

Report to: **Hub Committee**

Date: **30 January 2024**

Title: **Month 7 Revenue Budget Monitoring
2023/2024**

Portfolio Area: **Performance & Resources – Cllr C Edmonds**

Wards Affected: **All**

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

Date next steps can be taken: Any recommendation(s) will be presented to Full Council at its meeting on 20 February 2024

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RECOMMENDATION:

That the Hub Committee:

- 1. RESOLVES to NOTE the forecast income and expenditure variations for the 2023/24 financial year and the overall projected surplus of £54,000 (0.6% of the total Budget £8.588 million). This is very close to a break-even position; and**
- 2. RECOMMEND to Council to update the current virement limits within the Constitution, as shown in paragraph 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 £25.8 million (£8.588 million net). This report identifies a projected surplus of £54,000 which is 0.6% of the overall Budget set for 2023/24 of

£8.588 million. This is a slightly improved position from the month 4 monitoring report when a small deficit of £37,000 was forecast.

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 Hub Committee 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

	2023/24 Budget expenditure /(income)	Budget variations			Note
		£000	%	£000	
APPROVED BUDGET				£000	
				8,588	
Reductions in expenditure/additional income					
Customer Service & Delivery					
Salary Savings	5,400	5%	(250)		A
Garden Waste Income	(305)	11%	(35)		B
Place and Enterprise					
Car Parking Income (including payment to a third party)	(997)	9%	(85)		C
Other Comprehensive Income & Expenditure					
Investment Income	(400)	175%	(700)		D
Sub total of variations				(1,070)	
Increases in expenditure/ reductions in income					
Customer Service & Delivery					

Waste Contract, inflation and increased contract costs	2,665	4%	106		E
Waste Contract, increase in number of households and collections	2,665	4%	115		F
Pay Award	150	87%	130		G
ICT Software & Support Contracts	488	25%	120		H
Place and Enterprise					
Employment Estates Income	(427)	18%	75		I
Homelessness – temporary accommodation costs	298	84%	250		J
Utility costs	190	21%	40		K
Strategy and Governance					
Planning Income	(473)	32%	150		L
Insurance	83	36%	30		M
Sub total of variations				1,016	
PROJECTED OUTTURN				8,534	
PROJECTED SURPLUS FOR 2023/24				(54)	

There is projected to be an overall surplus of £54,000 when compared against the Revenue Budget set for 2023/24.

Notes

- A. **Salary Savings** – a saving of £250,000 (5% of the salaries budget) is currently projected for 2023/24 mainly resulting from vacancies.
- B. **Garden Waste income** – income is currently anticipated to exceed the 2023/24 target by £35,000 which equates to 11% of the annual income budget of £305,000.
- C. **Car Parking income** – additional income of £40,000 has been received as at 31 October 2023. Car parking income levels have reduced slightly since the last budget monitoring report when additional income of £80,000 had been received at the end of July. For the purposes of the 2023/24 projection it has been assumed that income will be on budget for the remainder of the year. In addition a saving of £45,000 is anticipated on a car parking third party payment based on current income levels, generating an overall saving in respect of car parking income of £85,000 for 2023/24.
- D. **Investment income** – investment income is currently anticipated to be up by 175%, which equates to additional income of £700,000 in 2023/24. The latest forecast is projecting investment income of £1.1million 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.

- E. **Waste Recycling and Cleansing Contract - inflation and increased contract costs** – costs are currently anticipated to exceed the contract budget by £106,000 in 2023/24. This is mainly due to additional contract inflation and an increase in the base contract price. Contract inflation is based on the latest published indices for fuel inflation, wage inflation and consumer price index (CPI).
- F. **Waste Recycling and Cleansing Contract – increase in number of households and collections** – it is anticipated that there will be an uplift in the waste collection, recycling and cleansing contract costs of £115,000 in 2023/24 to reflect the increase in the number of properties across the Borough. The 2023/24 budget was increased by £50,000 and a further £100,000 has been built into the 2024/25 budget.
- G. **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 £150,000 (3%). The proposed pay award will currently result in additional salary costs of approx. £130,000.
- H. **ICT Software & 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.
- I. **Employment Estates income** – an additional income target of £50,000 built into the 2023/24 budget is unlikely to be achieved in 2023/24. There is currently a shortfall in income of £45,000 as at 31 October 2023, and this is projected to increase to £75,000 for the full financial year.
- J. **Homelessness** – significant increases 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.

