

Surrey Heath Borough Council

Executive

21 November 2023

Revenue Budget 2023/24 Management Report – Quarter 2

Portfolio Holder:	Councillor Leanne MacIntyre – Performance and Finance
Date Portfolio Holder signed off:	8 November 2023
Strategic Director:	Bob Watson, Finance and Customer Service
Report Author:	Greta Ratkeviciute, Corporate Accountancy Manager
Key Decision:	yes
Wards Affected:	All

Summary and purpose

To provide the Executive with a high-level view as to the budget and financial performance for the first quarter of 2023/24 – accounting period ending 30 September 2023.

The Council is currently showing a small underspend against profiled budgets to the end of Quarter 2 (30 September 2023). Services are predicting a year-end forecast of outturn of **£411k overspend** (adverse variance).

Recommendation

The Executive is advised to RESOLVE that

- (i) the spend against the approved revenue budget for the period 1 April to 30 September 2023 and the predicted forecast of full year outturn be noted
- (ii) any comments and recommendations from the Performance and Finance Scrutiny Committee from its meeting on Wednesday 15 November 2023 be noted; and
- (iii) the Chief Executive, Strategic Directors and Heads of Service be asked, in consultation with the relevant portfolio holders, take appropriate action to keep the overall net expenditure within the agreed limits for the working budget by the end of the financial year.

1. Background and Supporting Information

- 1.1 This is the first formal budget management report against the 2023/24 approved revenue budget as at the 30 September 2023 (end of Quarter 2).
- 1.2 The high-level summary by service is shown below and tracks the budgetary movements from the budget set at Council in February 2023 to include agreed budgetary adjustments. Please note that net expenditure budgets are shown as appositive figure and net income budgets are shown as a negative figure in red font and in brackets. Similarly, adjustments that increase service budgets are shown as positive numbers and any that decrease the net budget are shown as negatives, in red font and in brackets.

<u>Service</u>	Budget agreed at Council	Carry forwards agreed by Executive	Budget Base Review savings	Supplementary Estimates agreed at Executive	Reallocation from Corporate Line	Working budget
	£000s	£000s	£000s	£000s	£000s	£000s
Environment and Community	8,806	24	(318)	0	0	8,512
Finance and Customer Services	2,762	0	(56)	0	60	2,766
HR Performance and Communications	3,709	32	(15)	0	0	3,727
Property and Economic Development	(971)	11	(33)	0	0	(993)
Legal Democratic Services and Strategic Management	1,565	0	0	0	0	1,565
Planning	545	147	(5)	0	100	788
Corporate Financing and Debt Management	1,051	0	396	0	(160)	1,287
Overall Position	17,468	214	(30)	0	0	17,652

- 1.3 In addition, the table includes corporate budget, which consists of the anticipated efficiencies from the base budget review process, repayment of debt (MRP), capital charges and corporate inflation which needs to be allocated out to services where appropriate.
- 1.4 Carry forward budget of **£214k** from 2022/23 was agreed in the outturn report by Executive and is now included in the 2023/24 working budgets.
- 1.5 The budget figures in the table below represents the budget management position against the **working budget** (b) for the year and shows the current (actual) spend (d) against the time apportioned budgets for the first two quarters of the year (c) and the forecast outturn position for the year (e) predicted by the services (a) giving the year end variance (f) .

<u>Service</u>	Working budget	Time apportioned (profiled) budget P6	Actuals P1-P6	Year-end Forecast	Forecast Variance
	£000s	£000s	£000s	£000s	£000s
(a)	(b)	(c)	(d)	(e)	(f)
Environment and Community	8,512	4,748	4,133	8,618	106
Finance and Customer Services	2,766	1,519	1,949	2,965	199
HR Performance and Communications	3,727	1,753	1,700	3,612	(115)
Property and Economic Development	(993)	(1,614)	(1,911)	(821)	172
Legal Democratic Services and Strategic Management	1,565	850	797	1,534	(31)
Planning	788	510	603	788	0
Corporate Financing and Debt Management	1,287	495	873	1,367	80
Overall Position	17,652	8,261	8,144	18,063	411

1.6 Service commentaries. The services are predicting an outturn position as highlighted below. Overspends are an unfavourable variance against the budget and are shown as positive numbers; underspends are a favourable variance against the budget and are shown in brackets, in red type which represents a negative number:

