

This Report will be made public on 15 January 2024

Report Number **C/23/78**

To: Finance & Performance Sub-Committee
Date: 23 January 2024
Status: Non-Key Decision
Head of Service: Lydia Morrison – Interim Director Governance and Finance Services
Cabinet Member: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

SUBJECT: GENERAL FUND REVENUE BUDGET MONITORING – 3RD QUARTER (Q3) 2023/24

Finance & Performance Sub-Committee are asked to review and note the Cabinet report below that will be presented to Cabinet on 31st December 2024.

SUMMARY: This report sets out the financial monitoring information for the Council as at 1 December 2023, i.e., Q3 of 2023/24. The report provides Members with an overview of budget performance, including an overview of reserves and balances, to enable the Committee to take ownership of the budgets and provide robust challenge and scrutiny to Officers on the performance of those budgets. At the end of Quarter 3, there is a favourable **end of the financial year projected position of £458k** on the Council's revised net revenue expenditure budget, of £22.2m. This position is based on budget activities as at 1 December 2023, projected trends in income and expenditure and changes to Council funding.

REASONS FOR RECOMMENDATION:

The Committee is asked to note the recommendation set out below as it needs to be informed of the Council's General Fund revenue budget position, note the forecast outturn underspend position, and consider any action required as appropriate. Regular monitoring and reporting of the revenue budgets and savings achievements enable decisions to be taken in a timely manner, which may produce revenue benefits and will improve the financial control of the Council.

RECOMMENDATION:

1. To receive and note Report C/23/78.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report updates the Cabinet on the **projected outturn for the General Fund Revenue budget for 2023/24**. This is the third 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 nine of the financial year.
- 1.2 These projections are made against the latest approved budget and based on data received from Budget Managers.

Economic Context

- 1.3 There remain considerable uncertainties in the economy during 2023/24. High inflation and interest rates continue to place significant pressures on Council finances and restrict the ability to forecast and plan, with confidence, for the future.
- 1.4 Although UK inflation and wage growth remain elevated, the forecasts are that Bank Rate has peaked at 5.25%. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September, November and then again in December.
- 1.5 The latest update from the Office for National Statistics (ONS) puts the Consumer Prices Index (CPI) measure of inflation at 3.9% in the year to November 2023, significantly less than the 4.6% recorded a month earlier and now at a two-year low. While this figure is much smaller than the 11.1% recorded in the year to October 2022 – a 41-year high – the figure still sits above the government’s long-term target.
- 1.6 The reason inflation continues to remain higher than target is down to a long-lasting legacy of damaging economic conditions. These include a knock-on from elevated energy and food prices – triggered in large part by the ongoing war in Ukraine and Middle East – combined with high interest rates, a tight labour market featuring accelerating wage rises, plus ongoing global supply chain bottlenecks.

2. MONITORING - THE COUNCIL'S OVERARCHING BUDGET POSITION

- 2.1 Members will be aware from recent reports to the Council and cabinet that the council faces a significant budget funding gap for future years. Officers will continue to look at solutions to reduce this budget gap. This is being done through the Priority Based Budgeting (PBB) model, which provides a comprehensive review of the entire council’s budget, identifying and ranking services offered on the basis of the council’s priorities. The process enables members to link service provision decisions to priorities within the corporate plan. The PBB philosophy involves aligning resources to output.

- 2.2 In considering the budget gap, any underspend that can be generated in the current financial year 2023/24, can be carried forward to reserves to help bridge part of the future years budget deficits.
- 2.3 Being mindful of this, the Chief Executive and the Corporate Leadership Team Directors have asked Budget Managers to rationalise discretionary spending wherever possible for the remainder of the 2023/24 financial year and be prudent in the use of resources, but without compromising front line services to residents.
- 2.4 The results for the Q3 budget monitoring have been assembled and have also been reviewed by the Finance Team officers.
- 2.5 The forecasts at this stage (Q3) of the year are subject to movement as the year progresses, as more certainty arises, and less estimation is required. They are however forecasts for known items and commitments and estimates for the remainder of the financial year. The current economic position and volatility exposes the council to continued risk that forecasts move during the last quarter of the year due to continued inflation rates and cost of living.

