will result in additional salary costs of approx. £559,000 including £320,000 for the Waste and Cleansing staffing.
- I. **ICT Support Contracts** - there are additional costs in respect of ICT support contracts mainly due to,
- Price increases which equal or exceed the peak in the inflation rate earlier in the year
  - Additional costs for new software licenses, laptops and accessories due to an increase in the number of officers and new intake of Members in 2023/24.
- J. **Waste and Cleansing service** – There is projected overspend of £95,000 for the Waste and Cleansing service for 2023-24. This equates to 1.2% of the approved net budget of £7.74million (The net budget is before contributions from reserves). Appendix C sets out this in detail.
- K. **Planning income** – a planning income shortfall of £200,000 is currently anticipated for 2023/24. The month 4 projection was a shortfall of £180,000 for the year. This also takes into account the recent legislative amendment to increase planning application fees with effect from 6 December 2023. Application fees have been increased by 35% for major schemes and 25% for all other applications. This is expected to generate around £150,000 to £180,000 of additional planning income in a full year. The legislative amendment also introduced an annual rise in application fees linked to inflation (and capped at 10%) every April from 2025 onwards.

- L. **Planning advertising costs** – advertising costs of £61,000 have been incurred to 31 October 2023 against an annual budget of £45,600. It is currently anticipated that advertising costs could be overspent by up to £60,000 in 2023/24. However, this projection will be reviewed in the coming months now that the requirements for advertising planning applications have been clarified in the Planning Improvement Plan Update report taken to Executive in September 2023.
- M. **Insurance** – in line with the 2022/23 outturn position additional insurance costs of £130,000 are anticipated in 2023/24. This is mainly due to inflationary pressures and bringing the waste service back in house in October 2022. These additional insurance costs have been built into the 2024/25 budget.
- N. **Car Parking payment collection fees** – additional payment collection cost of £70,000 is anticipated in 2023/24. The amount of car parking income being taken by Ringo has significantly increased since the covid pandemic. 59% of all car parking transactions are now made through Ringo and the Council has exceeded the annual limit of transactions being at no cost. The Council's transactions are now over 800,000 per annum which has triggered a cost per transaction for those over the limit where there is no charge. Ringo was procured as a Devonwide contract in October 2020 for a four year contract with an extension of one year plus a further year. Prior to the Devon wide procurement, the Council was paying 8% in banking charges, so as a result of the cashless payment provider contract, the Council is saving money on banking charges and is also saving collection costs of collecting physical cash from car parking machines. For example in 2019/20 the number of Ringo transactions was just over 200,000 and 80% of all car parking income was from cash payments with 20% being from Ringo. This has now changed to over 800,000 transactions through Ringo (59% of all car parking income), with 41% being from cash payments.
- O. **Utility costs** - due to the rise in energy costs and inflationary pressures, additional costs of £140,000 are projected in 2023/24, mainly due to the increase in utility costs for the Council's employment estates and public conveniences.
- P. **Homelessness** - significant increases of £350,000 are anticipated in the expenditure on temporary accommodation in 2023/24 over and above what is claimable back through DWP subsidy. This is reflective of the national picture and due to a number of factors outside the Council's control including:
- The housing crisis and lack of accommodation
  - High numbers of second homes and holiday lets
  - Affordability of private rented accommodation and challenges facing private landlords and increases in their costs.
  - More single people presenting with complex and challenging needs, requiring bespoke housing solutions.

- The increase in costs of pay nightly accommodation due to cost-of-living challenges and increases in energy costs.

The Council is actively seeking ways to reduce reliance on pay nightly accommodation by investing in its own stock of temporary accommodation through opportunities such as LAHF, LAHF 2 and property acquisition whilst ensuring any stay is kept to a minimum.

In the Autumn Statement on 22 November 2023 the Chancellor of the Exchequer announced that the local housing allowance (LHA) rate will be increased for the first time in three years, and will cover the cheapest third (30th percentile) of local market rents from April 2024. The LHA rate is determined based on a survey of private market rents within a broad rental market area.