Environment and Community - overall overspend £106k:	£000
Car Parks: £149k - £98k for electrical maintenance works for safety reasons in Main Sq; £16k - Multistorey price increase has been delayed from Oct23 to est Apr24 subject to Parking Strategy review; £33k - Financial charges on cashless /credit card charges increase to 8% (from 6% last year); £2k - Fuel costs increased	149
Recycling And Refuse and Community Services: (£67k) - (£90k) - favourable contract indexation on core and variable JWS contract; £15k - anticipated reduction in commercial service collection, the run rate for past three years much lower; £7k additional cost for glass collection service	(67)
Licensing: (£5.5k) - (£4.5k) increase in number of Liquor (£4k) and Taxi (£1k) Licensing	(5.5)
Enforcement and Public Health: £10k overall overspend - (£4k) saving on vacant post; £15k overall reduction of achievable income: £4k on scrap metal licences, licences are 3 year duration but were budget to renew on annual basis and £11k - based on historic budget for repayment of legal cases which have not been achieved for the past five years, accepted for removal in PH budget review 12/10/23;	10
Community Services: £14k during budget review in 22/23 it was expected to reduce the number of vehicles, however change of strategy to move to electric vehicles and kept the fleet number the same, but alas this is an increase over budget	14

Environment and Community - overall overspend £106k:	£000
Places Leisure Camberley: £66k - £88k additional utility cost relating to last year. This is based on benchmarking done in Apr22. Contractual Obligation; offser by (£16k) of management fee and small savings across the service (£5k)	66
Parks and Open Spaces: (£66k) - (£32k) additional Income - (£14k) Windlesham parish council; (£28k) Cafe income within visitor centre; offset by £14k unachieved income budget on Frimley Lodge Park and lower overall cost of (£34k)	(66)
Sum of other minor overspends and underspends	(5.5)
Sum of over/(underspend)	106

Legal Democratic Services and Strategic Management – overall underspend (£31k):	£000
Additional elections funding	(30)
Extra printing cost from additional election (Frimley Green)	52
Savings on staffing underspend, maternity leaver;	(24)
Underspend on Members Allowance based YTD run-rate	(29)
Sum of over/(underspend)	(31)

HR Performance and Communications – overall underspend (£115k):	£000
FY Parking Fee budget which won't be required for this year	(25)
Savings on staffing:	(90)
(£36k) : Two vacant posts from beginning of the year: one in IT (£32k) and one in Community Development (£4k)	
(£24k) : Further three posts became vacant recently but not filled in as of yet: Senior Community Development Officer (Sport and Wellbeing) (£4.5k); Community Development Apprentice (£2k); National Management Trainee (£17k)	
(£37k) savings between posts becoming vacant and filled by new staff members: (£20k) Communication manager post was covered internally by another member whose post was not filled during that time until a new perm person joined and (£11k) on National Management Trainee post and Communication development manager (£6k)	
(£10.4k) – two posts were budgeted at 1FTE but actual hours worked were less £17k - severance cost payment due to communications restructure	
Sum of over/(underspend)	(115)

Finance and Customer Services - overall overspend £199k:	£000
---	-------------

Customer service: overall underspend of (£44k) (£48k) Savings on staffing cost, 3 unfilled posts and one post budgeted at 1 FTE but filling it at 0.81 FTE; Offset by £4k reduction in postal recharges	(44)
Revs & Bens: overall underspend of (£82k) (£78k) on staffing cost, 2 maternity leavers and 3 vacant posts; offset by a small £4k overspend across the service	(82)
Finance: £345k overall overspend (£40k) saving on unplanned spend this year on Traveller Incursion; £77k increased audit fees set by PSAA; £334k of additional agency/consultancy cost to cover vacant posts partly offset by the budget for the vacant established posts (£54) over achievement of investment interest due to maintained higher interest rates	345
Sum of other minor overspends and underspends	(20)
Sum of over/(underspend)	199

Corporate Financing and Debt Management - overall overspend £81k:	£000
Pension contribution. This is based on current billing which is based on current Establishment List. It is under review	81

