

REVENUE BUDGET MONITORING - QUARTER 2

Head of Service:	Lee Duffy, Chief Finance Officer
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 2021/22, as at Quarter 2 (30 September).

Recommendation (s)

The Committee is asked to:

- (1) Receive the revenue budget monitoring report, which projects a £2.67m budget deficit for 2021/22, along with provisional funding for the deficit;
- (2) Note that a report will be prepared for Community & Wellbeing Committee in the new year 2022, to present a Homelessness and Rough Sleeper Strategy with mitigation options for the budget pressures within the Housing service;
- (3) Note that a report is being prepared for Community & Wellbeing Committee in the new year 2022, to present a recovery plan for the Venues;
- (4) Note that the updated Quarter 3 position will be reported back to this Committee in February.

1 Reason for Recommendation

- 1.1 To present the 2021/22 forecast revenue outturn position to members, as at Quarter 2.

Audit, Crime and Disorder and Scrutiny Committee 18 November 2021

2 Background

- 2.1 In February 2021, Full Council agreed a total net expenditure budget of £8.61m for 2021/22. The budget anticipated no use of general fund working balances, which stand at £3.38m. Under the Medium Term Financial Strategy, the Council maintains a minimum general fund working balance threshold of £2.5m.
- 2.2 On 1 September, this Committee received the Quarter 1 revenue budget monitoring report, which projected a £2.63m deficit against the 2021/22 budget.
- 2.3 Covid-19 has continued to have a major impact on the Council's services and the updated projection at Quarter 2 is for a budget deficit of £2.67m this year, largely unchanged from Q1.
- 2.4 The £0.04m increase in the projected deficit is mainly due to increased fuel and staffing costs within waste collection, as sectoral issues such as the petrol and HGV driver shortages impact this service.
- 2.5 The projected £2.67m deficit assumes that no further government support will be forthcoming. The main reasons for the deficit remain increased expenditure incurred to manage homelessness, combined with significant reductions in income from service areas such as car parks and the Council's venues.
- 2.6 To partially address the projected deficit, the Council's budget contains a £950,000 contingency that can be deployed. In addition, officers have submitted a claim to DLUHC (formerly MHCLG) for eligible lost income, which is expected to result in compensation for the Council of £506,000. This sum is lower than the £662,000 originally anticipated in the Q1 report, mainly because DLUHC has decided to assess 2021/22 losses against a lower 2020/21 budget baseline, rather than against 2021/22 budgets (which had been uplifted by 3%).
- 2.7 Uncertainty remains heightened around future projections, and any further government restrictions to manage Covid-19 would likely impact the extent to which demand levels for services and income levels recover in the near term. 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 2021/22 is shown in the following table:

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

Forecast Outturn by Service	Current Approved Budget	Forecast Outturn	Forecast Variance
	£'000	£'000	£'000
<u>Strategy & Resources Committee</u>			
Democratic & Civic	688	688	0
Corporate Functions	579	579	0
Corp Financial Management	1,817	1,821	4
Tax Collection & Benefits	970	970	0
Land Charges	(1)	(6)	(5)
Land & Property	(2,333)	(2,333)	0
Economic Dev. & Prosperity	92	92	0
Employee and Support Services	472	266	(206)
Subtotal Strategy & Resources	2,285	2,077	(208)
<u>Environment & Safe Communities Committee</u>			
Car Parking	(2,095)	(1,123)	972
Environmental Services	3,608	3,710	102
Planning & Building Control	774	1,141	367
Community Safety	92	92	(1)
Environmental Health	194	214	20
Subtotal Environment & Safe Communities	2,574	4,034	1,460
<u>Community and Wellbeing Committee</u>			
Housing	1,653	2,217	564
Personal Social Services (Route Call, Community Alarm, Higher Needs Service and Disabled Facilities Grant)	411	464	52
Support for Voluntary Orgs	237	237	0
Social Centre	525	583	58
Health & Wellbeing	92	92	0
Countryside, Parks & Open Spaces	1,904	1,973	69
Sports, Leisure & Cultural	1,236	1,907	672
Precepting & Levying Bodies (NJMC & EWDC)	365	365	0
Subtotal Community & Wellbeing	6,423	7,838	1,415
Capital Charges	(2,669)	(2,669)	0
Total General Fund	8,612	11,280	2,668

3.2 The projected budget deficit across services for 2021/22 is £2.67m, which can be provisionally funded as set-out in the following table:

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

2021/22	£'000
Projected Deficit, Pre-Government Support	2,668
Less Government Income Protection Scheme	(506)
Projected Deficit, Post-Government Support	2,162
<u>Provisional Funding</u>	
Corporate Contingency for Covid-19	(950)
Corporate Projects Reserve	(329)
General Fund Balance	(883)
Subtotal Funding	(2,162)
Total	0

