

## REVENUE BUDGET MONITORING - QUARTER 2

<b>Head of Service:</b>	Head of Finance, Brendan Bradley
<b>Wards affected:</b>	(All Wards);
<b>Urgent Decision?</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Appendices (attached):</b>	None

### Summary

This report presents the forecast revenue outturn position for the current financial year 2022/23, as at Quarter 2 (30 September).

### Recommendation (s)

#### The Committee is asked to:

- (1) Receive the revenue budget monitoring report, which sets-out a projected favourable budget variance of £243,000 for 2022/23;
- (2) Agree that a report should be prepared for Licensing & Planning Policy Committee to address reduced forecast planning income and identify mitigation options;
- (3) Agree that the updated Quarter 3 position will be reported back to Audit and Scrutiny Committee in February.

## 1 Reason for Recommendation

- 1.1 To present the 2022/23 forecast revenue outturn position to members, as at Quarter 2.

## 2 Background/Executive Summary

- 2.1 In February 2022, Full Council agreed a net expenditure budget of £8.626m for 2022/23. The budget included a central contingency of £600,000 to manage the long-term impact of Covid-19 on services and required the use of £1.476m from earmarked reserves to balance.

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- 2.2 During budget setting, Omicron-related government restrictions had continued to impact services such as car parks, venues and homelessness numbers.
- 2.3 As such, the February budget report informed members that, post-government restrictions, officers would review and rebase the Council's service budgets, to reflect new activity levels and apportion the contingency between services.
- 2.4 This budget rebasing exercise was undertaken as planned, with re-based 2022/23 budgets approved at [Strategy & Resources Committee in July](#).
- 2.5 Forecasts in this report are measured against the approved, re-based budgets.

At Quarter 2, the Council is forecast to be £243,000 under budget at year-end. This projected favourable variance is mainly due to the higher interest rate environment that enables officers to generate additional income on treasury investments, partially offset by reduced income from car parks and place development (planning).

- 2.6 Clearly, uncertainty remains heightened around future projections mainly due to political instability in central government combined with the economic environment/cost-of-living crisis and its potential impact on residents.
- 2.7 The budget position will continue to be monitored closely, with forecasts updated and reported to members accordingly through the year.

### 3 Forecast Position

- 3.1 A summary of the forecast outturn position by service area for 2022/23 is shown in the following table:

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Forecast Outturn by Service	Original Budget	Re-Based (Current Approved) Budget*	Forecast Outturn	Forecast Variance
	£'000	£'000	£'000	£'000
<b>Strategy &amp; Resources Committee</b>				
Democratic & Civic	688	692	699	6
Corporate Functions	571	597	597	0
Corp Financial Management	2,130	989	626	(364)
Tax Collection & Benefits	737	734	732	(2)
Land Charges	2	2	2	0
Land & Property	(2,955)	(3,044)	(3,144)	(100)
Economic Dev. & Prosperity	92	92	93	0
Employee and Support Services	1,054	539	253	(286)
<b>Subtotal Strategy &amp; Resources</b>	<b>2,319</b>	<b>600</b>	<b>(144)</b>	<b>(745)</b>
<b>Environment &amp; Safe Communities Committee</b>				
Car Parking	(2,215)	(1,415)	(1,156)	260
Environmental Services	3,341	3,433	3,478	46
Community Safety	93	95	98	3
Contract Management	124	270	313	43
Environmental Health	319	364	413	49
Countryside, Parks & Open Spaces	2,061	2,148	2,148	0
<b>Subtotal Environment &amp; Safe Communities</b>	<b>3,723</b>	<b>4,894</b>	<b>5,294</b>	<b>400</b>
<b>Community and Wellbeing Committee</b>				
Housing	1,815	2,080	2,080	0
Community Services (Route Call, Meals from Home, Community Alarm)	442	469	504	34
Support for Voluntary Orgs.	239	239	239	0
Community Centre	441	455	451	(4)
Health & Wellbeing	223	210	194	(16)
Sports, Leisure & Cultural	1,092	1,124	1,119	(5)
Precepting & Levying Bodies (NJMC & EWDC)	366	366	366	0
<b>Subtotal Community &amp; Wellbeing</b>	<b>4,617</b>	<b>4,944</b>	<b>4,953</b>	<b>9</b>
<b>Licensing &amp; Planning Policy Committee</b>				
Place Development	751	960	1,153	193
Licensing	(115)	(103)	(203)	(100)
<b>Subtotal Licensing &amp; Planning Policy</b>	<b>636</b>	<b>857</b>	<b>950</b>	<b>93</b>
Capital Charges	(2,669)	(2,669)	(2,669)	0
<b>Total General Fund</b>	<b>8,626</b>	<b>8,626</b>	<b>8,384</b>	<b>(243)</b>

\* includes budget changes following the re-basing exercise agreed at S&R in July and other agreed changes in accordance with the Council's virement policies.