This higher LHA rate will increase the amount of temporary accommodation expenditure that can be claimed back through DWP subsidy which will help to address the overall position for 2024/25 onwards.

### **3. Other items to be considered in the 2023/24 Budget**

#### **3.1 Savings and Additional Income**

This monitoring report includes an update on the position regarding the savings and additional income that were identified in the 2023/24 budget setting process, set out in Appendix B.

#### **Waste and Recycling Services**

3.2 There were exceptional transitional costs of £3m for bringing the waste and recycling service back in house in October 2022, funded from the business rates retention reserve. Of this amount, £1.45m was spent in 22/23 and the remaining £1.55m will be used in 2023-24. This was referenced in reports to Council on 12<sup>th</sup> July and 22<sup>nd</sup> September 2022 and had the support of the cross party Waste Working Group.

3.3 Executive in December 2023 (Minute Reference E.38/23) approved to fund the one-off cost of £450,000 of the roll out of the Devon Aligned Service (DAS), from the Business Rates Retention Reserve.

3.4 A breakdown of the Waste and Cleansing service costs and income for 2023-24 is attached in Appendix C.

### **Planning Enforcement and Appeal costs**

- 3.5 The Council is currently engaged in complex enforcement action and a number of high-profile planning appeals. All actions underway are considered to be vital to protect the built and natural environment and deliver development in line with the Joint Local Plan and community needs. It would be reasonable to observe that this could be considered to be an exceptional year with exceptional costs arising from these necessary actions.
- 3.6 There is an annual budget for appeal costs within the Planning budget of £54,000 a year. In addition, the Council puts an annual contribution into Planning reserves of £50,000. To date the Council has already spent £75,000 on appeal costs and a further £160,000 is already committed, totalling £235,000. There remains the potential for costs to be awarded to or against the Council pending the outcome of various actions.
- 3.7 A future report will be presented to the Development Management Committee with further details and requesting approval to fund the residual of the appeal costs from the Planning Earmarked Reserve.

## **4. Earmarked Reserves**

- 4.1 The Council annually undertakes a review of the level of its Earmarked Reserves as part of the budget setting process. In addition a report was presented to the Executive on 21 September 2023 regarding a review of earmarked reserves. The review has identified up to £1.541m of revenue reserves which is potentially available to support the delivery of the new emerging Council Plan. This is attached in Appendix A.
- 4.2 Earmarked Reserves are **£15.424m at 31 March 2023** as shown in Appendix A.
- 4.3 The Council's level of Unearmarked Reserves currently stands at £2.113 million. The surplus of £16,000 would go into Unearmarked Reserves at the year end, in accordance with normal accounting practice (the Accounting Code of Practice, which sets out that surpluses or deficits at the year end are added to Unearmarked Reserves). This gives a predicted balance at 31 March 2024 of £2.129 million for Unearmarked Reserves.

## **5. Prudential Indicators**

- 5.1 The prudential code indicators were approved in the Capital, Investment and Treasury Management Strategy report to the Council on 30 March 2023. The indicators are monitored during the year through the normal revenue and capital monitoring processes. All Treasury Management limits have been adhered to.

## 6. Income

6.1 Income monitoring is an integral part of financial management. Below shows the current income (surpluses)/shortfalls already experienced for April 2023 to October 2023. The table also shows the latest 2023/24 projections for the major streams of income.

<b>Service</b>	<b>Deficit/ (Surplus) April – Oct 2023 £'000</b>	<b>Projected Income 2023/24 £'000</b>	<b>Income Budget 2023/24 £'000</b>	<b>Deficit/ (Surplus) £'000</b>	<b>Deficit/ (Surplus) %</b>
Car Parking	(203)	3,642	3,412	(230)	(7%)
Planning	81	884	1,084	200	18%
Employment Estates	(105)	1,297	1,117	(180)	(16%)
Trade Waste including CWR (see Appendix C)	57	901	958	57	6%
Garden Waste (See Appendix C)	(56)	691	635	(56)	(9%)
Dartmouth Ferry	(71)	1,207	1,077	(130)	(12%)
Business Rates Pooling Gain	-	370	300	(70)	(23%)
Investment income	(310)	1,720	800	(920)	(115%)
Licensing	33	201	201	-	-
Land Charges	(5)	170	170	-	-
<b>TOTAL</b>	<b>(579)</b>	<b>11,083</b>	<b>9,754</b>	<b>(1,329)</b>	<b>(14%)</b>

## 7. Management Actions

7.1 The table below sets out the relevant management actions for the revenue expenditure and income variations shown above. It is best practice for the Council to state whether there are any corrective actions that need to be taken for the variances identified in 2023/24.

