

# Budget Monitoring Report – 2021/22 Outturn - Month 12 (March 2022)

## Strategy & Resources Committee – 30 June 2022

Report of: Mark Hak-Sanders – Chief Finance Officer (Section 151)

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### Purpose:

The purpose of the report is to provide the Strategy & Resources Committee with the Council's 2021/22 Financial Outturn position on Revenue and Capital.

Publication status: Unrestricted

Wards affected: All

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### Executive summary:

This report, including Appendix A, outlines the **2021/22 budget position at the end of March 2022 (Outturn)**. The report sets out a £458k revenue budget surplus and £10.5m net slippage against the capital budget.

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### This report supports the Council's priorities 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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### Recommendation to Committee:

That the Committee:

- A) **Note the Council's Revenue and Capital outturn positions** for the year (Appendix A)
- B) **Approve the following transfers to reserves** from the revenue outturn position:
  - **£117k 2021/22 unused contingency and £200k additional contingency to mitigate financial uncertainties/risks in the medium-term** and support budget resilience, especially due to the impact of inflation

- **£75k** to support the **Future Tandridge Programme, subject to further approval by this Committee**
  - **£50k** support **Phase 1 of the Debt Management Review**
  - **£16k** residual underspend to **General Fund**
- C) **Approve capital carry forwards of £10.4m** from 2021/22 to future years, subject a full review of the extent to which the capital programme is deliverable including these carry forwards.

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## **Reason for recommendation:**

The Council's full outturn position and proposals for use of the surplus are set out in this report and Appendix A. The recommendations support the need to build the Council's reserves towards a sustainable level, whilst outlining likely calls on the contingency to support the 2022/23 budget in light of growing inflation.

Capital carry-forwards are required to progress with individual schemes, however the programme needs to be reviewed to establish the extent to which it can be delivered in 2022/23.

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## **Background**

1. The delivery of the 2021/22 budget was interrupted early in the financial year by the identification of a c.£920k / 8% deficit in the budget related to the account treatment for pensions, subject to extensive investigation and reporting to this Committee over subsequent months.
2. The 2021/22 budget originally proposed the addition of £0.8m to reserves. The budget deficit made it impossible to make that contribution and the budget was rebalanced without it.
3. In parallel to delivering the 2021/22 budget, the Council has been undertaking the Tandridge Finance Transformation programme (TFT), the outcomes of which will be reported to A&S Committee on the 5<sup>th</sup> July. The TFT includes the findings of the Grant Thornton review resulting from the identification of the budget deficit.
4. TFT will be succeeded by:
  - A continuous improvement plan for Finance which will extend the work to embed accountability and strong financial management throughout the organisation; and

- The Future Tandridge Programme and 2023/24 budget process (a further report will be considered at this Committee on 30<sup>th</sup> June 2022) which will continue to grow confidence in the Council's financial position and medium-term resilience.
5. Despite these challenges, the outturn report for 2021/22 is presented to Committee 6 months earlier than the equivalent report for 2020/21 and with a significantly lower variance to budget. Although this represents progress there is still much to do to improve forecasting, budget accountability and to roll out Finance training across the Council.

### **2021/22 – General Fund Revenue Outturn**

6. **The 2021/22 revenue outturn position for the Council is a £458k surplus.** This comprises of the following:

- £239k net underspends related to one-off events;
- £573k net underspend due to staffing; offset by
- £355k net overspends (which are already factored into 2022/23 budget).

7. **£239k net underspends related to one-off events, notably:**

- £118k underspend: Community Services: Operational Services mainly £37k net sales from vehicles, £37k increase income for cemetery, £22k rent from dwellings & £22k net depot recharges;
- £95k underspend: Community Services: Parks and open spaces due to delay in tree remedial works (£44k), reduced need for gritting in parks (£26k) and repairs (£24k);
- £125k underspend: Housing the Homeless – applying grant to fund legitimate spend;
- £95k underspend: movement in Sundry Bad Debt provision and write offs due to an improvement in the Sundry Debt position in-year; and
- £126k over recovery of income: Interest receivable and investment income due to Freedom Leisure loan repayments and improved yields on investment income.