- 3.3 The Council should be able to claim £506k in lost income compensation from DLUHC to partially offset the deficit. The Council's budgeted contingency of £950k, plus unbudgeted contributions of £329k from the Corporate Projects Reserve (note - this is in addition to the budgeted contribution of £306,000 from this reserve) and £883k from the General Fund balance, can also be provisionally earmarked to fund the projected deficit. Deficit funding will remain under review throughout the year and will only be finalised at year-end, when the actual outturn position is known.
- 3.4 The following section of the report details the individual budget variances that make up the projected deficit of £2.67m 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
Employee and Support Services	(206)	<p>Employee costs are forecast to be £273k under the overall budget. This favourable variance is partially offset by additional legal support costs to manage unauthorised encampments, combined with additional HR costs such as recruitment advertising fees associated with the restructure, totalling £52k.</p> <p>The favourable variance is also partially offset by increased cleaning costs at Town</p>

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

		Hall, which are expected to exceed the budget by £15k in 2021/22.
Land & Property	0	<p>Although the overall variance within Land and Property is nil, there are compensating variances to report.</p> <p>A number of rent reviews have been successfully completed, resulting in additional income of £836k for back rent at industrial estate sites. This one-off income is expected be transferred to the Property Income Equalisation Reserve, subject to Committee approval at year-end. The reserve currently holds a balance of £5.496m and is held to mitigate the potential impact of any tenants choosing to exercise break clauses and end their tenancies, as reported to Strategy & Resources Committee on 21 September 2021.</p> <p>The rent reviews have also resulted in uplifts to underlying annual rental income. Combined with a further review due later in the year, this should substantially achieve the £225k additional annual income target in the Medium Term Financial Strategy.</p>
Other miscellaneous variances	(1)	<p>The treasury management function is expected to underachieve the £115k budgeted income from investments, as interest rates remain at historic lows and continue to limit returns.</p> <p>Notwithstanding, the performance of the Council's investments does continue to beat the LIBID benchmark, and any interest shortfall can be met from the Interest Equalisation Reserve, resulting in minimal adverse variance to budget overall.</p>

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

		A separate report on the Council's investment returns will be taken to Financial Policy Panel on 30 November 2021.
Total Strategy & Resources Variance	(208)	

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

Environment & Safe Communities Committee	Adverse / (Favourable) Variance £'000	Detail
Car Parking	972	<p>Car park visitor numbers have yet to recover to pre-Covid levels. The parking income forecast has been based on the six months to September, with an assumption that usage will increase by 25% for the rest of the financial year. The result is a projected £972k under-recovery of income, as broken down below:</p> <p>Surface Car Parks: £149k Ashley Centre: £653k Atkins: £23k Hook Road: £110k Ewell Car Parks: £28k Off/On Street Parking - £9k</p> <p>The loss of income to 30 June will form part of our Income Compensation Scheme claim to DLUHC. In the meantime, officers continue to explore further opportunities to generate additional income through offering car park spaces to businesses.</p>
Domestic Waste	123	<p>Fuel costs have recently increased and are predicted to reach a ten-year high, resulting in a £39k adverse variance to budget.</p> <p>Furthermore, increased agency costs are expected due to staff on long-term sickness and cover for several vacancies within the team. These areas of spend are being monitored by the Service Manager and mitigating action taken to minimise spend wherever possible. The long-term sickness cases are being managed in line with HR policies.</p>

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

Bulky Waste	(23)	Based on half year results, the year-end forecast for income represents a favourable variance of £23k.
Building Control (Planning & Building Control)	137	<p>The service is being transferred to Elmbridge Borough Council following the retirement of two staff members and difficulties recruiting new staff, resulting in a projected net loss of income to EEBC of £137k for the year.</p> <p>Following the establishment of a new service delivery model, the updated service costs will need to be factored into the Council's future budget plans.</p>
Development Control (Planning & Building Control)	229	<p>Since the pandemic began, the service has seen a decrease in income, projected as a £185k adverse variance in 2021/22.</p> <p>In December 2020, S&R agreed £96,000 funding from reserves to cover the cost of responding to planning appeals. However, following one appeal progressing to a public enquiry, costs are expected to exceed this funding by £34k. A further adverse variance of £10k is forecast for legal and consultancy fees relating to applications.</p> <p>To support the planning service, an additional £190,000 of one-off funding was agreed at S&R Committee on 27 July, to be funded from the Corporate Projects Reserve.</p>
Other Miscellaneous Variances	22	
Total Environment and Safe Communities Variance	1,460	

