

This Report will be made public on 17 January 2023

Report Number **C/22/76**

To: Cabinet
Date: 25 January 2023
Status: Non-Key Decision
Head of Service: Charlotte Spendley – Director of Corporate Services
Cabinet Member: Councillor David Monk - Cabinet Member for Finance

SUBJECT: GENERAL FUND REVENUE BUDGET MONITORING – 3RD QUARTER (Q3) 2022/23

SUMMARY: This monitoring report provides a projection of the end of year financial position of the General Fund revenue budget at Quarter three (Q3), based on expenditure and income to the 30 November 2022. The report shows an improved position for Q3 with an underspend now forecast until financial year end. The reporting format has also been re-aligned to improve the presentation of the budget monitoring information for Q3.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to note the recommendation set out below as it needs to be informed of the council's General Fund revenue budget position and to note the revised forecast underspend position, and consider any action required as appropriate to be recommended to Cabinet.

RECOMMENDATIONS:

1. To receive and note Report C/22/76.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report updates the committee on the likely projected outturn for the General Fund Revenue budget for 2022/23. This is the second round of budget monitoring for the financial year and provides the latest set of data at Q3 which can be considered the most accurate to-date, given that the council is in month 9 of the financial year and has many months of data to use in projections.
- 1.2 The projections are made against the latest approved budget and based on data received from Budget Managers. This Q3 report will be the final budget monitoring report for the financial year before the final outturn position is considered at year end before the council closes its accounts for 2022/23.

2. CONTEXT FOR THE Q3 PERIOD MONITORING – THE COUNCIL’S OVER - ARCHING BUDGET POSITION

- 2.1 Members will be aware from recent reports to council and cabinet that the council faces a significant budget funding gap for 2023/24. Officers are looking at solutions to reduce this budget gap.
- 2.2 In considering the budget gap, any underspend that can be generated in the current financial year 2022/23, can be carried forward to reserves to help bridge part of the budget gap.
- 2.3 Being mindful of this, the Chief Executive and the Corporate Leadership Team Directors have asked Budget Managers to rationalise spending where-ever possible for the remainder of the 2022/23 financial year and be prudent in the use of resources on discretionary items, but without compromising front line services to residents.
- 2.4 The key to this exercise has been to adopt a “marginal gains approach”, i.e. a small saving identified by every Manager (say for example on a supplies and service budget such as printing and stationery or subscriptions or a technical budget) will add up to a larger saving if all budget managers work together to achieve the same aim. Other areas such as income have also been considered and there has been a sharper focus on more detailed forecasting for Q3 to ensure projections reflect what the final outturn is likely to be. All budgets across the Council have applied this approach including the more technical budgets that cover grants income, business rates income and financing costs.
- 2.5 The results for the Q3 budget monitoring have been assembled and also been reviewed by Finance Team officers.

3. GENERAL FUND REVENUE 2022/23 - PROJECTED OUTTURN

- 3.1 The Q3 results are summarised in full below in the Table shown in paragraph 3.2 below. It should be noted that there are over 500 budget lines that have been reviewed in detail by Budget Managers and Finance Staff.

3.2 In summary, the Q3 position shows an overall projected revenue underspend position of £567,000. This compares to an underspend of £19,600 reported at Q2.

