

2022/23 Financial Outturn

Strategy & Resources Committee Thursday, 29 June 2023

Report of: Chief Finance Officer (Section 151)

Purpose: To note the 2022/23 final financial outturn position of the Council and take associated decisions.

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report presents the 2022/23 final financial outturn position of both the revenue and capital budgets for the Committee and the consolidated picture for 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:

1. the Council's Financial Outturn position for 2022/23 be noted
 2. from the Council's £595k total surplus:
 - a. £550k be approved as an additional contingency to cover external risks to the delivery of the 2023/24 budget
 - b. 45k be approved to meet redundancy costs associated with the Future Tandridge Programme.
 3. Capital carry forwards of £9.1m be approved, with a revised phasing to be reported during the September committee cycle.
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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, particularly in respect of Government funding, and so the Council must continue to take steps towards growing its financial resilience, including building reserves to a sustainable level. This must be considered against risks to the current year's budget and the need to ensure that underlying reserves are safeguarded.

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. 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.

Each Committee has noted their own financial position and the consolidated position is reported to Strategy & Resources in the report below, with further detail in Appendix A.

Revenue Budget Headlines

- 1. The final revenue budget position for 2022/23 is a surplus of £595k**, consisting of a £111k (1%) underspend on Committee budgets and £484k unused contingency. This surplus is against the background of a very challenging financial year, including a significant increase in inflation, from 4.2% when the 2022/23 budget was set, to c.10% throughout the year.
2. The overall position is a £505k improvement from Quarter 3. Further details are included in Appendix A and below.
3. Savings delivery was strong with 94% of the £1.1m savings target delivered, despite the challenges of inflation and the impact of cost of living on the wider economy. In addition, a recent internal audit on the savings delivery governance arrangements has provided substantial assurance. This audit will be repeated in 2023/24 to ensure that governance arrangements remain sound.
4. The Council awaits a decision from DLUHC on its application to use £500k from the Redstone receipt to support the General Fund – this remains a key part of the overall tactics to grow reserves.

2022/23 Surplus and Financial Strategy

5. This section makes a recommendation on how the surplus of £595k should be deployed, taking into account the Council's overall financial resilience and the risks it faces during 2023/24 and in the future. This should reflect the financial strategy to build General Fund reserves, whilst being cognisant of the risks associated with delivering the 2023/24 budget.
6. The two key options available are to contribute this amount to the General Fund or another earmarked reserve, or to add resilience to the contingencies for the 2023/24 budget.
7. Although General Reserves need to be strengthened to improve underlying resilience, at this early stage in 2023/24, a number of risks remain that warrant a prudent approach. Whilst the Council awaits a decision from DLUHC on its application to reinforce General Fund reserves, the overall position on reserves remains to be determined.
8. The 2023/24 budget includes £445k contingency, £74k of which was set aside to support residents with the cost-of-living crisis. This contingency should be retained to cover risks assumed within the budget and closely monitored throughout the year, particularly the challenging £1.7m savings target. This contingency should also be preserved given the likelihood that as-yet-unknown risks will emerge during 2023/24.
9. A detailed analysis of risks in 2023/24 has been undertaken, including:
 - Planning and building control fee income, which has showed signs of weakening towards the end of 2022/23 and into 2023/24. This has an immediate impact on Development Management and a knock-on impact on Building Control. Scenario planning has highlighted a plausible risk on fee income of up to £274k for DM, although there is equally plausible scope for this to improve.
 - Planning appeals, which are extremely difficult to quantify, may escalate depending on decisions made by the Planning Inspector in respect of the Council's Local Plan. These will require internal resource and involve costs that may would put the £80k current budget under severe pressure. A calculation based on the weighted probability of outcomes is undertaken for each appeal as it identified. Appeals known to-date are covered by balance sheet provisions, however new appeals may appear at any point during the year for unpredictable amounts.
 - Further external and commercial pressures, including safeguarding Council functions against:
 - the impact of inflation, which remains high for longer than expected by the Treasury and Bank of England and may manifest through increased contract costs on renewal or an increase in the cost of day-to-day expenditure;