3. GENERAL FUND REVENUE 2023/24 - FORECAST END OF YEAR OUTTURN

- 3.1 The Q3 results are summarised in Table 1 below. The table presents the forecast outturn as a net position at the end of the financial year, i.e., expenditure minus income. Favourable variances (underspends) are shown as negative values and adverse variances (overspends) are shown as positive value.
- 3.2 The Service or Team spending 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, fees, and charges. Any carried forward funding from reserves from 2022/23 has also been applied to reflect the latest position.
- 3.3 The technical/funding/other budgets cover items of a more corporate funding nature such as capital financing costs, investment income, Minimum Revenue Provision (MRP), use of reserves, collection fund, levies, precepts, and any other technical budget adjustments. These budgets/costs are kept separate for accounting and service classification reasons under the CIPFA Service Reporting Code of Practice (SERCOP).
- 3.4 In summary, at the end of Quarter 3, there is an overall 2023/24 projected end of year revenue underspend position of **£458,000 (£512,000 in Quarter 2)** against the Council's revised net revenue budget of £22.6m, which is equivalent to a variance of 1.44% on the current annual budget.

Table 1 – Q3 Budget Monitoring statement

General Fund Net Cost of Services	Latest Approved Budget	Qtr. 3 Projected Outturn	Q3 Variance	Qtr. 2 variance
	£000	£000	£000	£000
Finance, Strategy & Corporate Services	8,665	8,439	(226)	(387)
Human Resources	646	693	47	52
Governance & Law	2,930	2,929	(2)	36
Leadership Support	753	754	1	51
Place	6,789	7,147	358	225
Economic Development	469	608	139	115
Planning	191	162	(29)	(60)
Operations	2,841	2,774	(67)	(202)
Housing	3,113	3,017	(96)	(189)
Sub-Total - Heads of Service	26,397	26,522	125	(360)
Unallocated Net Employee Costs	(441)	-	441	441
Recharges to Non General Fund Accounts	5,978)	5,978)	-	
Total for Service	19,979	20,545	566	82
Internal Drainage Board Levies	541	541	-	-
Interest Payable and Similar Charges	2,502	1,943	(559)	-
Interest and Investment Income	(2,521)	(2,402)	119	-
New Homes Bonus Grant	(366)	(366)	-	-
Other Non-Service Related Government Grants	(4,844)	(4,985)	(141)	(141)
Town and Parish Council Precepts	2,801	2,801	-	-
Minimum Revenue Provision	1,625	1,968	343	-
Capital Expenditure Financed from Revenue	2,487	2,344	(143)	-
NET REVENUE EXPENDITURE BEFORE USE OF RESERVES	22,204	22,389	185	(59)
Net Transfer to/from(-) Earmarked Reserves	(2,207)	(2,850)	(643)	(50)
TOTAL TO BE MET FROM TAXPAYERS & FORMULA GRANT	19,997	19,539	(458)	(110)
Business Rates Income	(3,921)	(3,921)	-	(263)
Demand on the Collection Fund	(14,290)	(14,290)	-	(140)
SURPLUS(-)/DEFICIT FOR THE YEAR	1,786	1,328	(458)	(513)
Contribution (from)/to the General Reserve	(1,786)	(1,328)	458	513
Projected Balance at end of the year	-	-	-	-

3.5 Significant aspects of the General Fund Revenue variances by directorate are as follows:

3.5.1 Finance, Strategy & Corporate Services

Finance, Strategy & Corporate Services are forecasting an underspend of £226k, (£387k in Quarter 2) and the table below shows the major variations against the latest budget with detailed descriptions as follows:

Descriptions	£000
ICT operation/admin net over/underspend within the various areas including the ICT contracted services, Web/Intranet, telephones, an unbudgeted grant, and vacancies.	(206)
Underspends due to various vacancies across the services, including Case Management (Corporate Services) and Strategy Policy & Performance.	(250)
Revenue and Benefit services - net increased in rent rebate payments	211
Revenue and Benefit services - net increased in rent allowance subsidy and other misc. variances	(118)
Various services early retirement contributions that will be funded through the transformation reserve	160
The internal audit service being provided by the East Kent Audit Partnership is projected to overspend due to an increase in EKAP charge.	23
The remaining under/overspend are due to other minor variations.	(46)
TOTAL	(226)

3.5.2 Human Resources

Human Resources are forecasting an overspend of £47k (£52k in Quarter 2), and the table below shows major variations against the latest budget with detailed descriptions as follows:

Descriptions	£000
Human Resources (Corporate Training) - variance due to reduction in Income Contributions and Reimbursements	30
Organisational Development - Overspend due to salary costs against Maternity leave & Temp Contractor post.	10
The remaining under/overspend are due to other minor variations.	7
TOTAL	47