Table 1 – Q3 Budget Monitoring statement

**GENERAL FUND NET REVENUE EXPENDITURE
VARIANCE ANALYSIS 2022/23 - SUMMARY**

Qtr 3 2022/23

General Fund Net Cost of Services	Latest Approved Budget	Qtr 3 Projected Outturn	Q3 Variance	Q2 Variance
A) Service Department/Team Budgets	£000	£000	£000	£000
Finance, Strategy & Corporate Services	7,773	7,792	19	361
Human Resources	588	669	81	(17)
Governance & Law	2,611	2,723	112	180
Leadership Support	721	911	190	63
Place	6,291	6,136	(155)	(123)
Economic Development	1,067	1,073	6	36
Planning	144	253	110	(77)
Operations	2,086	1,926	(160)	215
Housing	3,254	2,953	(301)	(240)
(A) Total for Service Department / Teams	24,534	24,436	(98)	397
B) Technical and Funding Budgets				
Unallocated budget for vacancy drag impact	(195)	-	195	195
Internal Drainage Board Levies	493	506	13	-
Interest Payable and Similar Charges	801	646	(155)	(42)
Interest and Investment Income	(1,320)	(1,215)	105	114
New Homes Bonus Grant	(745)	(745)	-	-
Other-Technical & Non-Service Related Government Grants	(1,858)	(2,629)	(771)	(989)
Town and Parish Council Precepts	2,659	2,659	-	-
Minimum Revenue Provision	1,667	1,667	-	-
Capital Expenditure Financed from Revenue	2,545	1,486	(1,059)	(31)
(B) Total for Technical & Funding Budgets	4,047	2,375	(1,672)	(753)
C) Net Transfer to/from(-) Earmarked Reserves	(8,289)	(6,400)	1,889	932
D) TOTAL NET EXPENDITURE DEMAND (A + B - C)	20,292	20,411	119	576
E) Collection Fund (Council Tax & Business Rates)				
Business Rates Income	(2,816)	(3,198)	(382)	(335)
Council Tax - demand on Collection Fund	(13,592)	(13,896)	(304)	(261)
(E) TOTAL FOR COLLECTION FUND DEMAND	(16,408)	(17,094)	(686)	(596)
TOTAL GENERAL FUND BUDGET NET (D - E)	3,884	3,317	(567)	(20)

3.3 In preparing the table above, it should be noted that the Finance Team have made revisions to the presentation of this General Fund summary table to bring this into line with the requirements of the Service Code of Practice (SERCOP) which is a reporting requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA). The improvement of financial reporting is part of an

on-going drive by the S151 Officer and the Finance Team to ensure financial information is transparent and easy to understand by recipients.

- 3.4 In short, all direct Service or Team spending is now shown in Section A of the Table. This covers the specific budgets used to fund services at the Council and includes budgets/costs for employees, transport, supplies and services, contracts, benefits, homelessness, and income from grants and fees and charges. Any carried forward funding from reserves from 2021/22 has also been applied to reflect the latest position.
- 3.5 This is followed by a Section B in the Table called Technical and Funding Budgets which covers items of a more corporate funding nature such as capital financing costs, investment income, Minimum Revenue Provision (MRP), levies, and precepts and any other technical budget adjustments. These budgets/costs are kept separate for accounting and service classification reasons under the SERCOP.
- 3.6 Finally the two last sections C and D of the Table identify :-
 - a) Section C– identifies what is funded specifically from (or contributes to) reserves during the year – it is important to note that some of the existing reserves have been applied in 2022/23 to fund service costs or technical items, i.e. New Homes Bonus. Use of these reserves has been approved as part of the budget process. Also, certain types of grant income or underspends are transferred to reserves in-year if they have to be carried forward to next financial year.
 - b) Section D – identifies what is funded from the Collection Fund, i.e. the Council Tax requirement approved annually by Council and the Business Rates income yield, both of these elements used to fund the overall General Fund Budget.
- 3.7 In considering the results in the Table above, the following paragraphs provide a high-level narrative to explain the reasons for the movements between Q3 and Q2. Please note that there is also a detailed appendix A which provides a breakdown of all variances over £50k – see Appendix A as attached.
- 3.8 In terms of Section A - Service Department / Teams – the overall spending forecast has decreased by £495,000 for Q3 in comparison to Q2. In overall terms there is an underspend of £98,000 forecast for the full financial year.
- 3.9 In terms of Section B – Technical and Funding Budgets – the overall spending forecast has decreased by £1.1m for Q3 in comparison to Q2. The main variance is a £1m adjustment which reflects the decrease in Capital Expenditure funded from Revenue due to slippage in the capital programme for the reprofiling of capital expenditure from 2021/22. This includes the Otterpool master planning costs offset by the Garden community's grant and also the reprofiling of the Biggins Wood capital scheme.

- 3.10 It should be noted that any slippage in the capital programme will usually (subject to approval) be carried forward to the next financial year and therefore the revenue funding will also follow and be carried forward in the reserves balance to allow for this. In Section B, there has also been an underspend in interest rate charges, as whilst Bank of England rates have increased to 3.5%, the slippage in the capital programme has required less borrowing as a result. There is also an underspend for Other Government Grants due to additional Section 31 grant payable for business rate reliefs.
- 3.11 In terms of Section C – Net transfer from/to reserves, the reserves Table 2 below highlights the projected draws. There are three key movements between Q2 and Q3 which reflects the capital programme slippage as detailed in 3.10 above. There have also been additional reliefs for S31 grant released which will have to be utilised for the Collection Fund. Finally there is the release of any budget carried forward amounts as detailed in paragraph 3.13 below.
- 3.13 It should also be noted that there are a number of carry forward reserves applied from carried forward balances in 2021/22 which will fund certain specific costs included in Section A - Service Department / Teams – these can be broken down as follows: -