- continuing economic risk on wider income streams, for example as mortgage rates impact on individual budgets; and
 - pressure on existing suppliers to pass increased costs onto the Council, which will need to be challenged and managed as necessary. This includes specific, live examples which are commercially sensitive but where the potential financial risk could be significant.
10. It is therefore recommended that £550k of the surplus from 2022/23 is held corporately as an additional contingency to cover these emerging external risks and others that may surface. This additional contingency will not be distributed in the first instance and will be subject to future Committee decisions if it is necessary to allocate. Budget holders and those responsible for representing the Council's interests (e.g. in appeals or commercial negotiations) must be aware that use of this contingency is a last resort and all efforts should be made to manage pressures within budget.
 11. Additionally, as the year progresses, Committee may choose to transfer amounts into the General Fund reserve if the risks are mitigated or dissipate. This will be an important discussion point, since growing the underlying General Fund remains a key priority.
 12. It is recommended that the remaining £45k of the surplus is set aside to cover the non-statutory element of redundancy costs which cannot be met from capital receipts. Government flexibility to use capital receipts to fund transformation costs only covers the statutory element of redundancy, and so a provision is needed to cover the enhanced elements of the Council's policy. The £45k proposed refills an amount drawn-down from a £75k allocation in 2022/23.

Background and Budgets

13. 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).
14. This was reduced by £450k upon the approval of Tranche 3 savings by the Committee on the 30th June 2022 to £5,951k.
15. 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.

16. The Council's overall budget stands at £11,351k, unchanged from the budget approved by Council on the 10th February 2022.
17. 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.
18. This was increased to £4,841k by carry-forwards from 2021/22 approved by S&R Committee on 30th June 2022.
19. The overall Capital Programme budget stands at £25,242k, as approved by S&R Committee on 30th June 2022.
20. The following sections set out the final position by Committee. Further detail is included in Appendix A.

Community Services - £105k overspend

21. The full-year revenue outturn is a net spend of £4,156k against the budget of £4,051k. This is a full-year overspend of £105k and improvement of £189k against Quarter 3 / Month 9 forecast outturn. Of this variance, a favourable variance of £154k is one-off for 2022/23, with a £259k net overspend relating to ongoing pressures. These ongoing pressures; predominantly reduced income and the impact of inflation on contract costs, were anticipated in the 2023/24 budget.
22. The key area of revenue variance is in the Waste service, which is overspent by £243k, the majority of which is ongoing. This relates to the impact of inflation on the contract, which outstripped expectations and was driven by national factors, particularly fuel cost increases and consumer price inflation.
23. 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.
24. As noted in previous Committee Budget Monitoring reports for 2022/23 the full contingency was being held back as it was anticipated that the Committee forecast would improve, and the full contingency not be necessary. As the overall Community Services overspend was £105k the whole contingency was not required. As the Council's overall position for the year is in surplus, the contingency has been released, as set out above.

25. In addition to the variance in Waste, shortfalls in expected income of £167k make up part of the remaining variance, in particular:
- £57k in car parking income
 - £100k in cesspool emptying income
 - £10k in parks and open spaces income
 - £2k in environmental income
26. There were also offsetting underspends of £238k in expenditure notably in:
- £103k salaries savings due to unfilled vacancies in Waste and Streets
 - £50k over and above fee and charges from the cemetery
 - £30k in parks and open spaces trees budget
 - £55k in parks and open space GM contracts
27. Full details of the variances are set in Appendix A.
28. Savings of £157k were delivered, against a target of £177k. This equates to 89% delivery. £20k of savings in Ops and Localities were not achieved, relating to a reduction in the number of mechanical sweepers. Whilst the number of active sweepers will be reduced, the service is awaiting quotes for a scheduled replacement, likely to be next financial year. It is expected that the majority of the saving can ultimately be delivered.

Housing General Fund – (£14k) underspend

29. The Housing General Fund outturn for 2022/23 is an underspend of £14k. This is a £22k improvement from the Q3 position last formally reported to Committee. The main reasons for the underspend and changes from Q3 are as follows:
- £74k Salaries overspend – new in quarter £45k salary costs reclassified to this budget, which are offset in full by grant funding from the Homes for Ukraine scheme. £15k additional spend due to reduced vacancy factor (an increase in quarter by £6k). This is an overall deterioration from Q3 of £67k.
 - (£7k) Meadowside Mobile Homes – £5k income not achieved on commission on sales of mobile homes (at Q3 this was expected to be £10k). £9k reduced rental income. £17k unbudgeted cost of full site survey offset by savings on other expenses. This is a (£44k) improvement from Q3.
 - (£9k) Private Sector Enabling – £10k unspent consultancy budget. £10k deterioration in quarter resulting from various small changes.

