

REVENUE BUDGET MONITORING - QUARTER 3

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

Summary

This report presents the forecast revenue outturn position for the current financial year 2022/23, as at quarter 3 (31 December 2022).

The report also provides an update on the external audit of 2021/22's Statement of Accounts.

Recommendation (s)

The Committee is asked to:

- (1) Receive the revenue budget monitoring report, which sets-out a projected favourable budget variance of £304,000 for 2022/23;
- (2) Note that a report to Licensing & Planning Policy Committee has been requested to address reduced forecast planning income and identify mitigation options;
- (3) Receive the 2021/22 external audit update provided in section 11;
- (4) Note that the outturn position will be reported to Strategy & Resources in July, then to this committee alongside the Statement of Accounts.

1 Reason for Recommendation

- 1.1 To present the 2022/23 forecast revenue outturn position to members, as at quarter 3.

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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.
- 2.2 Forecasts in this report are measured against the re-based budgets approved at [Strategy & Resources Committee in July](#).
- 2.3 At quarter 2, the council had forecast to be £243,000 under budget at year-end.
- 2.4 The forecast at quarter 3 is now for the Council to be £304,000 under budget at year-end, with the £61,000 favourable movement mainly due to an increase in forecast licensing income for the year.
- 2.5 The overall favourable variance remains principally driven by additional treasury management income, partially offset by reduced income from car parks and place development (planning).
- 2.6 Uncertainty remains heightened around future projections mainly due to the economic environment/cost-of-living crisis and its potential impact on residents and the council's cost drivers.
- 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
Strategy & Resources Committee				
Democratic & Civic	688	692	699	6
Corporate Functions	571	597	586	(10)
Corp Financial Management	2,130	976	628	(348)
Tax Collection & Benefits	737	734	738	4
Land Charges	2	2	(4)	(6)
Land & Property	(2,955)	(3,064)	(3,140)	(76)
Economic Dev. & Prosperity	92	88	93	4
Employee and Support Services	1,054	551	228	(323)
Subtotal Strategy & Resources	2,319	575	(173)	(748)
Environment & Safe Communities Committee				
Car Parking	(2,215)	(1,411)	(1,155)	256
Environmental Services	3,341	3,433	3,478	46
Community Safety	93	95	100	4
Contract Management	124	270	313	43
Environmental Health	319	317	378	61
Countryside, Parks & Open Spaces	2,061	2,152	2,148	(4)
Subtotal Environment & Safe Communities	3,723	4,856	5,262	406
Community and Wellbeing Committee				
Housing	1,815	2,105	2,100	(5)
Community Services (Route Call, Meals from Home, Community Alarm)	442	469	504	35
Support for Voluntary Orgs.	239	239	239	0
Community Centre	441	457	451	(6)
Health & Wellbeing	223	210	194	(16)
Sports, Leisure & Cultural	1,092	1,133	1,119	(14)
Precepting & Levying Bodies (NJMC & EWDC)	366	366	366	0
Subtotal Community & Wellbeing	4,617	4,979	4,972	(6)
Licensing & Planning Policy Committee				
Place Development	751	961	1,153	192
Licensing	(115)	(75)	(223)	(148)
Subtotal Licensing & Planning Policy	636	886	930	45
Capital Charges	(2,669)	(2,669)	(2,669)	0
Total General Fund	8,626	8,626	8,322	(304)

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** 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.*

- 3.2 The £304,000 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 £3.16 million.
- 3.3 The following section of the report details the individual budget variances that make up the projected variance of £304,000 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 Management & Financial & Corporate Functions	(358)	<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 3.5% as at December 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 are 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 £83,000 underspent for the year.</p>

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Land & Property	(76)	<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 one property at Cox Lane remained vacant during 2022 while a new tenant was sought. A new tenancy is being progressed, as agreed at S&R Committee in November 2022.</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 & Resources early in 2023.</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	(323)	<p>The council is currently carrying a number of vacancies, resulting in a forecast underspend of £323k over the year.</p>
Other miscellaneous variances	2	
Total Strategy & Resources Variance	(748)	

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Environment & Safe Communities Committee	Adverse / (Favourable) Variance £'000	Detail
Car Parking	256	<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 ceased from 22 October 2022.</p> <p>The above factors mean car parking income remains forecast to be c.£260,000 under-budget for the year.</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	61	<p>Environmental Health is forecasting an adverse variance of £27,000, which includes an under-recovery of income for the stray dogs contract, and legal costs in relation to the Chalk Pit investigation. There is also a forecast under-recovery of income at the cemetery of £34,000.</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>
(Contract Management) Tree Contract	19	<p>The tree contract is forecasting an adverse variance of £19,000 due to a subsidence claim for which the Council is liable. The service has been tasked with implementing procedures to minimise future claims.</p>

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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	0	
Total Environment & Safe Communities Variance	406	

Community & Wellbeing Committee	Adverse / (Favourable) Variance £'000	Detail
Homelessness	(5)	The homeless net nightly paid accommodation budget was based on an average of 70 households requiring accommodation during 2022/23. The Council is currently £25k over the year-to-date budget for nightly paid accommodation at 31 December (a reduction from £50k over at 30 November). However, reflecting the higher numbers, government has awarded EEBC £76k additional homelessness prevention grant income, resulting in a minor favourable forecast variance to year end.
Community Services	35	Transport-from-home fare income remains 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	(36)	Reduced expenditure on Performing Rights Society (PRS) licences and other miscellaneous items.
Total Community & Wellbeing Variance	(6)	

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Licensing & Planning Policy Committee	Adverse / (Favourable) Variance £'000	Detail
Place Development	192	The adverse variance is due to a forecast under-recovery of income. £74,000 of this relates to planning applications, and £118,000 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	(148)	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	
Total Licensing & Planning Policy Variance	45	

5 Employee Costs

- 5.1 At the end of Quarter 3, the Council is £308k under its year-to-date employee budget of £10.02m.
- 5.2 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.
- 5.3 In November, S&R Committee agreed a one-off £500 payment to staff within eligible pay grades. This one-off payment is reflected within the year-to-date figures at 5.1.