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

Community & Wellbeing Committee	Adverse / (Favourable) Variance £'000	Detail
Housing	564	<p>The number of households in nightly paid accommodation has been reducing during Q2 and is now forecast at 70 for the remainder of the year. As a result, the forecast adverse budget variance has recovered somewhat to £564k, from £608k at Q1.</p> <p>To minimise numbers in expensive nightly paid accommodation, Defoe Court continues to be brought into use, and officers are collaborating with Rosebery Housing Association to identify alternative accommodation options. In addition, funding for two one-bed flats was approved at Strategy and Resources in September 2021. The Homelessness Working Party including senior officers meets monthly to manage the Council's response and to capitalise on any funding opportunities.</p>
Personal Social Services – Route Call, Community Alarm, Higher Needs Service and Disabled Facilities Grant	52	<p>Routecall passengers continue to be slow to return to the service, resulting in a £34k forecast adverse variance to budget.</p> <p>Within the Higher Needs Service, clients are gradually increasing each month, although it is not expected that numbers will fully return to pre-Covid levels by year end and a £33k adverse variance to budget is forecast.</p> <p>Partially offset against these adverse budget pressures is a favourable £15k transfer from the Home Improvement Agency reserve to fund the costs of administering the Disabled Facilities Grant scheme</p>

Audit, Crime and Disorder and Scrutiny
 Committee
 18 November 2021

<p>Social Centre</p>	<p>58</p>	<p>Members and hirers have been returning to the Community & Wellbeing Centre, although numbers are not yet back to pre-Covid levels. An adverse variance to budget of £38k is forecast for year end.</p> <p>In addition, reduced income from lettings and the loss of some regular hirers is expected to result in a £20k adverse variance to budget.</p>
<p>Parks and Open Spaces</p>	<p>69</p>	<p>Sports activities and BBQs at parks reduced during spring and summer, resulting in a £45k adverse variance to budget.</p> <p>There have been fewer bookings at the Harrier Centre, resulting in an £18k adverse variance.</p> <p>Based on bookings to date, income at Hook Road Arena will also be under budget by £21k.</p> <p>Statutory reports on the Great Pond Dam are £2k above budget.</p> <p>However, a new lease at Horton Country Park and lettings to cafes in parks has increased income by £17k, partially mitigating the above adverse variances.</p>
<p>Sports, Leisure and Cultural</p>	<p>672</p>	<p>Bourne Hall and the Playhouse have now reopened and there has been a gradual return of hirers and ticket sales.</p> <p>However, at Bourne Hall, lettings and café income remain below net budget targets, resulting in a £170k forecast adverse variance.</p> <p>At the Playhouse, there are fewer shows than pre-Covid but pantomime ticket sales are progressing well. Net income is anticipated to be 50% of that for the same period in 2019/20, resulting in a £358k adverse variance to budget.</p>

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

		<p>Ewell Court House is not expected to re-open for events during 2021/22 (£63k adverse variance).</p> <p>No income is expected on the GLL contract at the Rainbow Centre for the first quarter 2021/22 (£81k adverse variance).</p> <p>The income losses to 30 June have formed part of the Council's Income Compensation claim to DLUHC.</p>
Total Community & Wellbeing Variance	1,415	

5 Employee Costs

- 5.1 At the end of September, the Council is £170k under its year-to-date employee budget of £6.62m, mainly as non-essential recruitment had been paused to manage the adverse financial impact of Covid-19.
- 5.2 Following the Council's restructure and transition to a new operating model, recruitment is underway to fill vacant posts. 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 To support the planning service with additional staffing resources, £190,000 of one-off funding was agreed at S&R Committee on 27 July, to be funded from the Corporate Projects Reserve.

6 Epsom & Ewell Property Investment Company (EEPIC)

- 6.1 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 forecast to be on budget, with rent to date on track from tenants.

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

7 Update on 2021/22 Savings Delivery

7.1 The 2021/22 budget required £317k 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 - 2021/22	Committee	Achieved	In progress or deferred	Not Achievable
		£000	£000	£000
Review of Commercial Estate	S&R	113	-	-
Reduce Training Budget	S&R	6	-	-
Review of Town Hall	S&R	15	-	-
Review of Facilities Maintenance	S&R	19	-	-
Review of Parking	E&SC	-	24	-
Review of Community & Wellbeing Centre	C&W	-	23	-
Review of Parks/Ranger Service	C&W	17	-	-
Reduction in Service Contingencies	S&R	41	-	-
Building Control savings	E&SC	-	-	10
Treasury Management Income	S&R	-	20	-
Trade Waste Additional Income	E&SC	-	5	-
Review of Borough Insight	S&R	24	-	-
Total Savings - £317k		235	72	10

7.2 The majority of savings, totalling £235k, have been achieved to date. Savings totalling £72k have all been impacted in some way by Covid-19 and consequently either remain in progress or have been temporarily deferred due to the current economic environment. These savings will need to be reviewed and progressed at the appropriate time once uncertainty clears.