- (£23k) Homelessness: In quarter - £75k net B&B costs have been incurred, offset in year by increased grant income. B&B costs have been gradually rising each month and will be closely monitored in 2023/24. In quarter, £22k of unbudgeted legal costs have been charged. Overall this is a £97k deterioration from Q3.
- (£25k) Syrian & Afghan resettlement – new variance in quarter - unspent budget as grant funding covered all expenditure incurred, including offsetting salary costs.
- (£45k) Ukraine Placements – new in quarter, all £45k offsetting salary costs as noted above.
- £4k Redstone House: £4k security and electricity costs incurred whilst property was empty (No change from Q3).
- Nil variance on Housing Benefit: expenditure in 2022/23 was matched by Government funding. (£80k improvement from Q3 including improved debt position resulting in a lower provision).
- £20k Other - £20k share of legal costs. No change in quarter.

Planning Policy Committee - £126k overspend

30. Planning Policy Committee is reporting an actual full year variance of £55k overspend, an improvement from £126k in Quarter3 (M9). The overall overspend is mainly due to:

£74k Planning Application and Advice variance consisting of:

- £84k 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 (£147k overspend in quarter 3). Change primarily due to reduction in Development Management staffing costs, including staff commencing employment later than forecast in quarter 3.
- £43k overspend on specialist recruitment to obtain skilled permanent staff (£32k overspend in quarter 3).
- £1k overspend on specialist legal advice. (£15k overspend in quarter 3). At Q3 the forecast assumed £15k additional legal costs, but the risk of this diminished over Q4 to a £1k overspend at outturn.
- £26k overspend on third party external consultant advice including retail impact assessments & highways matters. (£35k overspend in quarter 3).

Offset by

- (£80k) surplus on planning application fee income (£108k surplus in quarter 3). Change in forecast due to
 - (i) softening in developer demand
 - (ii) deferment of spending government grant to 2023/24
 - (iii) Pre app interim churn has resulted in some pre app income being received in advance of work done, income has been carried to 2023/24

Income levels will continue to be closely monitored in 2023/24.

£2k Gatwick Airport DCO overspend due to engagement of specialist consultants to assist with Council response to public consultation - (£22k overspend in quarter 3). Change in timing of operational expenditure between quarter 3 and outturn.

Offset by

(£1k) Tree Preservation underspend related to employee expenditure (including mileage) - (£2k overspend in quarter 3).

(£17k) Enforcement £29k salary overspend due to use of interim, whilst permanent staff recruited, third party expenditure (£39k) favourable, as appeals risks did not materialise in year and enforcement appeals income (£7k favourable) - (overall (£17k) underspend in quarter 3).

(£3k) Street Naming (£3k) income surplus driven by fees from developers - ((£2k) surplus in quarter 3).

31. The service is endeavouring to take mitigating action to reduce overspends in 2023/24 by completing the transition to permanent staff.
32. The outturn position for Planning Policy assumes that the budgets for the local plan and other planning policy matters remain ringfenced to the local plan and are therefore held for future spend. This ensures that funding approved for such matters is retained to meet uncertain future costs and not used to offset overspends elsewhere in the budget. The current unspent balance is £1.047m, with a further £0.5m in the 2023/24 budget for planning policy matters, including the local plan.

Strategy & Resources – (£269k) underspend

33. Strategy & Resources Services - full year variance is an underspend of (£269k). This is a (£257k) improvement from M9. The variance mainly consists of :

- **£41k Democratic Services overspend**, primarily due to £38k overspend (£35k in M9) associated with running the May 2022 and May 2023 elections & other minor variances to budget. The on-going effect is met by a budget allocation in 2023/24 associated with the statutory function of elections.
- **£18k Policy & Communications overspend** (£27k in M9) – £21k one off salary overspend related to combining Policy & Communications and timing of staff savings (£0 in M9). Staff savings achieved, but delayed until 2023/24. Mitigation delivered from (i) print contract and (ii) printing & stationary underspends.
- **Balanced Office Services position** - Change mainly due to £34k improvement in utilities expenditure, improvements in NNDR expenditure (identification & resolution of miscoded NNDR charge), and building maintenance.