Offset by:

- £184k overspend due to net additional outlay in Housing Benefits;
- £80k overspend due to; additional costs for the Public Inquiry into the crematoria (£45k) and further environmental impact assessment, ecological advice, planning appeal advice on other applications (£35k); and
- £82k overspend: Resources prior year charges not accrued for in 2020/21.

8. **£573k underspend - net variance against staffing budgets:**

- Community Services £109k underspend;
- Housing £15k underspend; and
- Resources: £449k underspend.

The effect of staffing savings are largely recognised in the 2022/23 budget by the inclusion of £200k vacancy factor and other changes set out in the 2022/23 savings plan, reported separately on this Committee's agenda.

9. **Offset by: £355k overspends that have been already factored into 2022/23 budget**

The table, below, provides assurance that recurring variances identified within the 2021/22 outturn position have largely been built into the Council's budget for the current financial year. The full-year effect of these variances will be monitored during 2022/23.

Table 1: 2021/22 variances compared to equivalent amounts included in the 2022/23 budget

<b>Committee</b>	<b>Description</b>	<b>2021/22 Outturn variance £000</b>	<b>2022/23 Budget Assumption £000</b>
Community Services	Increased net costs of Handy Man service	24	20
Community Services	Bulky waste collection volumes are below initial estimates	46	39
Community Services	Parking and Penalty Charge Notice revenue is down in 2021-22 and expected to continue into 2022-23	158	125
Community Services	Additional recycling credits	(109)	(93)
Community Services	Efficiency and income improvement on various regulatory services	(46)	(16)
Community Services		73	75
Housing GF	Redstone – sale of the property / affordable housing – loss of rent	26	49
Housing GF	Reduce funding for Westway Centre as per the committee agreement	(31)	(50)
Housing GF	Increase Meadowside Mobile Homes Sales Commission	(11)	(10)
Housing GF		(15)	(11)
Resources	Corporate reduction in expenses	(30)	(30)
Resources	Legal online subscriptions	6	10
Resources	Mod.gov system licences	12	12
Resources	Agresso licences	4	4
Resources	Removal of vacant post	(22)	(22)
Resources	Reduction in expenses budget	(18)	(18)
Resources		(48)	(44)
Corporate Items	Property & Investment Income	345	185
Corporate Items		345	185
Overall		355	204

## **Covid-19 position**

10. The overall surplus position can be analysed between business as usual (BAU) and Covid-19 related additional costs / lost income. There is a £65k Covid-19 deficit against the Government's CV-19 funding and £522k surplus on BAU.

11. The £65k Covid-19 deficit for 2021/22 is comprised of:

### **Community Services:**

- £180k under-recovery of income due to Q1 restricted demand for parking and taxi licencing. Car Parking (On and Off Street): budgeted income £439k against actuals of £266k. Taxi Licencing: budgeted income £88k against actuals of £82k
- £20k under-recovery of income due to lower volumes of bookings than expected for cesspool service
- £15k under recovery of income due to social distancing in Parks and Open spaces

### **Housing GF:**

- £31k improvement in lease and back-dated rent income

### **Offset by Covid-19 reserves and specific grants:**

- £27k drawdown of Covid-19 reserve
- £92k Covid-19 Sales, Fees and Charges grant.

12. The majority of the Covid-19 deficit has already been factored into the 2022/23 budget through a phased recovery of car parking income. The ability to distinguish between Covid-19 and BAU will reduce as the budget permanently adapts to changes in society.