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- 3.2 The £243,000 projected favourable variance across services for 2022/23 would result in a contribution to the General Fund reserve at year-end, increasing the balance from £2.85 million to £3.10 million.
- 3.3 The following section of the report details the individual budget variances that make up the projected variance of £243,000 within services.

## 4 Budget Variances

- 4.1 The main variances to budget are shown by Committee in the following tables:

Strategy & Resources Committee	Adverse / (Favourable) Variance £'000	Detail
Corporate Financial Management	(364)	<p>In late 2021/22, in an attempt to temper elevated inflation, the Bank of England commenced raising its base interest rate earlier than anticipated (even by its own official forecasts).</p> <p>Base rate increases tend to increase interest returns offered by banks and financial institutions on the council's cash/treasury deposits.</p> <p>Following base rate rises to 2.25% as at September 2022, officers expect to generate an additional £275,000 (in excess of the current budget) in treasury management income for 2022/23.</p> <p>Latest interest rates and treasury income forecasts will be factored into the council's updated budget plans for 2023/24 and beyond.</p> <p>In addition, helped by the government's cap on utility costs to 31 March 2023, property contingency budgets are currently expected to be £89,000 underspent for the year.</p>

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Land & Property	(100)	<p>One-off back-rent income is anticipated from rent reviews at the council's industrial estate sites.</p> <p>However, the favourable variance will be partially offset as no rent is being collected from one vacant property in Cox Lane, where officers are progressing negotiations for a new occupier and will report to Strategy &amp; Resources when appropriate.</p> <p>A proportion of the one-off income is expected to be set-aside in the property income equalisation reserve, to help mitigate lost income and maintain services while two larger commercial properties remain empty or under-occupied. A commercial property update is expected to be reported to Strategy &amp; Resources later in 2022.</p>
Democratic & Civic	6	<p>The minor adverse variance is mainly due to costs of the West Ewell by-election held in July 2022.</p>
Employee & Support Services	(286)	<p>The council is currently carrying a number of vacancies, resulting in a forecast underspend of £286k over the year.</p>
Other miscellaneous variances	(1)	
<b>Total Strategy &amp; Resources Variance</b>	<b>(745)</b>	

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Environment & Safe Communities Committee	Adverse / (Favourable) Variance £'000	Detail
Car Parking	260	<p>In July, the council's car park budgets were re-based to reflect post-covid activity based on a projected neutral scenario.</p> <p>However, Ashley Centre and Hook Road car parks have subsequently seen a slower than anticipated recovery in visitor numbers, with the more pessimistic scenario set-out in the rebasing exercise currently materialising.</p> <p>In addition, Atkins House car park will not meet its income target as the leasing arrangement will cease from 22 October 2022.</p> <p>The above factors mean car parking income is currently forecast to be £260,000 under-budget for the year, although it is important to note this is a relatively early forecast ahead of the key festive trading period.</p> <p>Income is closely monitored and if/when a new anchor tenant opens at the Ashley Centre, car park visitor numbers should see a positive impact.</p>
Environmental Health	49	<p>Environmental Health is forecasting an adverse variance of £17,000, which includes an under-recovery of income for the stray dogs contract, which comes to an end in November 2022, and legal costs in relation to the Chalk Pit nuisance. There is also a forecast under-recovery of income at the cemetery of £32,000.</p>
(Contract Management) Building Control	24	<p>Building control is forecasting a net adverse variance of £24,000 due to additional legal costs of the delayed-contract with the new supplier.</p>

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(Contract Management) Tree Contract	19	The tree contract is forecasting an adverse variance of £19,000 due to an insurance claim for which the Council is liable. The service has been tasked with implementing procedures to minimise future claims.
Environmental Services (Domestic Waste)	46	The Domestic Waste service is forecasting an adverse variance of £46,000 due to the cost of hiring an additional refuse vehicle whilst an existing vehicle is impounded by the police. The police will not provide a timescale for the release of this vehicle, therefore hire costs have been forecast to the end of the financial year.
Other miscellaneous variances	2	
<b>Total Environment &amp; Safe Communities Variance</b>	<b>400</b>	