<u>Budgets carried forward from last year 2021/22</u>	<u>£'000</u>
Covid Funding Expenditure carry forward	411
High Street Innovation Fund	387
Dowry Payments (to Parish/Town Councils)	150
Climate Change	82
Customer Access Point	217
Total carry forward reserves applied in 2022/23	<u>1,247</u>

NB – the reserves listed above are applied in Section A of Table 1 above.
Appendix A also highlights where the reserves have been applied by department

- 3.14 In terms of Section E of Table 1 – for Collection Fund (see paragraph 3.2 above) there is marginal change between the Q2 and Q3 data. In short, the council is still expecting a surplus of business rates income from the pool benefits it should receive. The Council Tax demand of £13.592m is fully on-target and a small surplus is forecast due to the council tax collection being above target.
- 3.15 After allowing for the movements to, and from reserves, a balance of General Fund earmarked reserves is maintained at a level of £14.569m. The Council's General Fund Balance also stands at £6.058m.
- 3.16 A full breakdown of the Council's reserves and General Fund balance is shown in Table 2 below for reference.

3.17 Table 2 - Summary of General Fund earmarked reserves available at Q3 – 2023/23

Reserve	Balance at 1/4/2022 £'000	Projection £'000	Balance at 31/3/2023 £'000	Notes
Earmarked				
Business Rates	2,662	(1,119)	1,543	To support the Business Rate Retention scheme
Leisure Reserve	447	50	497	Leisure improvements - £250k ringfenced - maintenance
Carry Forwards	1,356	(391)	965	Previous year Budget carried forward
VET Reserve	287	(214)	73	Vehicle, equipment & technology replacement
Maintenance of Graves	12	0	12	Amounts in perpetuity for grave costs
New Homes Bonus (NHB)	1,997	(1,589)	408	Residual amount of remaining NHB
Corporate Initiatives	960	26	986	To support corporate plan and initiatives
IFRS Reserve	5	0	5	Accounting code changes support
Economic Development	1,985	(915)	1,070	Regeneration of District ringfenced Match-funding
Community Led Housing	310	(55)	255	Community Housing and affordable - ringfenced
Lydd Airport	9	0	9	Support costs ay Lydd Airport
Homelessness Prevention	958	(21)	937	Flexibly fund homelessness - funding to 2023/24
High Street Regeneration	1,575	(418)	1,157	Regeneration in High Street areas
Climate Change	4,880	(880)	4,000	Achieve Carbon net zero by 2030
Covid Recovery	3,526	(874)	2,652	Collection fund deficit 21/22 and 22/23 - funding
Total Earmarked Reserves	20,969	(6,400)	14,569	
Total General Fund Reserve	3,112	6,058	6,058	

4. Virement

4.1 As stated in the Council's virement policy, all virements will be reported retrospectively to Cabinet as part of the Council's budget monitoring procedures.

4.2 There are no virements to report for Q3.

5. CONCLUSIONS

5.1 The projected outturn shown for the General Fund Revenue account for 2022/23 reflects the position based on actual expenditure and forecasts at 30 November 2022 and projects an underspend of £567k.

5.2 If this level of underspend continues through to Q4 outturn, then this may be added to reserves and carried forward to the 2023/24 Budget.

5.3 A breakdown of variances of over £50k for Q3 is highlighted in Appendix A. This also includes a summary of marginal gains savings at the base of the appendix.

6. RISK MANAGEMENT ISSUES

6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.
Assumptions may be inaccurate.	High	Medium	Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report.

7.2 Finance Officer's Comments (CS)

This report has been prepared by Financial Services. There are therefore no further comments to add.

7.3 Diversities and Equalities Implications

The report does not cover a new service/policy or a revision of an existing service/policy and therefore does not require an Equity Impact Assessment.

7.4 Climate Change Implications (OF)

As this report deals entirely with financial matters, there is no climate change impact.

7.5 Communications implications (KA)

There are no communications implications arising from this report.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors with any questions arising out of this report should contact the following officer prior to the meeting

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The following background documents have been relied upon in the preparation of this report:

Budget projection working papers.