	<b>Budget variations overspend/ (underspend) £000</b>	<b>Management Action</b>
<b>Reductions in expenditure/additional income</b>		
Salary Savings	(240)	The projected underspend will be kept under review during the year.
Car Parking Income	(230)	An additional income target of £250,000 has been built into the 2024/25 budget.
Dartmouth Lower Ferry Income	(130)	An additional income target of £100,000 has been built into the 2024/25 budget.
Follaton House rental income	(40)	An additional income target of £50,000 has been built into the 2024/25 budget.
Employment Estates Income	(180)	An additional income target of £50,000 has been built into the 2024/25 budget.
Investment Income	(920)	An additional income target of £800,000 has been built into the 2024/25 budget.
Business Rates Pooling Gain	(70)	An additional income target of £100,000 has been built into the 2024/25 budget. This increases the budgeted pooling gain from £300,000 to £400,000 for 2024/25.
<b>Increases in expenditure/reductions in income</b>		
Pay Award	559	A budget pressure of £550,000 has been built into the 2024/25 budget.
ICT Software & Support Contracts	190	A budget pressure of £150,000 has been built into the 2024/25 budget.
Planning Income	200	This will be kept under close review in 2023/24.  This projection includes the recent legislative amendment to increase planning application fees with effect from 6 December 2023. Application fees have been increased by 35% for major schemes and 25% for all other applications. This is expected to generate around £150,000 to £180,000 of additional planning income in a full year. The legislative amendment also introduced an annual rise in application fees linked to inflation (and capped at 10%) every April from 2025 onwards.

	<b>Budget variations overspend/ (underspend) £000</b>	<b>Management Action</b>
Planning Advertising Costs	60	These costs will be kept under review in 2023/24.
Insurance	130	A budget pressure of £130,000 has been built into the 2024/25 budget.
Car Parking Payment Collection Fees	70	A budget pressure of £70,000 has been built into the 2024/25 budget.
Utility Costs	140	Inflation on goods and services of £200,000 has been built into the 2024/25 budget.
Homelessness – temporary accommodation costs	350	Temporary accommodation costs will be kept under close review during 2023/24. The Council is actively seeking ways to reduce reliance on pay nightly accommodation by investing in its own stock of temporary accommodation through opportunities such as LAHF, LAHF 2 and property acquisition. In the Autumn Statement the Chancellor announced that the local housing allowance (LHA) rate will be increased for the first time in three years, and will cover the cheapest third (30th percentile) of local market rents from April 2024. This higher LHA rate will help to reduce temporary accommodation costs for 2024/25 onwards.

## **8. Options available and consideration of risk**

- 8.1 At this stage in the year it is important to note that these forecasts can change over the course of the year to 31 March 2024. For example, managers can seek out opportunities to reduce any budget shortfalls, whilst considering the risk of any adverse impact on the customer experience.

## **9. Proposed Way Forward**

- 9.1 Revenue budget monitoring will continue on a regular basis and further reports will be brought to the Executive each quarter.

