

# Quarter 3 2022/23 Budget Monitoring

## Strategy & Resources Committee Thursday, 30 March 2023

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

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Purpose: To note the 2022/23 Quarter 3 / Month 9 (December 2022) financial position of the Committee and take associated decisions.

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Publication status: Unrestricted

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Wards affected: All

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### Executive summary:

This report presents the 2022/23 Quarter 3 / Month 9 (December 2022) financial position of both Revenue and Capital for the Committee and the consolidated picture for the Council.

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

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### Recommendation to Committee:

That the Committee notes the Revenue and Capital budget positions as at Quarter 3 / M9 (December) 2022.

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### Reason for recommendation:

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 budget for 2023/24. Updates to the other three Policy Committees were submitted during March 2023.

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

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## **Introduction and background**

1. The 2022/23 Strategy & Resources Committee Revenue budget was approved at £6,401k on 7<sup>th</sup> 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 30<sup>th</sup> June 2022 to £5,951k.
3. On review of the Revenues and Benefits budget, it was determined that £270k of income items held within Strategy & Resources sat better within Corporate Items as part of collection fund management. A virement (budget transfer) between the two budgets to action this change brought 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 10<sup>th</sup> February 2022.
5. The 2022/23 Strategy & Resources Capital Budget was approved at £1,784k by Council on 10<sup>th</sup> February 2022 having been considered by S&R Committee on the 1<sup>st</sup> February 2022.
6. This was increased to £4,841k by carry-forwards from 2021/22 approved by S&R Committee on 30<sup>th</sup> June 2022.
7. The overall Capital Programme budget stands at £25,242k, as approved by S&R Committee on 30<sup>th</sup> June 2022.

## Revenue Headlines

8. The key headline at M9 is a forecast revenue overspend of £394k for the Council overall before corporate mitigations of £484k. A balanced outturn and contribution to reserves is therefore expected. Of this, (£22k) favourable variance sits in the Corporate Items budget and the balance of £416k consists of service-related variances, of which (£12k) favourable in Strategy & Resources.
9. The overall position is a £53k improvement from Quarter 2, although more work is needed to mitigate the position. Further details are included in Appendix A and below.
10. Savings delivery remains strong with £1m of the £1.1m savings target in rated achieved or green for delivery.
11. The following sections set out the overspend by committee. Further detail is included in Appendix A.

## Community Services - £294k overspend

12. At Month 9 a full year overspend of £294k is forecast. This is a £30k improvement from the Q2 position last formally reported to committee.
13. The key headline at M9 is a forecast revenue overspend of £234k in Waste Management. This relates to the projected impact of inflation on the contract, which is dependent upon national factors and is in the process of being finalised. The forecast has improved by £3k from Q2 to reflect latest expectations.
14. The increased impact of inflation was anticipated in the 2021/22 financial outturn report to Strategy & Resources Committee on the 30th June 2022 along with other budgetary risks, and amounts were set aside as a corporate contingency to mitigate the risk.
15. Currently the full contingency is being held back as it is possible that the committee forecast will improve, and the full contingency may not be necessary. Release of the contingency will be considered at outturn by Strategy & Resources Committee once the committee's revenue forecast becomes clearer.
16. In addition to the variance in Waste, shortfalls in expected income of £108k make up the majority of the remaining variance, particularly:
  - £52k in car parking income against budget
  - £75k in cesspool emptying income
  - £14k in parks and open spaces income
  - £12k in environmental income
17. The other variances are detailed in Appendix A.

## **Housing General Fund - £8k underspend**

18. At Month 9 a full-year overspend of £8k is forecast for the HGF. This is a £52k deterioration from the Q2 position last formally reported to committee. The main reasons for the variance are:

- £7k vacancy factor not yet being achieved (change from Q2: deterioration £8k)
- £36k Meadowside Mobile Homes - £10k income reduced as budget not now expected to be achieved on commission on sales of mobile homes. Q3 further deterioration of £26k: £17k unbudgeted cost of full site survey and £9k reduced income.
- £80k Housing Benefit: Currently assumes that expenditure is matched by the Government, however this is not the case therefore £80k provides for the unbudgeted additional costs.
- £4k Redstone House: New in Q3 £4k security and electricity costs incurred whilst property was empty
- £20k Other: New in Q3 £20k share of legal costs