<b>Community &amp; Wellbeing Committee</b>	<b>Adverse / (Favourable) Variance £'000</b>	<b>Detail</b>
Homelessness	0	The homeless net nightly paid accommodation budget was based on an average of 70 households requiring accommodation during 2022/23. Currently the number is 73 but the housing team are implementing initiatives to reduce this and the service is currently forecast to remain within budget by year-end.
Community Services	34	Transport-from-home fare income is currently under budget as client numbers remain below pre-pandemic levels. Meals-at-home income has also fallen since hitting a peak during the pandemic.
Other miscellaneous variances	(25)	Reduced expenditure on PRS licences and other miscellaneous items.
<b>Total Community &amp; Wellbeing Variance</b>	<b>9</b>	

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Licensing & Planning Policy Committee	Adverse / (Favourable) Variance £'000	Detail
Place Development	193	The adverse variance is due to a forecast under-recovery of income, and £20k additional costs on disputed planning decisions offset by a favourable variance of £20k on the Programme Management Team, due to a part-year vacancy. £63k of this relates to planning applications, and £130k to advisory services. Development management is currently undergoing a business process re-engineering exercise to improve processes to provide a more efficient service and free up resource for advisory services.
Licensing	(100)	The favourable variance is due to the acquisition of several new taxi operators that have chosen to licence their drivers and vehicles with EEBC.
Other miscellaneous variances	0	
<b>Total Licensing &amp; Planning Policy Variance</b>	<b>93</b>	

## 5 Employee Costs

- 5.1 At the end of Quarter 2, the Council is £383k under its year-to-date employee budget of £6.71m.
- 5.2 Following last year's restructure and transition to a new operating model, recruitment remains underway to fill vacant posts.
- 5.3 Employee costs are monitored monthly to ensure any adverse variances are flagged promptly to Heads of Service, thereby enabling prompt mitigating action to be taken.

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- 5.4 A one-off staff pay proposal is due to be considered by S&R Committee in November. With a decision pending, the proposal is not reflected in current forecasts, but if approved, an additional payment may increase the forecast by up to c.£230,000.

### **6 Utility Costs**

- 6.1 The Council's 2022/23 budget for gas and electricity totals £285,000 across all properties. Prior to 2022, the council entered into fixed rate utility contracts, significantly benefitting the council thus far in 2022. However, two fixed-rate electricity tariffs expire in September and December 2022. While officers have taken appropriate advice and market testing to assess whether it will be more beneficial to persist with new fixed-rate tariffs or move to variable tariffs, under either option, electricity costs are expected to significantly increase.
- 6.2 For 2022/23, with the government cap in place to 31 March 2023, the council's existing contingency budget for inflationary pressures is expected to be sufficient to cover increased energy costs.
- 6.3 For 2023/24, the budget planning framework reported to July's S&R Committee assumed that energy costs would double next year in the neutral scenario, or potentially triple in a pessimistic scenario.
- 6.4 With the energy market remaining volatile, these assumptions for 2023/24 will remain under review and will be updated accordingly throughout the budget setting process, in line with latest market forecasts.
- 6.5 In the meantime, officers will consider what energy saving measures can be implemented across the council's operations to mitigate elevated utility costs.

### **7 Epsom & Ewell Property Investment Company (EEPIC)**

- 7.1 The Council's budget includes £0.6m expected dividend income from Epsom and Ewell Property Investment Company, generated from its two commercial properties. Income from EEPIC is currently forecast to be on budget, with all rent due to date collected from tenants.

### **8 Update on 2022/23 Savings Delivery**

- 8.1 The 2022/23 budget required £342,000 of new savings to be delivered during the year. The delivery status of these savings is summarised in the following table:

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Summary of Budgeted Savings - 2022/23	Committee	Achieved	In progress	Not Achievable
		£000	£000	£000
Bourne Hall	C&W	-	30	-
Review of Ewell Court House	C&W	10		-
Tattenham Corner Conveniences*	EWDC/C&W	12		-
Income from Commercial Property	S&R	112		-
Review of Waste Collection	E&SC	-	100	-
Review of Grounds Maintenance	E&SC	-	67	-
Other Service Efficiencies	All	-	11	-
<b>Total Savings - £342k</b>		<b>134</b>	<b>208</b>	<b>0</b>

8.2 The majority of savings have either been already achieved or are on track to be delivered in the year.

8.3 At Bourne Hall, income generation initiatives are being progressed including a review of the café operation to generate additional income to meet the targeted saving.

8.4 For waste collection, it is currently expected that the £100,000 additional income from Surrey County Council will be achievable, however this depends on commercial market prices for recycling materials remaining stable over the remainder of the year. Should market prices deteriorate, there is a risk the full income would not be achieved (and vice versa). A further update will be provided in the Quarter 3 monitoring report.

## 9 Revenue Reserves

9.1 Reserves play a crucial role in sound financial management. They typically exist to enable councils to invest in service transformation for the future, respond to unexpected events or to manage one-off risks. Reserves should not be utilised as a source of long-term funding for day-to-day revenue expenditure on an ongoing basis; this is considered unsustainable as the reserves would eventually deplete.

