

Quarter 1 2023/24 Budget Monitoring - Strategy & Resources Committee

Strategy & Resources Committee Thursday, 28 September 2023

Report of: Chief Finance Officer (Section 151)

Purpose: To note the 2023/24 Quarter 1 / Month 3 (June) financial position of the Committee and the Council overall, and take associated decisions.

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report presents the 2023/24 Quarter 1 / Month 3 (June) financial position for both revenue and capital budgets for the Committee and the Council overall.

This report supports the Council's priority of: Building a better Council/
Creating the homes, infrastructure and environment we need / supporting
economic recovery in Tandridge/ Becoming a greener, more sustainable District.

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Recommendations to Committee:

That the Committee:

- A. Notes that the Department for Levelling Up, Housing and Communities (DLUHC) has refused the Council's application to use capital receipts as part of a strategy to build reserves resilience.
- B. Notes the forecast revenue and capital budgets positions as at Quarter 1 / M3 (June) 2023 and the Q1 Prudential Indicator update.
- C. Approves a pay award virement of £231k between Corporate Items and Strategy & Resources, Community Services, Housing and Planning Policy Committees, set out in section 3.
- D. Approves the reprofiling of the capital budget set out in section 21 and page 6 of Appendix A.

Reason for recommendations:

The Council has a duty to ensure that its expenditure does not exceed resources available. The medium-term financial outlook remains uncertain and so the Council must continue to take steps towards growing its financial resilience, including building reserves to a sustainable level.

It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that the revenue budget is delivered, and that any new expenditure is contained within the available resources.

Finance have committed to bringing quarterly financial monitoring updates to each Committee to ensure that all Members are aware of the financial position of the services within their remit, as context for decisions needed to mitigate any variance to budget and in terms of the effect on the emerging budget for 2024/25.

Updates to the other three Policy Committees were submitted during September 2023.

This report, along with Appendix A, presents the detail for Strategy & Resources and the consolidated position.

Introduction and background

1. The 2023/24 Strategy & Resources Committee Revenue budget was approved at £6,080k by Full Council on 9th February 2023, excluding the distribution of a budget for the approved pay award.
2. When the overall budget was set, a £230k budget was held in Corporate Items pending the approved pay award. Now the pay award for 2023/24 has been approved, this report recommends a virement (budget transfer) between the Committee budgets to distribute the associated budget.
3. The virement makes no change to the Council's net budget, but increases the budget for the Strategy & Resources Committee by £108k to £6,187k (after rounding). The full Committee allocation is below:

Service	Original Budget £k	Pay Award Virement £k	Revised Budget £k
Community Services	4,560	53	4,613
Housing General Fund	684	29	713
Planning Policy	1,297	42	1,338
Strategy & Resources	6,080	108	6,187
Corporate Items	(685)	(231)	(916)
Total Budget	11,935	0	11,935

4. The Council's overall budget stands at £11,935k, unchanged from the budget approved by Council on the 9th February 2023.
5. The 2023/24 Strategy & Resources Committee Capital Budget was approved at £1,822k by Council on 9th February 2023 having been considered by S&R Committee on the 31st January 2023.
6. This was increased to £3,334k by
 - a. £295k of Digital Transformation Budget approved by Strategy & Resources on 30th March 2023.
 - b. £1,217k of carry-forwards from 22/23 approved by Strategy & Resources on 29th June 2023.
7. The overall Capital Programme was set at £19,212k by Council on 9th February 2023. The available budget was increased by:
 - a. £295k of Digital Transformation Budget approved by Strategy & Resources on 30th March 2023.
 - b. £9,149k of carry-forwards from 2022/23 approved by Strategy & Resources on 29th June 2023;

This brings the total available capital budget to £28,656k. The 29th June 2023 Committee meeting approved that 'a revised phasing be reported during the September committee cycle'. This report and the appendix sets out the revised phasing.

Revenue Headlines

8. The key headline at M3 is a forecast revenue overspend of £250k for the Council overall before corporate mitigations of £921k. Section 17, below and Page 4 of Appendix A sets out the available contingencies. In light of the contingencies, a balanced outturn is expected, i.e. with no need to call on general reserves.
9. Irrespective of contingencies, further work is needed to mitigate the position. There are also significant risks around inflation, temporary accommodation costs and planning appeals that need to be managed. Further details of the variance are included in Appendix A and below.
10. Savings delivery remains on-track with £1,048k of the £1,654k savings target rated achieved or green for delivery. £546k of the savings target is currently rated as amber and this is expected to be achieved over the course of the year. A further £61k is rated either red or unachievable. Full information on the delivery of the savings programme is provided in the Future Tandridge Programme report to this Committee meeting.
11. The following sections set out the £250k forecast overspend by Committee. Further detail is included in Appendix A.

Community Services – balanced to budget.