Offset by:

- (£120k) Homelessness: In prior years (incl 2021/22) the shortfall in Government support has been offset by applying Homelessness grant to legitimate costs elsewhere in the committee. (£120k) has been recognised of additional grant, in addition to lower costs being incurred.
- (£19k) Private Sector Enabling - (£13k) historical budget to be reduced. Q3 further improvements of £6k: £3k unbudgeted of self build fees and £5k released on part of unspent Consultancy fees budget, less various other small variances.

## **Planning Policy Committee - £126k overspend**

19. Planning Policy Committee is forecasting a £126k full-year overspend, a deterioration from £86k in Qtr2 (M6). The overspend is mainly due to:

- **£121k Planning Application and Advice**

Adverse variance consisting of:

- £147k overspend on salaries. Currently, the Planning Policy service is heavily reliant on contract staff and is going through an organisational change which should lead to some mitigation (net £20k improvement from Q2 by allocation of Chief Planning Officer time to Planning Policy).

- £32k overspend on specialist recruitment to obtain skilled permanent staff (unchanged from Q2).
- £15k overspend on specialist legal advice (£5k improvement from Q2, as expected costs awarded against Council risk diminishes over time, offset by emerging injunction risk).
- £35k overspend on third party external consultant advice including retail impact assessments & highways matters. (£5k improvement from Q2).

Offset by

- (£108k) surplus on planning application fee income (£59k deterioration from Q2 driven by a significant planning application fee drop in Sept and Oct 22. Developers appear to be adopting a much more cautious approach to committing to future development).
- **£22k Gatwick Airport DCO** overspend due to engagement of specialist consultants to assist with Council response to public consultation - (£20k deterioration from Q2).
- **£2k Tree Preservation** overspend related to employee expenses (including mileage) - (£2k deterioration from Q2).

Offset by:

- **(£17k) Enforcement** £18k salary overspend due to use of interim, whilst permanent staff recruited, third party expenditure (£32k) favourable, as appeals risks reduce with time and enforcement appeals income (£3k favourable) - (£8k improvement from Q2).
- **(£2k) Street Naming** (£2k) income surplus driven by fees from developers - (£3k improvement from Q2).

20. The service is endeavouring to take mitigating action by completing the transition to permanent staff; greater dependence on injunctions to deter planning breaches and reduce cost of appeals.
21. The Planning Policy position will continue to be monitored, including the impact of an increase in the use of permanent staff rather than interims, and consolidated with the overall Council position. A report to S&R committee on 30 March 2023 will set out the total Council position along with potential corporate mitigations.

### **Strategy & Resources – (£12k) underspend**

22. Strategy and Resources services are forecasting a £12k underspend. This is an improvement of £123k from Q2. The variance mainly consist of:

- **£56k Office Services** adverse variance is due to external tenants rent and service charge income being lower than budget (Q2 was £67k less than budget). Surplus space is being actively marketed and the position has improved by £11k from Q2 due to new lettings.
- **£39k Democratic Services** overspend – Primarily due to £35k overspend (£34k in Q2) associated with May 2022 and May 2023 elections expenditure. This is an ongoing pressure that is reflected in the 2023/24 budget. Mitigation is sought by reviewing supplier contracts for improved value for money and consideration of in-house services (e.g. printing, training) and seeking commensurate savings.
- **£27k Policy & Communications** overspend (deterioration of £24k since Q2) – Primarily due to £24k one off salary overspend (no variance in Q2) from combining Policy & Communications, and due to the timing of staff savings. Staff savings have been delivered, but delayed until 2023/24. Mitigation sought from (i) print contract which may deliver a small saving, dependent on printing volumes and (ii) and other savings across the budget, although these are expected to be minimal.
- **£7k** Other minor variances.

