

Quarter 1 2022/23 Budget Monitoring

Strategy & Resources Committee Thursday, 29 September 2022

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

Purpose: To note the 2022/23 Quarter 1 / Month 3 (June) financial position of the Committee and take associated decisions.

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report presents the 2022/23 Quarter 1 / Month 3 (June) financial position of both Revenue and Capital for the Committee and the consolidated picture for the Council.

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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Recommendations to Committee:

That the Committee:

- A. approves the virement of £270k between Corporate Items and Strategy & Resources, set out in section 3 and Slide 13 of Appendix A;
- B. approves a £450 one-off payment to staff on the lowest grades of the Council's pay structure, set out in section 15 and funded from £50k of the 2021/22 outturn surplus and £10k from the HRA;
- C. notes the forecast Revenue and Capital budgets positions as at Quarter 1 / M3 (June) 2022.

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 as background to the emerging budget for 2023/24.

Updates to the other three Policy Committees were submitted during September 2022, however Community Services Committee and Housing Committee were postponed until after Strategy & Resources.

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

Introduction and background

- 1 The 2022/23 Strategy & Resources Committee Revenue budget was approved at £6,401k on 7th April 2022, including the distribution of budget for staffing increments and vacancy factor (known as the Tranche 2 budget).
- 2 This was reduced by £450k upon the approval of Tranche 3 savings by the committee on the 30th June 2022 to £5,951k.
- 3 On review of the Revenues and Benefits budget, it has been determined that £270k of income items held within Strategy & Resources sits better within Corporate Items as part of collection fund management. This report recommends a virement (budget transfer) between the two budgets to action this change. This brings the S&R budget to £6,222k.
- 4 The Council's overall budget stands at £11,351k, unchanged from the budget approved by Council on the 10th February 2022.
- 5 The 2022/23 Strategy & Resources Capital Budget was approved at £1,784k by Council on 10th February 2022 having been considered by S&R Committee on the 1st February 2022.
- 6 This was increased to £4,841k by carry-forwards from 2021/22 approved by S&R Committee on 30th June 2022.
- 7 The overall Capital Programme budget stands at £25,242k, as approved by S&R Committee on 30th June 2022.

Revenue Headlines

- 8 The key headline at M3 is a forecast revenue overspend of £573k for the Council overall before corporate mitigations. Of this, £244k sits in the Strategy & Resources budget and £5k in the Corporate Items budget. Further details are included in Appendix A and below. The overspend relates to:

Community Services - £200k overspend, due to:

- A £200k pressure in Waste Services. This is due to the impact of inflation on contract indexation. The pressure is deemed to be ongoing (i.e. it will continue to impact the budget in 2023/24) but mitigations are being explored within the Committee's budgets.
- The likely impact of inflation on the 2022/23 budget was highlighted in the Council's 2021/22 outturn position, as reported to S&R Committee on 30th June. A specific corporate provision of £200k has been set aside to deal with it, but this should only be applied if mitigations within the committee are exhausted.

Planning Policy Committee - £124k overspend, due to:

- Greater than expected spend on counsel on resulting from the decision to serve injunctions rather than enforcement notices;
- Salaries due to a continuing heavy dependence on contract staff in the first quarter of the financial year;
- Greater than anticipated on external consultant advice and late invoice from SCC historic build for fees due in 2021/22;
- Offset by planning application fee income being better than expected income in the first 3 months.

The service is endeavouring to take mitigating action by transitioning from contract to permanent staff; greater dependence on injunctions to deter planning breaches and reduce cost of appeals.

Strategy & Resources - £244k overspend, due to:

- £144k - Office Services - reduced income recovery from Council office rentals;
- £47k - Information Technology – overspend due to software and telephone usage and vacancy factor not yet identified. Rising salaries and inflation within the technology sector is leading to IT service providers increasing their prices and licence/contract costs on renewal, resulting in overspends in the IT budget. The Future Tandridge Programme is exploring mitigating actions through the Digital workstream, including a review of existing IT contracts;
- £33k - Legal Services – overspend due to vacancy factor not yet identified, and staff turnover resulting in employee cost variances;

- £16k - Democratic Services overspend – Elections overspend driven by a combination of statutory annual canvas and electoral registration expenses, as well as estimated costs in preparation for the ward boundary review. Officers are reviewing to determine if these can be absorbed elsewhere, or if an ongoing adjustment to the budget is required; and
- £4k minor other variances.