3.5.3 Place

Place Services are forecasting an overspend of £358k (£225k in Quarter 2), and the table below shows major variations against the latest budget with detailed descriptions as follows:

Descriptions	£000
This is due to unavoidable contract inflation and the increase from the actual indexation for the preceding year, which was higher than the original estimate within the Household Waste Collection, Recycling/Waste and Cleansing services.	227
Projected underspend as a result of various vacancies within the Customer Services, Environmental Protection, Area Offices, and Hythe Swimming Pool	(141)
Otterpool Legal and financial advice costs, which will be funded by the external grant coming to the Council in 2023/24.	114
Cleansing – this is due to contract recharges and loss of income from KCC, re contribution to regular weed spraying	117
Local Land Charges – reduction in income due to a reduced volume in requests.	43
The remaining under/overspend are due to other minor variations.	(2)
TOTAL	358

3.5.4 Economic Development

Economic Development are forecasting an overspend of £139k (£115k in Quarter 2), and the table below shows major variations against the latest budget with detailed descriptions as follows:

Descriptions	£000
High Street Innovation Fund overspent that will be funded from the High Street Reserve (accounted for within the net transfer from reserve – Table 1)	50
Higher than budgeted Economic Development staffing costs including £24k for LUF Project Officer from Aug'23. This will be funded through the LUF grant funds/reserves and the CLT contingency. (accounted for within the net transfer from reserve – Table 1)	62
Rural England Prosperity Fund - Salary costs funded from Rural Prosperity Fund. This will be recovered from an allocated grant funding/reserve (accounted for within the net transfer from reserve – Table 1).	26
The remaining under/overspend are due to other minor variations.	1
TOTAL	139

3.5.5 Planning

Planning is forecasting an underspend of £29k (£60k in Quarter 2), and the table below shows the major variation against the latest budget with detailed descriptions as follows:

Descriptions	£000
Building Control – this is due to a reduced income projection, based on current level of income. Current service review ongoing.	92
Development Control – due to higher professional fees relating to Otterpool, Legal & Nutrient Neutrality advice.	45
Projected underspend as a result of various vacancies and grant received for Biodiversity.	(178)
The remaining under/overspend are due to other minor variations.	12
TOTAL	(29)

3.5.6 Operations

Operations services is forecasting an underspend of £67k (£202k in Quarter 2), and the table below shows the major variation against the latest budget with detailed descriptions as follows:

Descriptions	£000
Off-street car parking – projected underspend/savings were due to additional income and saving against RingGo Fees.	(151)
On-street car parking – projected overspend/variance due to significant reduction in income against parking charges, reduction in visitors this year, and an increase in contract recharge costs.	46
Mountfield Industrial Estate - Projected overspend due to vacant units resulting in reduced income/rent.	35
Projected overspend due to an increase in Business Rates, Utilities costs at the Sports & Recreation Buildings, Charity Parks & Open Spaces and Hythe Swimming Pool.	54
Projected underspend as a result of various vacancies within the Lifeline Facilities, Maintenance Offices, Engineering and Buildings, Estates/Assets, and Strategic Development.	(307)
Due to reduction in Folca maintenance costs and Business Rates	(44)
Connect 38 – projected overspend due to business rates and vacant floors resulting in reduced income.	211
The remaining under/overspend are due to other minor variations.	89
TOTAL	(67)

3.5.7 Housing

Housing services is forecasting an underspend of £96k (£189k in Quarter 2), and the table below shows major variation against the latest budget with detailed descriptions as follows:

Descriptions	£000
Homelessness - due to a reduced benefit income compared to budget and increase usage of the FHDC temp accommodation.	36
Projected net underspends from vacancies savings and secondment arrangements within various services including Compliance, Repairs, Assets & Major Works, and Regulation Specialists.	(123)
Neighbourhood Management Unbudgeted grant fund to cover Tenant Satisfaction Surveys (GF Housing)	(36)
Housing Options - overspend due to increases in legal costs; reduced income on DA grant and an adjustment for salary saving (net of redundancy payment).	28
The remaining under/overspend are due to other minor variations.	(1)
TOTAL	(96)