12. Balanced to budget, therefore no forecast variance at Quarter 1.

Despite forecasting on budget overall, a number of offsetting risks and opportunities are being managed within the budget, particularly:

- Waste inflation – until inflation rates are confirmed, this could lead to a surplus or deficit against the budget.
- Garden Waste – whilst membership remains high, there is still risk to delivering on this budget as renewals take place throughout the year.
- Operational Services - £16.5k savings target remains as amber, pending further work on delivering changes in the service.
- Car Parking – the impact of Surrey County Council taking on on-street parking responsibilities is uncertain at this point.
- Cesspool – the performance of this traded service is being kept under review and may be a risk or an opportunity as the year progresses.

Housing General Fund - £15k overspend

13. Housing General Fund overspend £15k mainly due to:

£15k Meadowside Mobile Homes – increased costs for planned repairs and tree works.

Alongside the known variance on Meadowside, risks are being managed within the budget, particularly in respect of Homelessness which is very sensitive to changes in temporary accommodation costs. Spend to-date is in line with expectations, but a small increase in numbers can have a significant impact on the budget. Temporary accommodation costs can also have a knock-on impact on Housing Benefit (although an earmarked reserve exists to mitigate the impact on the latter).

Planning Policy Committee - £197k overspend

14. Planning Policy Committee is forecasting a £197k full-year overspend. The overall overspend is mainly due to:

- **(4k) Planning Application and Advice Planning Application and Advice** positive variance at year end predicted based upon the following:
 - £86k overspend on salaries due to reliance on contract staff for longer than originally anticipated.
 - £47k Overspend on running costs related mainly to third party external consultant advice including retail impact assessments and highways matters.
 - (£136k) surplus on planning application fee income. It is expected that fee income will be supported by income from some major sites where planning applications are anticipated.
- **£11k Enforcement overspend** predicted. £21k salary overspend due to reliance on contract staff offset by one off lower running costs (£10k) and a small amount of income.
- **£132k Appeals overspend** due to a change in the forecast appeals provision, based on doubling the 2022/23 provision.
- **£27k Gatwick DCO expenditure** associated with consultant commission for bespoke assessment of air quality and noise impacts on Tandridge arising from Gatwick Airport Northern Runway project. Up to £30k approved by Planning Policy Committee on 23 March 2023. Note that this forecast precedes additional approvals in September and will need to be updated for Quarter 2.

- **£31k Land Charges and Street Naming & Numbering.** Reduction in Land Charges income worse than budget caused by transient external pressures of rising inflation and high interest rates. Officers will closely monitor search numbers/income and initiate a promotion of the service through Communications in order to maintain and increase our market share.

Strategy & Resources – £38k overspend

15. **£38k Legal Services overspend** primarily due to £19k vacancy factor not being delivered and £19k gap in income generation. The Legal Services Team are looking at possibility of recharges to other departments for certain in-house services (where these can be met from non-general fund sources; HRA, capital etc) to cover shortfalls and reviewing other options which are in their infancy, for mitigating the overspend. At the same time Legal officers are responding to an increase in demand for completing work in house which has reduced opportunities for obtaining work from third parties.

Corporate Items

16. No forecast variance at Quarter 1. Performance against interest receivable is likely to exceed budget and provide an opportunity at year end to review the level of reserve held for volatility in investment values.

Mitigation through contingencies

17. Offsetting the deficit identified are contingencies as follows:

- £371k base budget contingency (£445k total contingency less £74k set aside for cost-of-living pressures)
- £550k set aside in 2022/23 outturn
- Totalling £921k – a balanced outcome is therefore deemed to be achievable.

However, it is of key importance that mitigating actions continue. Whilst contingencies appear adequate at this point in the year, the Council faces risks which cannot be quantified, including planning appeals and the impact of financial pressures on existing suppliers, which will need to be managed and monitored closely. This includes specific, live examples which are commercially sensitive but where the potential financial risk could be significant.

Department for Levelling Up Housing and Communities (DLUHC) application

18. As reported in the 2023/24 Budget and Medium-Term Financial Strategy, approved by Full Council on the 9th February 2023, the Council applied to use £500k of capital receipts from the sale of the Redstone building as part of a strategy to build its reserves resilience. The request was submitted on the 1st March 2023 and DLUHC have been considering since that point.
19. On the 12th September 2023, Government wrote to the Chief Executive and the Leader of the Council to confirm that the Council's request had not been approved, citing the Council's improved financial position. The letter concluded as follows:
- "The department recognises and commends the Council's efforts to grip and manage its budget pressures, and the successful steps taken to deliver the transformation and savings programme in 2022/23 and in 2023/24. Should the Council have concerns about its ability to manage its budget in future, the offer from the department to speak to councils in this situation remains open."
20. Officers will maintain contact with DLUHC representatives to keep the department appraised of the Council's financial situation. A further review of reserves resilience will be included in the Council's 2024/25 Draft Budget (to the November Committee cycle) and the Final Budget in January.