9.2 At Q2, the general fund balance is forecast to increase to £3.10m (from £2.85m) by the end of this year.

9.3 Other revenue reserves are projected to stand at £13.21m at 31 March 2023, however, £9.6m of this balance is to manage specific risks and contingencies, including the loss of commercial property income and business rates income in future years. These reserves have enabled the council to temporarily endure the loss of two key tenants in recent years, without having to make urgent, short-term cuts to services to reflect the loss of income. A full table of revenue reserves and commitments was reported to Strategy & Resources Committee in July 2022, and an updated review of reserves will be reported to Financial Policy Panel in January 2023.

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- 9.4 The following table shows a breakdown of the council's revenue reserves, with only the General Fund working balance and corporate projects reserve available for general use:

General Fund Revenue Reserves	Forecast Uncommitted Balance at 31 March 2023
	£'000
General Fund working balance	3,096
Contingencies unavailable for general use	9,609
Ringfenced funds/grants for specific use	1,763
Corporate projects reserve	1,840
<b>Total Revenue Reserves</b>	<b>16,308</b>

- 9.5 Council has committed to hold a minimum balance of £1 million in the corporate projects reserve and £2.5 million in the general fund working balance to manage unforeseen risks. This leaves just £1.44 million of available reserves, which the council allocates on a business case basis, to ensure limited resources are utilised in line with corporate priorities.

## 10 Actions and Next Steps

- 10.1 To address the material adverse variances within the 2022/23 forecast, management is progressing the following key initiatives:
- 10.1.1 The Head of Service will prepare a report to Licensing & Planning Policy Committee to address reduced forecast planning income and identify mitigation options;
  - 10.1.2 Strategy & Resources Committee agreed in July 2022 a budget setting framework for 2023/24 which is being progressed by officers accordingly;
  - 10.1.3 Finance officers will continue to monitor the funding landscape to ensure the council is kept aware of any new government (or other external) funding opportunities.
  - 10.1.4 The provision of car parking in the Borough will be assessed through ongoing Masterplan work undertaken by the Place Development team.

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- 10.2 The Council's budget position is continuously monitored by the finance team and budget managers. It is expected that the next budget monitoring report to members will be the updated quarter three forecasts to Audit & Scrutiny Committee in February 2023.

### 11 Risk Assessment

#### Legal or other duties

##### 11.1 Impact Assessment

11.1.1 Ultimately, all services will be impacted in some way by the Council's overall budget position over the long term.

11.1.2 Risks/budget variances are highlighted in the body of the report, along with mitigations where applicable including in the next steps section.

11.1.3 Key risks are included in the council's corporate risk registers, which help inform the annual financial risk assessment presented to Full Council within February's budget report each year.

##### 11.2 Crime & Disorder

11.2.1 None arising directly from the contents of this report.

##### 11.3 Safeguarding

11.3.1 None arising directly from the contents of this report.

##### 11.4 Dependencies

11.4.1 None arising directly from the contents of this report.

##### 11.5 Other

11.5.1 None arising directly from the contents of this report.

### 12 Financial Implications

12.1 Financial implications are set-out in the body of the report.

12.2 **Section 151 Officer's comments:** For 2022/23, the Council is currently forecast to be £243,000 under budget for the year.

12.3 However, principally owing to the lasting impact of covid-19 (such as reduced car parking income from commuters and at the shopping centre), heightened inflation, unknown future government funding settlements and a potential recession, the council anticipates budget pressures to increase in future years, as reported to Strategy & Resources Committee in July. A budget framework for 2023/24 budget setting was agreed by S&R, which officers are progressing accordingly.

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12.4 Quarter 3 forecasts for 2022/23 will be brought back to Audit & Scrutiny Committee in February 2023.

### 13 Legal Implications

13.1 There are no direct legal implications arising from this report.

**Monitoring Officer's comments:** None arising from the contents of this report.

### 14 Policies, Plans & Partnerships

14.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

14.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

14.3 **Climate & Environmental Impact of recommendations:** None arising directly from the contents of this report.

14.4 **Sustainability Policy & Community Safety Implications:** None arising directly from the contents of this report.

14.5 **Partnerships:** None arising directly from the contents of this report.

### 15 Background papers

15.1 The documents referred to in compiling this report are as follows:

#### **Previous reports:**

- Budget Report to Full Council – February 2022
- 2023/24 Strategic Financial Planning to S&R – July 2022

#### **Other papers:**

- Quarter 1 Revenue Budget Monitoring - published via Member News in September 2022, due to the cancellation of September's Audit & Scrutiny Committee during the national mourning period.