## 10. Virement Limits and Approvals

- 10.1 Budget Virement is the process of transferring budgeted funds from one budget code (cost centre) to another, to better reflect where budget responsibility should be held, virements always net to zero.
- 10.2 Examples of where virements are required include re-allocation of budgets following a staffing restructure when a new cost centre is created, and allocation of the inflation provision. Virements are mainly made for presentational purposes and always net to zero. It's important that the detail of budgets are kept up to date and reflect the current service delivery to allow for accurate budget monitoring. Other examples of virements will be where the budget responsibility for a service moves from one Director to another Director within the Senior Leadership Team.
- 10.3 It is proposed that all virements will be subject to the following approval limits:

<b>Amount</b>	<b>Minimum approval required</b>
<b>Up to and including £0.25m</b>	<b>Director</b> (following consultation with the <b>Budget Holder</b> ), <b>S151 Officer and Head of Finance</b>
<b>Up to and including £0.5m</b>	<b>Director</b> (following consultation with the <b>Budget Holder</b> ), <b>Section 151 Officer</b> and relevant <b>Executive Member(s)</b> .
<b>Greater than £0.5m</b>	<b>Executive</b> (following consultation with the relevant <b>Executive Member(s)</b> , <b>Director and Section 151 Officer</b> ).
Major Change in Policy and is worth <b>£0.5m or more but less than £1m</b>	<b>Executive</b> (following consultation with the relevant <b>Executive Member(s)</b> , <b>Director and Section 151 Officer</b> ). Section 151 Officer must consider if virements involve a major change in policy.
<b>Any virement that involves a major change in policy and is over £1m</b>	<b>Council</b> (Section 151 Officer must consider if virements involve a major change in policy).

## Exceptions to the virement rules

- 1) If the **Section 151 Officer** decides a decision by Council or Executive is required.
- 2) Member approval is not required where a budget will continue to be used for the approved purpose but is being moved, for example, to reflect a change in budget holder responsibilities, or the re-allocation of the price inflation budget provision. Such transfers will however require the approval of the Head of Finance.
- 3) Ringfenced grant funding must be used for the specified purpose. Virements to update income and expenditure budgets to match the grant notification provided by the relevant body can be actioned without further approval.
- 4) Transfers between revenue and capital will be classed as a change in policy and will require Council approval regardless of the value.

## 11. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Council is required to make arrangements for the proper administration of its financial affairs. As part of those arrangements, the Council is under a duty to monitor its budgets throughout the financial year and to take appropriate action to deal with any deterioration in the financial position revealed by the regular monitoring.
Financial implications to include reference to value for money	Y	<p>The report identifies a <b>projected surplus of £16,000</b> which is 0.1% of the overall budget set for 2023/24 of £11.738 million. This is very close to a break-even position.</p> <p><b>The report recommends to Council to update the current virement limits within the current Constitution, as shown in paragraph 10.1 of the report.</b></p> <p>On 14 December, the Audit and Governance Committee considered an interim Auditor's Annual Report from the Council's external auditors, Grant Thornton. This gave commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>

		The report stated that ‘The Council has demonstrated an appropriate understanding of its role in securing economy, efficiency and effectiveness in its use of resources. Our work has not identified any significant weaknesses in arrangements.’
Risk	Y	<p>1) <b>Budget variances</b> – continual <b>monthly</b> budget monitoring at all levels within the Council ensures early identification of variances. Reporting to the Executive provides an opportunity for Members to identify and instigate remedial action where appropriate.</p> <p>2) <b>Resource Planning</b> – the Executive takes into account any significant issues when developing the Council’s Medium Term Financial Strategy. These are identified in the Management Actions section of the report (Section 7).</p>
Supporting Corporate Strategy		The budget monitoring process supports all of the Delivery Plans within the Council’s strategic vision, ‘Better Lives for All’.
Climate Change – Carbon / Biodiversity Impact		<p>A report was presented to Council on 17<sup>th</sup> December 2020 ‘Climate Change and Biodiversity Strategy and Action Plan update’. The report set out the proposed allocation of the £400,000 in the Climate Change Earmarked Reserve.</p> <p>A further £200,000 funding for the Climate Change Action Plan was approved by Council on 11<sup>th</sup> February 2021, as part of the 2021/22 Budget.</p> <p>Further detail is set out in the Council’s ‘Better Lives for All’ strategy.</p>
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

**Supporting Information**

Appendix A – Schedule of Reserves (Earmarked Reserves and Unearmarked Reserves)

Appendix B – Savings/Additional income schedule

Appendix C – Waste and Cleansing Services summary

**Background Papers:**

None