Offset by:

- **(£37k) Legal services** underspend (Q2 on budget, improvement of £37k) - (£17k) one off vacancy factor salary underspend (improvement of (£6k) since Q2). One-off income better than budget by (£16k) driven by volume of recovery of Legal officer time from third parties and capital projects. (£4k) better than budget on day to day running costs (on budget in Q2).
- **(£60k) Human Resources** underspend – £20k staff saving (improvement of £8k since Q2) as the Council moves to a more contemporary HR model, where a number of HR tasks become Management responsibilities. £40k underspend (£40k improvement since Q2) due to a reduced third-party expenditure as HR dovetails with the timing of organisation development and recruitment underspends.
- **(£44k) Customer Services** underspend - (Q2 £5k worse than budget, improvement £49k) Naturally occurring staff vacancies have been held, in anticipation of FTP consultation. (£11k) improvement in postage in Customer Services. At Q3 postage in Customer Services expected to be on budget.

**Corporate Items - £22k underspend (Change – £9k deterioration from Qtr2) mainly due to:**

- **£106k shortfall in Investment Properties** - Quadrant House has a new tenant target of £120k of which remains £106k remains to be met. No Change from Q2.
- **£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. No Change from Q2.
- **£18k shortfall** in expected **General Fund recharge** income. No Change from Q2.
- **£6k decreased forecast** in **Interest Receivable and Investment income**. Change of £28k reduction from Q2 as the intention is to transfer the majority of the surplus interest income into a reserve to manage fluctuation in investment values.

Offset by:

- **(£200k) Improvement** Government new burdens grant carried over from 2021/22 (no change from Q2)
- **(£18k) reduced forecast for Minimum Revenue Provision (MRP)**. Change of £18k from Q2 due to reduction in expected borrowing.
- **(£3k) minor other underspends**

**Mitigation through contingencies**

23. Offsetting the deficit identified are contingencies as follows:

- £100k – Planned reserve contribution
- £117k - General contingencies within the 2022/23 budget
- £267k – Set aside to meet known 2022/23 risks at 2021/22 outturn.
- **£484k - Total**

A balanced outcome is therefore expected. However, it is important that mitigating actions continue to be pursued to preserve the contingencies for 2023/24 and beyond.

**Capital Programme Update**

24. At M9, overall the Capital Programme is forecasting £7,224k of net slippage; a net of £4,102k from with General Fund and CIL schemes, and

£3,122k in the Housing Revenue Account. This is the total of a number of increases and decreases, further details of which are reported in Appendix A.

## **2023/24 Preview**

25. The 2023/24 budget was approved by Council on the 9<sup>th</sup> February at £11.935m. This budget was built with the Quarter 2 forecast position for 2022/23 as context. At the time, the Quarter 2 position was for a £447k overspend. Since that point, the 2023/24 position has improved by £52k and no new financial pressures affecting 2023/24 have emerged.
26. There are nevertheless risks and opportunities in delivering the 2023/24 budget which may crystallise over the course of the year. The impact of these is not yet clear and they will continue to be monitored as the new financial year begins. The main areas of uncertainty are:
  - Inflation and energy costs, which appear to have improved since the budget was set, but remain volatile.
  - Income levels - particularly in Building Control, Planning and Community Services – which are impacted by economic volatility and remain uncertain.
  - Homelessness costs which may increase as economic factors affect resident finances.
27. The 2023/24 budget includes a contingency of £0.445m per annum, including £74k earmarked as a Cost of Living Fund, to ensure that the Council has an allocation to help residents in need with targeted support as required. Use of the wider contingency to manage risks is a last resort but gives some comfort that the budget overall is prudent and deliverable.
28. The Council's approach to budget management continues to be strengthened. Primarily, this includes the launch of Budget Accountability Statements, as trailed in the 2023/24 Budget report to Strategy and Resources Committee on the 31<sup>st</sup> January. These will clearly set out the expectations on Heads of Service and budget holders in managing their budgets. In addition, further training for officers and Members is planned in the new financial year.
29. Finance will continue to closely monitor the budget on a monthly basis and report to committees quarterly.
30. An update on savings delivery for 2023/24 is included in the Future Tandridge Programme update report to this committee.

## **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 – M9 (December) 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 30<sup>th</sup> June 2022
- Quarter 2 2022/23 Budget Monitoring – Strategy and Resources Committee- 29<sup>th</sup> September 2022

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