Capital Programme Update

21. At Quarter 1, the phasing of the Capital Programme was reviewed thoroughly, in line with a commitment to June Committee to review how much was deliverable in 2023/24. Overall the Capital Programme is forecasting £8,827k of net slippage and £36k of underspend. A net of £5,002k of this relates to the General Fund and CIL schemes, and £3,862k in the Housing Revenue Account. This is the aggregate of a number of increases and decreases, further details of which are reported in Appendix A.

	Original Budget incl. Carry Forwards & Additions 2023/24	Forecast M3 2023/24	Variance M3 2023/24
	£k	£k	£k
Community Services	2,077	1,740	(337)
Housing General Fund	642	503	(139)
Strategy & Resources	3,334	917	(2,417)
Planning Policy	2,608	500	(2,108)
General Fund	8,661	3,660	(5,002)
Housing Revenue Account	19,995	16,133	(3,862)
Total	28,656	19,793	(8,864)

22. In order to re-base the Capital Programme to a deliverable level, it is recommended that the budget be reset to match the Q1 forecast of £19.8m. This will then be used as the baseline for future quarterly reports. Resetting the budget will provide a more realistic target for delivery.
23. Alongside a review of the deliverability of the Capital Programme, a lessons learned exercise was undertaken in conjunction with the Corporate Finance Team at SCC through the Joint Working Agreement. The results of this are set out below.

Prudential Indicators Q1 Update.

24. The 2021 Prudential Code and Treasury Management Code introduced a new requirement that monitoring of prudential indicators should be reported quarterly from financial year 2023/24. The prudential indicators are set as part of the Council's Capital and Investment Strategy reported to Investment Sub-Committee before the start of the financial year. The Prudential Code requires authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure plans, investments and debt in light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the authority. The indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions. Due to the timing of the next Investment Sub-Committee falling into November, at which point the Q1 performance update will have been superseded, an update on Q1 is provided as part of this report, in Appendix B.
25. Section 21 above sets out a rephrasing of the capital programme that will result in lower than anticipated borrowing by the end of 2023/24. The remaining indicators are otherwise as expected when the budget was set.

Capital Programme Improvements

26. Several factors, including inflation and general economic uncertainty, have increased the challenges that all authorities face in delivering their capital plans. This affected 2022/23, particularly in the failure of major contractors, and is likely to persist during 2023/24. Pressures on delivery will be exacerbated by rising costs and the Bank of England continuing to raise interest rates as a means of controlling inflationary pressures. It is increasingly important that the Council is responsive to these circumstances through its monthly monitoring and capital reporting and governance processes. Understanding the potential impact of risks; national and local, which have influenced past performance is a key part of delivering a higher proportion of the programme in future.

27. Through the monthly monitoring, budget holders will be supported in reviewing and updating forecasts, with a renewed focus on the deliverability of schemes, with use of the most up to date information that is available. In Finance, responsibility for Capital Programme business partnering has moved to align with revenue budget business partnering to ensure there is a consistent and complete view of the service.
28. It is expected that this will identify schemes which are at risk of non-delivery at an early stage, with robust narrative to set out the reasons for variances and what action is being taken to mitigate the impact. Where schemes are projecting reduced activity there may be opportunities to accelerate progress on other schemes to make best use of available funding.
29. Governance processes: The Council's governance process in respect of the Capital Programme will be reviewed. This likely to include the following:
- A scheduled Quarter 1 re-profiling in each September to reflect changes in expectations since the budget was set in February. (2023/24 will mark the start of this process).
 - A peer group of Capital Programme managers created to review new business cases and review and challenge the annual phasing of existing programmes; bringing their own knowledge of the impact of delivery risks elsewhere.
 - A realistic assumption of slippage built into all schemes to reflect the likelihood that as-yet unknown factors will affect schemes, based on national good practice and the principles of optimism bias.
30. Delivery resource: At the heart of delivering the Capital Programme is the requirement for Officers to have capacity to take projects forward. This has been reflected in a recent restructure of Assets and Facilities Management which has created a new project delivery post, specifically to manage Capital Programme projects. This post will work with Members and Officers in other Committees (particularly Community Services) to ensure that priority projects are delivered. Recruitment is under way.

Key implications

Comments of the Chief Finance Officer

31. The Section 151 Officer confirms the financial information presented in this report has been based on reasonable working assumptions taking into account all material, financial and business issues and risks. The key financial implications at this stage are captured in the body of the report.

Comments of the Head of Legal Services

32. It is essential, as a matter of prudence, that the financial position of services continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.
33. Under S28 of the Local Government Act 2003, a local authority must review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its budget. This report satisfies this statutory requirement.

Equality

There are no equality implications associated with this report.

Climate change

There are no significant environmental / sustainability implications associated with this report.

Appendices

Appendix A – Committee’s M3 (June) 2022 Financial Report and supporting data

Appendix B – Prudential Indicator Update

Background papers

- 2023/24 final budget and MTFs - Strategy and Resources Committee 31st January 2023
- 2022/23 Budget – Outturn Report – Strategy and Resources Committee 29th June 2023

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