- K. **Utility costs** – due to the rise in energy costs and inflationary pressures, additional costs of £40,000 are projected in 2023/24, mainly due to the increase in utility costs for the Council's employment estates.
- L. **Planning income** – a planning income shortfall of £150,000 is currently anticipated for 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 £60,000 to £70,000 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.
- M. **Insurance** – insurance costs are currently anticipated to be around £30,000 higher than budgeted in 2023/24 due to inflationary pressures.

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

- 3.1 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.

4. Review of 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 review of the Capital Programme and Earmarked Reserves was presented to the Hub Committee on 21 November 2023. The review of earmarked reserves has identified up to £871,000 of revenue reserves which is potentially available to support the delivery of the new emerging West Devon Vision and Strategy 2024-2028.
- 4.2 Earmarked Reserves are **£8.902m at 31 March 2023** as shown in Appendix A.

4.3 The Council's level of Unearmarked Reserves currently stands at £1.569 million. The surplus of £54,000 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 year end balance at 31 March 2024 of £1.623 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 4 April 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.

Service	Deficit/ (Surplus) April – October 2023 £'000	Projected Income 2023/24 £'000	Income Budget 2023/24 £'000	Deficit/ (Surplus) £'000	Deficit/ (Surplus) %
Car Parking	(40)	(1,037)	(997)	(40)	(4%)
Planning Applications & Advice	105	(323)	(473)	150	32%
Employment Estates	45	(352)	(427)	75	18%
Garden Waste	(35)	(340)	(305)	(35)	(11%)
Trade Waste	8	(45)	(45)	-	-
Business Rates Pooling Gain	-	(200)	(200)	-	-
Licensing	(3)	(114)	(114)	-	-
Interest & Investment Income	(262)	(1,100)	(400)	(700)	(175%)
Local Land Charges	1	(95)	(95)	-	-
Recycling Income	(6)	(515)	(515)	-	-
TOTAL	(187)	(4,121)	(3,571)	(550)	(15%)

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.

	Budget variations overspend/ (underspend) £000	Management Action
Reductions in expenditure/additional income		
Salary Savings	(250)	The projected underspend will be kept under review during the year.
Garden Waste Income	(35)	An additional income target of £35,000 has been built into the 2024/25 budget.
Car Parking Income (including payment to a third party)	(85)	There was a report to the Hub Committee on 21 st November 2023 regarding car parking income.
Investment Income	(700)	An additional income target of £400,000 has been built into the 2024/25 budget.
Increases in expenditure/reductions in income		
Waste Contract, inflation and increased contract costs	106	Contract inflation of £245,000 has been built into the 2024/25 budget.
Waste Contract, increase in number of households and collection	115	A budget pressure of £100,000 has been built into the 2024/25 budget.
Pay Award	130	This budget pressure for £147,000 has been built into the 2024/25 budget.
ICT Software & Support Contracts	120	A budget pressure of £110,000 has been built into the 2024/25 budget.
Employment Estates Income	75	Employment estates income levels will be kept under review in 2023/24.
Homelessness – temporary accommodation costs	250	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.

	Budget variations overspend/ (underspend) £000	Management Action
		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.
Utility costs	40	Inflation on goods and services of £150,000 has been built into the 2024/25 budget.
Planning Income	150	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 £60,000 to £70,000 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.
Insurance	30	A budget pressure of £30,000 has been built into the 2024/25 budget.

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 Hub Committee 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. 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.

10.2 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 current service delivery to allow for accurate budget monitoring.

10.3 It is proposed that all virements will be subject to the following approval limits:

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

Exceptions to the virement rules

- i. If the **Section 151 Officer** decides a decision by Council or Hub Committee is required.
- ii. 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.
- iii. 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.
- iv. 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><i>The report identifies a projected surplus of £54,000 which is 0.6% of the overall budget set for 2023/24 of £8.588 million. This is very close to a break-even position.</i></p> <p><i>The report recommends to Council to update the current virement limits as shown in Section 10 of the report.</i></p> <p>On 5 December 2023 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 a good 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	1) Budget variances – continual monthly budget monitoring at all levels within the Council ensures early identification of variances. Reporting to the Hub Committee provides an opportunity for Members to identify and instigate remedial action where appropriate. 2) Resource Planning – the Hub Committee 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).
Supporting Corporate Strategy		The budget monitoring process supports all of the Thematic Delivery Plans within the Council's strategic vision, 'A Plan for West Devon'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Climate Change – Carbon / Biodiversity Impact		A report was presented to Council on 8 th December 2020 'Climate Change and Biodiversity Strategy and Action Plan update'. In March 2021, Council approved to set up an Earmarked Reserve for £200,000 for the Recovery Plan and Corporate Strategy. Further detail is set out in the Council's 'A Plan for West Devon' strategic vision.
<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

Background Papers:

None