6 Utility Costs

- 6.1 The 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 expired in September and December 2022, with the Council facing higher costs since then.

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- 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 this year.
- 6.3 For 2023/24, the Council has budgeted for elevated energy costs to continue on an ongoing basis. Central government is expected to announce in the coming months whether energy cost support will be extended to the sector beyond 31 March 2023. The Council will need to review and adapt plans accordingly to reflect any government support (or absence thereof).

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:

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	-
Total Savings - £342k		134	208	0

- 8.2 The majority of savings have either been already achieved or remain 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.

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- 8.4 For waste collection, it is currently forecast that the £100,000 additional income will be achievable. It is anticipated that this will partially come from Surrey County Council, who pay the Council a proportion of income it earns from the secondary recycling market, although 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). As a mitigation, the Council is achieving higher-than anticipated garden waste subscriptions and consequently income. Once government's much-delayed National Waste Strategy is published, it is recommended that a report should be taken to Environment & Safe Communities Committee for members to agree how the Council will implement the strategy and achieve the saving on an underlying basis for the long term.

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 £3.16m (from £2.85m) by the end of this year.
- 9.3 Other revenue reserves are projected to stand at £12.7 at 31 March 2023, however, £10.4m 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 review of revenue reserves and commitments was reported to Financial Policy Panel in January 2023.
- 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:

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General Fund Revenue Reserves	01 April 2022 Opening Balance £'000	31 March 2023 Forecast Uncommitted Balance £'000
General Fund	2,853	3,157
Corporate projects reserve	4,130	2,158
Contingencies unavailable for general use	16,841	8,679
Ringfenced funds/grants for specific use	2,284	1,815
Total	26,108	15,809

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.

9.6 This leaves just £1.8 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 has been asked to prepare a report to Licensing & Planning Policy Committee to address reduced forecast planning income and identify mitigation options;

10.1.2 The provision of car parking in the Borough will be assessed through ongoing Masterplan work undertaken by the Place Development team;

10.1.3 Strategy & Resources Committee agreed in July 2022 a budget setting framework for 2023/24 which has been progressed by officers, culminating in the proposed 2023/24 budget plans due to be presented to Full Council in February.

10.1.4 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.

10.2 The Council's budget position is continuously monitored by the finance team and budget managers. It is expected that the provisional outturn position will be reported to Strategy & Resources Committee in July, followed by the audited outturn position and Statement of Accounts to Audit & Scrutiny in the autumn.

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11 External Audit Update

- 11.1 In November, Grant Thornton (GT) presented its Audit Findings report on the Council's 2021/22 Statement of Accounts to this committee. In the report, GT anticipated issuing an unqualified [favourable] opinion on the Council's accounts by the 30 November statutory deadline, but this was subject to sufficient assurance being received from a separate audit of Surrey Pension Fund (administered by Surrey County Council), which is outside EEBC's control.
- 11.2 Regrettably, GT was unable to obtain sufficient assurance from the Surrey Pension Fund audit by 30 November, and consequently the Council's Statement of Accounts audit was not formally signed off by the deadline.
- 11.3 The Council has published a statutory notice to this effect on its website, as required under legislation. This was also communicated via Members News in late November.
- 11.4 At the time of writing (5 January 2023), the audit of Surrey Pension Fund is expected to complete in early 2023, and the Council's Statement of Accounts will be completed as soon as practicable thereafter.
- 11.5 Once the audit is complete, Grant Thornton will then prepare the Auditor's Annual Report, which provides an opinion on the Council's value for money, financial sustainability and governance arrangements.

12 Risk Assessment

Legal or other duties

12.1 Impact Assessment

- 12.1.1 Ultimately, all services will be impacted in some way by the Council's overall budget position over the long term.
- 12.1.2 Risks/budget variances are highlighted in the body of the report, along with mitigations where applicable including in the next steps section.
- 12.1.3 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.

12.2 Equality & Diversity

- 12.2.1 None arising directly from the contents of this report.

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12.3 Crime & Disorder

12.3.1 None arising directly from the contents of this report.

12.4 Safeguarding

12.4.1 None arising directly from the contents of this report.

12.5 Dependencies

12.5.1 None arising directly from the contents of this report.

12.6 Other

12.6.1 None arising directly from the contents of this report.

13 Financial Implications

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

13.2 **Section 151 Officer's comments:** For 2022/23, the council is currently forecast to be £304,000 under budget for the year.

13.3 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.

13.4 2023/24 budget plans presented to Full Council in February will include additional income/savings targets agreed by policy committees to mitigate budget pressures.

14 Legal Implications

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

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

15 Policies, Plans & Partnerships

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

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

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

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

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

16 Background papers

16.1 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 2 Revenue Budget Monitoring - Audit & Scrutiny Committee, November 2022.