3.5.8 Other Non – Service Related

Descriptions	£000
Other Non-Service Related Government Grants	(141)
Interest Payable and Similar Charges - This is due to an underspend on interest payable; given the slippage in the capital programme, the budget for 2023/24 has been refined to reflect that borrowing has been deferred compared to the cashflow forecast on which the interest payable budget was constructed.	(559)
Interest and Investment Income - Interest receivable from treasury investments is forecast to be below budget due to the lower than forecast base rates available in the market.	119
Minimum Revenue Provision – This is as a result of changes made after the budget was set for the mix of funding used to finance capital schemes in 2023/24, and to reflect the projected slippage in the capital programme in 2023/24.	343
Capital Expenditure Financed from Revenue - The variance is as a result of changes made to reflect the projected funding/slippage in the capital programme in 2023/24.	(143)

- 3.6 An application to the Homes England Market, Partners, and Places programme for grant funding of £150k has been successful. The purpose of the grant is to support the ongoing delivery of the Otterpool Park project in relation to planning, infrastructure development and seeking third party funding. The funding will be fully utilised in 2023/24.
- 3.7 The new Committee system implementation cost of £100k will be funded from GF balances.

3.8 It should also be noted that there are a number of carry forward reserves applied from carried forward balances in 2022/23 which will fund certain specific costs included within the latest service budget.

4. Reserves Position and Forecast

4.1 Reserves are an essential element of the Council's finances, and a sufficient level of balances should be held, to mitigate risks within the budget and operations of the Council. The Council holds a range of Reserves for a variety of reasons.

4.2 The actual number and value fluctuate over the year as monies are spent on projects, new money is received from funders (most often from Government but not exclusively) and new reserves are created to respond to changing financial pressures. The Reserves are held as funding for specific projects, against known or potential expenditure or to meet future costs or allow for service developments and to allow value for money improvements.

4.3 The level of general fund reserves and earmarked reserves held by the Council were increased as part of the final financial year end position for 2022/23. This brought the level of the reserves up to the value that was set out in risk assessed level of reserves required to support the council's budget for 2023/24 and included in the budget report in February 2023. This provides additional capacity and resilience to support the financial position in 2023/24, supports the financial risks within the budget and allows lead in time for transformation and to reshape services to deliver on-going financial resilience and sustainability.

4.4 The transformation reserve provides funding for transformational activity across the council. The transformation seeks to reduce management duplication, improve efficiency, ensure that organisation capacity is focused on the Council's priorities, and deliver financial savings by making the best use of IT, Premises, Asset & Contract Management and reducing the overall number of staff across the Council.

4.5 The use of this reserve is overseen by the CLT, who agree the prioritisation of the activity and agree the funding.

Movement in Earmarked Reserves

4.6 The level of Earmarked reserves projected to held for discretionary use by the Council at 1 December 2023 is £12.176m compared to a balance of £14.871m at 31st March 2023.

Summary of Movement in Earmarked Reserves	£'000
Earmarked Reserves at 1st April 2023	14,871

Transfers to Earmarked Reserves	2,131
Planned use of reserve – 2023/24 Budget	(4,826)
Earmarked Reserves Closing Balance 2023/24 (Projected)	12,176

Movement in General Fund Reserve

- 4.7 The Council held a £7.038m as at April 2023 in General Fund reserves to manage budget risks not covered by earmarked reserves or provisions within the budget. The movement based on the forecast outturn for 2023/24 and the transfer to General Fund identifies that the General Fund closing balance will be £5.710m as detailed below:

Summary of Movement in General Reserves	£'000
General Fund Reserves at 1st April 2023	7,038
Planned use of reserve – 2023/24 Budget	(1,786)
Forecast 2023/24 outturn revenue budget (surplus) / deficit	458
General Fund Reserve Closing Balance 2023/24 (Projected)	5,710

5. Virement

- 5.1 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. Various virements (including recharges) in the region of £393k were carried out between October and December (Q3).

6. CONCLUSIONS

- 6.1 The projected outturn shown for the General Fund Revenue account for 2023/24 reflects the position based on actual expenditure and forecasts on 1 December 2023 and projects an underspend of £458k at the end of the current financial year.
- 6.2 If this level of underspend continues through to outturn, then this may be added to reserves and carried forward to the 2024/25 Budget.

7. RISK MANAGEMENT ISSUES

- 7.1 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,

Perceived risk	Seriousness	Likelihood	Preventative action
			and financial developments nationally are tracked. Assumptions are regularly reviewed.

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 Legal Officer's Comments (NM)

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

8.2 Finance Officer's Comments (OO)

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

8.3 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.

8.4 Climate Change Implications (OF)

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

8.5 Communications implications (KA)

There are no communications implications arising from this report.

9. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Ola Owolabi, Chief Financial Services Officer

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

Budget projection working papers.