Planning – forecast outturn on budget	£000
The service is experiencing a change in the anticipated types and volumes of applications and planning performance agreements (PPA), and at this point in the financial year it expects that the adverse and favourable variances will even out and is predicting to be on or close to original budget.	Nil

Property and Economic Development – overall loss of income £171k:	£000
Atrium: There was a dispute between SHBC and Aberdeen going back to some previous financial years. They believed we owed them £200k. Decision has been made to reduce 2023/24 income budget by £150k to cover this. Result was that we owed them £50k and not £200k, which was settled in Q4 2022-23 but 2023-24 budget was already set. As a result, we uplifted current year's forecast back to head lease T&Cs i.e. (£200k)	(150)
Albany Park: (£44k) Income increase due to combination of rent review due Sept 23 and assumption of 3 rent free not yet actualised and (£7.5k) Assumption on operational costs was that some of the units/properties will be vacant. To date expenses such as letting, legal and professional fees, utilities costs and building repairs and maintenance are low because the units/properties are all leased but one.	(51)

Property and Economic Development – overall loss of income £171k:	£000
Town Centre Investment: Increase in void service charge to reflect the service charge budget completed and produced by Praxis. - Vacant properties service charge cost provision is 35% of 2.2million (service charge budget)	261
Income adjustment includes Boots rent reduction by 271k and we have received 59.3k income from IQEQ which relates to outstanding fund for the previous FY	212
Theta: Vacant unit now occupied since May-23 budget assumption was that the property will be vacant in the current FY.	(84)
Ashwood House: 20.5k Tenant Refund - adjustment of rent reduction in 22/23	21
Public Offices: £32k Costs for general and window maintenance and car park barrier were not included in the budget and £7.6k Costs for cleaning was not included in the budget	39
Strategic Property Development: £45k Budget for ad hoc works not been spend as much as budgeted so far, as well as £5k additional spend on regeneration manager post for PA which was not budgeted originally	(45)
Vulcan Ind Estate: Assumption on operational costs was that some of the units/properties will be vacant. To date expenses such as letting, legal and professional fees, utilities costs and building repairs and maintenance are low because the units/properties are all leased but one	(10)
St Georges Industrial Estate: (9k) Rent increase post rent review held in May 23 and (£14k) Assumption on operational costs was that some of the units/properties will be vacant. To date expenses such as letting, legal and professional fees, utilities costs and building repairs and maintenance are low because the units/properties are all leased but one	(23)
Sum of other minor overspends and underspends	1
Sum of over/(underspend)	171

- 1.7 **Base budget review.** The Executive on 18 July 2023 received and reviewed a report on the base budget review savings proposed by services. At the meeting they agreed to accept number of the proposals in the report. These are summarised below:

Base budget review agreed efficiencies					
(all figures in £000)	2023/24	2024/25	2025/26	2027/28	Total
MTFS target	(500)	(350)	(200)	(150)	(1,200)
Base Budget Review	(530)	(286.5)	(58)	(77)	(951.5)

- 1.8 The budget adjustments from the agreed efficiencies have been made in this quarter and reflected in this period's monitoring report. Future reports will highlight any areas where the efficiencies are not on target to be delivered in year.

2. Reasons for Recommendation

- 2.1 It is imperative for strong financial management that the revenue budgets are reviewed regularly and reported on a quarterly basis to both the Performance and Finance Scrutiny Committee and the Executive.

3. Proposal and Alternative Options

- 3.1 The Executive is asked to note the management report on the 23/24 Revenue Budget for the period 1 April to 30 September 2023 and also to note any remedial actions proposed by service areas.
- 3.2 The Executive is also asked to note any comments and recommendations from the recent Performance and Finance Scrutiny Committee made at their meeting on 15 November 2023.

4. Contribution to the Council's Five-Year Strategy

- 4.1 The budgets agreed at Council are aligned to and support the approved five-year strategy.

5. Resource Implications

- 5.1 The budget monitoring is related back to the original budgets set at Council in February 2023.