Corporate Items - £5k overspend, due to:

- £120k - Investment Properties - Quadrant House has a new tenant target which remains to be met;
- £69k shortfall in cost of collection funding from Government (Business Rates) which is based on the value of business rates and is not sufficient to meet the budget;
- £12k shortfall in expected General Fund recharge income;
- £25k minor other variances;
- This is offset by:
 - £200k Government new burdens grant carried over from 2021/22
 - £21k due to higher bank base rates – short term interest receivable has increased by £21k.

Services within the Committee are endeavouring to take mitigating actions by:

- exploring options for increasing Council Office rental income by delivering office space that is attractive to potential leaseholders (which may require investment)
- seeking to obtain value for money in a buoyant external Legal staff market
- reviewing supplier contracts.

9 It is important to show the overspend in gross terms, to set out the level of remediation required to balance to expectations. However, slide 4 of Appendix A sets out potential mitigations through the following planned contingencies:

- £100k – reserve contribution held within the 2022/23 budget
- £117k - general contingencies within the 2022/23 budget
- £317k – set aside to meet known 2022/23 risks as part of 2021/22 outturn, less £50k used for the £450 cost of living support proposal

These total £484k, before calling on the underlying General Fund balance. The shortfall in property rental income could also be met from the Income Equalisation reserve, totalling £215k, should it be deemed necessary.

- 10 A balanced outturn on the General Fund is therefore deemed to be achievable. However, it is vital that mitigating actions are pursued to preserve the contingencies for 2023/24 and beyond.

Capital Programme Update

- 11 At M3, overall the Capital Programme is forecasting £60k of slippage in the Housing General Fund. Other variances within the HRA individual budget lines have been reported, but are net nil overall.

Other Updates

Capital dispensation

- 12 In January 2022, the Council requested a capital dispensation from DLUHC to initially replenish General Fund Reserves and secure flexibility for a further amount to fund transformation.
- 13 The Council received notification on Wednesday 31st August that Government has refused the application. The refusal was based on the Government's "assessment of the Council's overall financial position, including our current level of reserves, and the steps currently underway in the Council to meet the identified budget pressure." In the meantime, sector-wide flexibility to use capital receipts to fund transformation programmes has been extended, so plans to fund the Future Tandridge Programme are not at risk.
- 14 The CFO met with DLUHC representatives on 1st September to discuss. The conclusion of the conversation is that, whilst Government recognise that the Council needs to address its reserves position, they see capital dispensation as a last resort, and do not deem that we are in that position. The Government welcomes ongoing dialogue, particularly if the financial challenges facing us escalate. The Council will consider a further request should funding for 2023/24 be insufficient to meet emerging risks.

Cost of Living Proposal

- 15 The Council did not award a pay increase for 2022/23. This decision was based on an extremely challenging financial position, which persists at Q1. However, the cost of living has escalated significantly since that decision was taken and management recognise the impact this has on staff.

- 16 Therefore, as a means of providing support, it is proposed that a £450 one-off payment is made to those on grades TC1 to TA2, covering approximately 45% of the workforce, on salaries up to £30,000 (full time equivalent). The payment will be made pro-rata to hours worked and start date and subject to usual deductions. Whilst targeting this at staff on the lower pay grades is an imprecise measure of need, it is deemed to be the most effective means of supporting staff who need it most. Alternative measures, such as a blanket award, would be unaffordable, or dilute the amount available to staff on lower grades.
- 17 It is anticipated that £225 would be paid in October, with a further £225 in January (both pro-rata to hours worked and start date). Paying in two instalments reduces the administrative burden by comparison to making monthly payments. The second payment would be adjusted for officers who have left the Council in the meantime.
- 18 The payment will cost the General Fund c.£50k and the Housing Revenue Account c.£10k. Whilst the Council's forecast for 2022/23 is currently in deficit, planned mitigations give us confidence (at this stage) that a balanced outturn can be achieved. Nevertheless, the surplus from 2021/22's outturn position provides a secure source of funding for the payment. It is therefore proposed that the £50k General Fund element is met from the 2021/22 outturn surplus. The contingencies detailed in section 9 have been adjusted for this. The Housing Revenue Account element would be charged to the HRA by default and, at this stage in the financial year, the assumption would be that the amount can be accommodated within budget.

Key implications

Comments of the Chief Finance Officer

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

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.

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 – M3 (June) 2022 financial report and supporting data.

Background papers

- Strategy & Resources Committee 2022/23 Draft Budget and Medium-Term Financial Strategy (MTFS) – 1st February 2022
- 2022/23 final budget and 2023/24 MTFS - Strategy & Resources Committee - 1st February 2022
- Strategy & Resources Committee - 2022/23 Budget – Tranche 2 Pressure and Savings Distribution -7th April 2022
- 2021/22 Budget – Outturn Report – Strategy and Resources Committee 30th June 2022

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