Offset by

- **(£28k) Revenues and Benefits underspend** - (£0 variance in M9). Change mainly due to due to favourable movement in bad debt provision (£16k favourable), and one-off employee related expenditure.
- **(£49k) Human Resources underspend** ((£60k) underspend in M9) – (£20k) on-going staff saving as the Council moves to a more contemporary HR model, where a number of HR tasks become Management responsibilities. (£29k) one-off underspend due to reduced third party expenditure as HR aligns with the timing of organisation development, and recruitment underspends. Change from M9 due to some training expenditure not anticipated in M9 forecast.
- **(£65k) Customer Services underspend** – Largely due to salary (£55k) underspend (M9 (£44K) underspend). Naturally occurring staff vacancies have been held in anticipation of agreed savings for 2023/24.
- **(£67k) Legal services** underspend (M9 £37k underspend) – primarily due to (£20k) one off underspend in salaries from naturally occurring staff turnover. One-off income better than budget by (£42k) driven by volume of recovery of Legal officer time from third parties and capital.

- **(£121k) Information Technology** underspend mainly due to staff turnover and more staff working on capital projects (£44k) salary underspend. Software and telephony (£75k) better than budget due to a one off telephony refund, benefits realised from new telephone contract, review of telephone service provision, contracts for 3-year terms delivering savings. Income better than budget by (£2k) due to Cyber Training grant income.

Corporate Items - £12k net overspend

34. Corporate Items has a net overspend of £12k, Change – £34k deterioration from M9, mainly due to:

- **Property Income:** Balanced Position – Change (£106k) improvement from M9, mainly on account of new tenants in Quadrant House.
- **£23k Non GF Support recharges & Bank charges overspend-** Change £5k deterioration from M9. Variance due to £15k less income recharge recovered from HRA than forecast and £8k increased interest costs.
- **(£18k) Minimum Revenue Provision (MRP) underspend -** Borrowing being less than anticipated due to reduced financing in the 2021/22 capital programme, the MRP charge for 2022/23 was less than had been budgeted for.
- **(£65k) Write Offs and Bad Debt Provision underspend –** Change (£65k) improvement from M9; Reduced provision required for Bad Debts as at 31st March 2023.
- **£69k Cost of Collection overspend –** No change from M9. Court costs are variable and a deficit against budget has been forecast throughout the year. The position will be kept under review in 2023/24, with variations managed through the S31 funding reserve which holds Government funding to offset post-pandemic volatility in Business Rates
- **Contributions to / (Drawdown from) Earmarked Reserves –** Balanced Position: Change £200k decrease from M9 as a draw-down from the new burdens grant funding to offset pressures elsewhere in S&R is no longer required following the above improvements.

Budget Management

35. 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 31st January. These 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 2023/24
36. Finance will continue to closely monitor the budget on a monthly basis and report to Committees quarterly.
37. An update on savings delivery for 2023/24 is included in the Future Tandridge Programme update report to this Committee.

Capital Programme Update

38. At Quarter 4 / Month 12 (March 2023) the final capital programme position is reduced spend of (£8,842k); a net of (£4,407k) from with General Fund and CIL schemes, and (£4,435k) 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.
39. In order to ensure the original intentions of the capital programme are delivered, it is recommended that slippage of £9.1m is carried forward, to be rephased across future years and reported back through the September Committee cycle. A scheme-by-scheme breakdown of this is set out in Appendix A.
40. This level of slippage is a concern. Some aspects are unavoidable, particularly given pressures on the construction industry, however the programme will be reviewed between now and the September committee cycle to ensure that the 2023/24 allocations (adjusted for the proposed carry-forwards) are achievable, based on a realistic and justifiable level of resources to deliver the programme.

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

- 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
- Quarter 3 2022/23 Budget Monitoring – Strategy and Resources Committee - 30 March 2023

Appendices

Appendix A – Quarter 4 / Month 12 (March 2023) financial report and supporting data.

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