6. Section 151 Officer Comments:

- 6.1 It is not unusual for the Council to be predicting an overspend at year end when this is measured at Quarter 2; this reflects a pattern common in most Councils as services become aware of pressures some of which will almost certainly be mitigated and others may not actually materialise. It is considered that no additional remedial action needs to be taken other than services applying mitigation wherever possible. If these budget pressures continue as the Council progresses through the financial year, then additional budget in the form of supplementary budget estimate requests will be made in accordance with the Council's financial regulations.
- 6.2 The base budget review process has proved very successful in delivering on the budget reviews and has achieved the MTFS target. This will be developed further during the next MTFS and budget plan to be presented to Council in February 2024.
- 6.3 During the next financial quarter, work is underway to determine the correct capital financing requirement (CFR), the appropriate level of minimum revenue provision (MRP) and to confirm the debt interest position. It is anticipated that any increase in costs over budget will be covered from an over-achievement in investment income returns.

7. Legal and Governance Issues

- 7.1 The revenue budget is monitored monthly and reported to CMT, Executive and Performance and Finance Scrutiny Committee quarterly.

8. Monitoring Officer Comments:

- 8.1 The Committee's terms of reference include the function to monitor, review and to report to the Leader/ Executive in relation to the performance of the Council's services.

9. Other Considerations and Impacts

Environment and Climate Change

- 9.1 Details of these are in the individual service areas that the budgets support.

Equalities and Human Rights

- 9.2 Details of these are in the individual service areas that the budgets support.

Risk Management

- 9.3 Inadequate budget management by the Council's services represents a reputational and financial risk to the Council.
- 9.4 Regular financial monitoring of budgets enables risks and pressures to be highlighted and addressed at an early stage so that mitigating actions can be taken and any opportunities to improve the budgetary position can be implemented..

Community Engagement

- 9.5 Where necessary engagement will be taken through individual service areas the budgets support

GLOSSARY OF TERMS

Term	Description
<i>Accounting period</i>	The timescale during which accounts are prepared or reported on.
<i>'Accounts Payable'</i>	The section and/or system within the Council that is responsible for paying the Council's creditors and invoices raised against the Council.
<i>'Accounts Receivable'</i>	The section and/or system within the Council that is responsible for invoicing and collection from the Council's debtors and for invoices raised by the Council.
<i>Accrual</i>	The recording within the accounts of the Council the cost of goods or services received and for which an invoice has been received but for which payment has not yet been made.
<i>Accrual accounting</i>	The practice of accounting for goods and services when they are received/provided rather than when they are paid for/payment received.
<i>Annual budget</i>	The income and expenditure plans for the financial year (1 April to 31 March); set by Council in February before the year starts.
<i>Asset</i>	A present economic resource of the Council to which it has a right or other type of access that other individuals or organisations do not have. Something the Council owns.
<i>Balances</i>	A figure representing the difference between credits and debits in an account; the amount of money held in an account. Also known as 'financial reserves'.
<i>Base budget</i>	Estimate of the amount required to provide services at current levels. Can also be referred to as 'rollover budget'.
<i>Budget Monitoring</i>	The process comparing of actual income and expenditure against budget; used to support budgetary control.
<i>Business Rates/NDR*</i>	Rates are payable on non-domestic property including libraries, offices, schools. The level of business rates is set by the Government and collected by the District Councils on their behalf. The money is then re-allocated to authorities in accordance with ratios and tariffs/top-ups set by central government.
<i>Capital Asset</i>	Capital or Fixed assets are long-term resources, such as plant, equipment and buildings.
<i>Capital Charges</i>	A charge to services to reflect the cost of fixed assets used in the provision of those services

Term	Description
<i>Capital expenditure</i>	Expenditure on items that create an asset which has a long-term benefit of more than one year.
<i>Carry forward [of budget]</i>	Budgets unspent in a prior year that have (once approved) been added to the current year budget. Strict rules on what can be 'carried forward' apply.
<i>Chart of accounts</i>	The hierarchy of recording income and expenditure within the Council's accounts. The main distinctions are between fund e.g. County fund, Pension Fund; objective e.g. service or cost centre; subjective e.g. the classification of expenditure between salaries, equipment, stationery, fuel costs etc.
<i>Commitment</i>	A commitment to spend occurs when an order is raised
<i>Cost centre</i>	A collection of subjective codes (<i>qv</i>) linked to a particular service or sub-service area.
<i>Creditor</i>	A person or company to whom the Council owes money.
<i>Debtor</i>	A person or company who owes money to the Council
<i>Depreciation</i>	The accounting method of amortising the value of an asset over its useful life
<i>Dwelling</i>	A property liable for Council tax.
<i>Ear marking</i>	Setting aside funds for specific purposes
<i>[Financial] reconciliation</i>	Financial reconciliation is the accounting process by which two different data sets are compared to verify that the information within them is accurate. Reconciliation is an important business accounting practice that ensures the reliability of the Council's financial records.
<i>Financial Regulations</i>	Rules of financial management that apply to all officers and members of the Council. These form part of the Council's Constitution can be found on the Council's Website.
<i>Financial Year</i>	Period of twelve months commencing on 1 April and ending 31 March the following year.
<i>Forecast Outturn</i>	A projection of anticipated expenditure incurred and income received to provide an estimate of the service position at the end of the year compared to the planned budget.