7.3 The £10k saving within building control is no longer deliverable, following the decision to transfer the service to Elmbridge Building Control Service. An alternative saving will need to be sought through the budget process, to prevent the Council's future budget deficit from increasing.

8 Revenue Reserves

8.1 At Q2, the general fund balance remains forecast to reduce to £2.5m (from £3.383m) by the end of this year, as per the provisional funding of the projected deficit in the following table:

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

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<u>Provisional Funding</u>	
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Subtotal Funding	(2,162)
Total	0

- 8.2 The provisional balance on strategic reserves including the collection fund account was £17.1m at 1 April 2021. These reserve balances are forecast to reduce to £14.6m at 31 March 2022, principally due to budgeted drawdowns from the business rates equalisation reserve (£320k), flexible housing support grant reserve (£278k) and property maintenance reserve (£199k), combined with the unbudgeted provisional deficit funding of £329k and other agreed in-year allocations from the corporate projects reserve, such as for the Local Plan and other planning resources.
- 8.3 A review of reserves will be presented to Financial Policy Panel on 30 November 2021.
- 8.4 The Council holds other revenue reserves which are commuted sum receipts totalling £1.46m. The commuted sums are used to generate interest to fund on-going maintenance to specific parks and open spaces.

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

Summary of Revenue Reserves	01 April 2021 £'000	31 March 2022 forecast £'000
General Fund	3,383	2,500
Strategic Reserves & Collection Fund Account	17,080	14,565
Commuted Sums	1,464	1,464
Total	21,927	18,529

9 Actions and Next Steps

- 9.1 To address the projected budget deficit, the Council's senior management continues to progress the following key initiatives:
- 9.1.1 Measures to mitigate increased expenditure within homelessness, including bringing Defoe Court into use. Officers are also collaborating with Rosebery Housing Association to identify alternative accommodation options, to reduce the numbers in expensive nightly paid accommodation. In addition, funding for two one-bed flats was approved at Strategy and Resources in September 2021. The Homelessness Working Party including senior officers meets monthly to manage the Council's response and to capitalise on any funding opportunities.
 - 9.1.2 Officers have submitted a claim to DLUHC for lost income to 30 June 2021, totalling £506,000.
 - 9.1.3 For the venues, the Head of Operational Services is preparing a report to Community & Wellbeing Committee in the new year, setting-out a recovery plan.
 - 9.1.4 The Head of Service for Housing will prepare a report to Community & Wellbeing Committee in the new year, once the Strategic Housing Manager has been appointed, to present a Homelessness and Rough Sleeper Strategy with mitigation options for the budget pressures within the Housing service.
 - 9.1.5 Finance officers will continue to monitor the funding landscape to ensure the Council is kept aware of any new government funding announcements (if there are any).

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

- 9.2 Budget plans for 2022/23 remain under review to take account of any permanent underlying changes to expenditure and income levels. 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 in February 2022.

10 Risk Assessment

Legal or other duties

10.1 Impact Assessment

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

10.2 Crime & Disorder

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

10.3 Safeguarding

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

10.4 Dependencies

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

10.5 Other

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

11 Financial Implications

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

- 11.2 **Section 151 Officer's comments:** Even in the near term, there remains uncertainty around future demand levels for the Council's services and income streams, especially if government brings in additional Covid-19 restrictions over the winter. For 2021/22, contingency budgets and reserves can provisionally mitigate the overall projected deficit. Officers will continue to monitor the position and ultimately, longer term should income streams not recover or increased expenditure pressures not be mitigated, budget plans for future years including 2022/23 will need to be adjusted accordingly.

- 11.3 Quarter 3 forecasts for 2021/22 will be brought back to Audit Crime & Disorder and Scrutiny Committee in February 2022, and provisional budgets for 2022/23 will be reported to policy committees in January 2022.

Audit, Crime and Disorder and Scrutiny
Committee
18 November 2021

12 Legal Implications

- 12.1 There are no direct legal implications arising from this report.
- 12.2 **Legal Officer's comments:** None arising from the contents of this report.

13 Policies, Plans & Partnerships

- 13.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 13.3 **Climate & Environmental Impact of recommendations:** None arising directly from the contents of this report.
- 13.4 **Sustainability Policy & Community Safety Implications:** None arising directly from the contents of this report.
- 13.5 **Partnerships:** None arising directly from the contents of this report.

14 Background papers

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

Previous reports:

- Revenue Budget Monitoring Report – Quarter 1 to Audit Crime & Disorder Committee, 1 September 2021.
- Budget Report to Full Council – 16 February 2021

Other papers:

- None