## **Proposed use of surplus**

13. The report proposes that the £458k General Fund surplus is transferred to reserves, with uses outlined as follows:

### **£125k – Enabling Projects**

- **£75k Future Tandridge Programme** - to meet potential for costs ineligible for capital receipt funding. e.g. elements of redundancy costs (to be reported to S&R for approval if needed)
- **£50k Initial investment in Debt Improvement plan – Phase 1** outlined in the Debt Management Review paper

### **£333k - Building Earmarked Reserves**

As a result of the positive outturn position, £333k can be transferred to reserves to provide resilience against risks to delivering the budget in 2022/23 and future years:

- **£117k unused contingency from 2021/22**
- **£200k additional contingency for inflationary pressures**, in light of prevailing economic trends. Inflation is currently at 9% (May CPI), compared to 4.2% assumed in the 2022/23 budget. This contingency will be held to give assurance that inflationary pressures can be managed in 2022/23 whilst maintaining service delivery.
- **£16k remaining underspend to General Fund**

### **2021/22 – Capital Outturn**

14. In February 2021 the Capital Budget was approved at £25.1m. In December 2021, the budget was reset to include 2020/21 carry forwards to £27.6m. Subsequently, when setting the 2022/23 budget £0.45m was transferred from 2021/22 to future years for additional investment in public conveniences. This provided a final capital budget for 2021/22 of £27.1m.
15. Against the **£27.1m capital budget**, spend for the year was **£16.6m**; a reduction of **£10.5m**. This comprises of:
  - **slippage proposed to be carried forward into future years of £10.4m (38%);**
  - **slippage not proposed to be carried forward of £0.3m (1%);**
  - **a new project of £0.5m; and**
  - **underspend of £0.2m.**
16. This report requests a carry forward of £10.4m slippage to future years (£9.1m to 2022/23 and £1.4m 2023/24). **Refer Appendix 1 – Page 9.** The report requests these carry forwards in order that individual schemes can continue. However, a full review of the Capital Programme is required to determine whether the 2022/23 Capital Budget, updated for these carry forwards, can be delivered. It is proposed to report this to Committee in September 2022.

## **Key implications**

### **Comments of the Chief Finance Officer**

17. 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.

18. On 8<sup>th</sup> June 2021, S&R commissioned Grant Thornton LLP UK (GT) to undertake a Forensic Review and Fact-Finding exercise into the c£920k budget gap which featured in the budgets for 2020/21 and 2021/22. As a result, the 2020/21 outturn report was not reported to this Committee until 2<sup>nd</sup> December 2021.
19. Bringing the outturn report for 2021/22 to this Committee in June, with a significantly reduced variance to budget by comparison to 2020/21 represents a marked improvement. It is also encouraging that the budget pressures seen in the 2021/22 position were identified early enough to be included in the 2022/23 budget as approved by Council in February.
20. Although the original budget for 2021/22 assumed a reserves contribution of £800k, confirmation of the £920k budget gap made that unachievable. Concluding the financial year with a £458k contribution is positive in that context, but does not alleviate the need to pursue savings (set out elsewhere on this agenda) to deliver a sustainable budget for 2022/23 and subsequent financial years.
21. Work undertaken on the budget setting process for the current year and into the medium-term indicates that the Council's finances will continue to be constrained, as they have been for much of the past decade. This reinforces the need for the Council to continue to consider issues of financial sustainability as a matter of urgency in order to ensure stable provision of services in the future. Within this context the Council will continue to develop and implement plans to ensure that the delivery of services is contained within available resources and we work towards closing the medium-term gap set out elsewhere on this agenda.
22. 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.

### **Comments of the Head of Legal Services**

23. The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

24. The Committee should be aware that if the Section 151 Officer, at any time, is not satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget they must formally draw this to the attention of the Committee and Council and they must take immediate steps to ensure a balanced in-year budget, whilst complying with its statutory and common law duties.
25. 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 savings are delivered, and that any new expenditure is contained within the available resources. The Monitoring reports set out the additional detail so that Members can get a feel for where the potential issues are.

### **Equality**

26. This report does not disadvantage or discriminate against any different groups with protected characteristics in the community.

### **Climate change**

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

### **Appendices**

**Appendix A** – 2021/22 Outturn Report

### **Background papers**

None

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