Term	Description
<i>Funding</i>	Source of income to support service expenditure – can be capital or revenue
<i>General Fund</i>	The main revenue account of the Council through which day to day transactions are conducted.
<i>General Ledger</i>	A collection of accounting records detailing the authority's transactions and balances
<i>Hereditament</i>	A building or premises liable for Business Rates
<i>Income [budget]</i>	This is money due into the Council NB: this is normally shown in budgets as a negative number and is often written in red type and shown in brackets
<i>Incremental budgeting</i>	A process of budget setting, starting with the base budget and increasing/decreasing it by growth/efficiencies to set the following year's budget.
<i>Internal Audit</i>	A team that works to protect the Council's assets and assist managers in improving their use.
<i>Invoice</i>	A bill – a request for payment for goods or services received
<i>Journal</i>	The transfer of actual income or actual expenditure from one code to another, more appropriate code. Note: movement of budgets is classed as a 'virement' (qv)
<i>Medium Term Financial Strategy (MTFS)</i>	The Council's strategy for the management of its resources during the next four years, which remains under rolling review, and directly links to the service planning process.
<i>Liability</i>	The Council's financial debt or obligations that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services.
<i>(N)NDR</i>	(National) Non-Domestic Rates – see business rates (qv)
<i>Profile of budget (also known as 'time-apportioned' budget)</i>	A term used to describe the pattern of expenditure or income that is expected to occur over a period of time and normally part of a financial year. Designed to reflect actual spend or income to allow better budget monitoring.

Term	Description
<i>[The] Prudential Code</i>	The authority which enables the Council to set its own borrowing limits as part of the budget setting processes.
<i>Reserves</i>	Amounts set aside for general contingencies and to provide for working balances, or can be earmarked for specific future expenditure.
<i>Resources</i>	Includes cash, staff, equipment, property, stocks, etc.
<i>Revenue expenditure [budget]</i>	Expenditure on 'day-to-day' items required to support the running and/or the provision of the Council services NB: this is normally shown in budgets as a positive number
<i>Revenue Support Grant (RSG)</i>	The Revenue Support Grant (RSG) - a Government grant providing general support for Council services.
<i>Subjective Code</i>	A code describing expenditure or income by type e.g. salaries costs, premises costs. Can also be called "accounting code"
<i>Supplementary Estimate</i>	An in-year increase in budget – normally necessitated by a new burden or an in-year pressure not identified at budget setting. Approval varies by value and details are outlined in the Council's Financial Regulations.
<i>Tariff</i>	Additional business rates paid over to central government. SHBC are a 'tariff' authority.
<i>Top-up</i>	Additional business rates paid over by central government to local authorities. SHBC are not a 'top-up' authority.
<i>Treasury management</i>	The term for all the activities and processes involved in managing the Council's money. This includes tasks like liquidity and cash-flow forecasting, investing, risk assessment, and day-to-day operations like banking and invoicing.
<i>Ultra Vires</i>	A Latin term meaning 'beyond the powers'.
<i>Variance</i>	Difference between budget and actual income or expenditure. May be favourable (more income or lower spend than budgeted) or unfavourable/adverse (less income or more spend than budgeted)
<i>Virement</i>	Formal transfer of funds from one budget to another. Does not change the Council's overall budget.

Term	Description
<i>Zero based budgets</i>	The construction of a budget based on the needs of the Council without reference to previous expenditure history.