

REVENUE BUDGET MONITORING - QUARTER 3

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	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 3 (31 December).

Recommendation (s)

The Committee is asked to:

- (1) Receive the revenue budget monitoring report, which projects a £2.38m budget deficit for 2021/22, along with provisional funding for the deficit;
- (2) Note that the provisional outturn position will be reported back to this Committee in July.

1 Reason for Recommendation

- 1.1 To present the 2021/22 forecast revenue outturn position to members, as at Quarter 3.

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.

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- 2.2 On 18 November, this Committee received the Quarter 2 revenue budget monitoring report, which projected a £2.67m deficit against the 2021/22 budget, as Covid-19 has continued to have a major impact on the Council's services.
- 2.3 The updated projection at Quarter 3 is for a budget deficit of £2.38m this year, a decrease of £290k from the position reported at Q2.
- 2.4 The £290k improvement in the projected deficit is mainly due to an increase of £135k in the favourable variance of employee costs; £100k income expected from Surrey County Council for the higher price of recycling materials achieved; and a £55k more favourable forecast in Playhouse income.
- 2.5 The projected £2.38m 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.
- 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.

3 Forecast Position

- 3.1 A summary of the forecast outturn position by service area for 2021/22 is shown in the following table:

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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	559	(20)
Corp Financial Management	1,805	1,821	15
Tax Collection & Benefits	984	969	(15)
Land Charges	(1)	(6)	(5)
Land & Property	(2,333)	(2,333)	0
Economic Dev. & Prosperity	92	92	0
Employee and Support Services	456	133	(322)
Subtotal Strategy & Resources	2,271	1,923	(347)
<u>Environment & Safe Communities Committee</u>			
Car Parking	(2,095)	(1,039)	1,056
Environmental Services	3,604	3,610	7
Planning & Building Control	774	1,141	367
Community Safety	92	91	(2)
Environmental Health	208	180	(28)
Subtotal Environment & Safe Communities	2,583	3,983	1,400
<u>Community and Wellbeing Committee</u>			
Housing	1,653	2,172	519
Personal Social Services	411	483	72
Support for Voluntary Orgs.	237	237	0
Social Centres	525	584	59
Health & Wellbeing	88	88	0
Countryside, Parks & Open Spaces	1,909	1,967	58
Sports, Leisure & Cultural	1,240	1,856	617
Precepting & Levying Bodies (NJMC & EWDC)	365	365	0
Subtotal Community & Wellbeing	6,427	7,752	1,324
Capital Charges	(2,669)	(2,669)	0
Total General Fund	8,612	10,989	2,377

3.2 The projected budget deficit across services for 2021/22 is £2.38m, which can be provisionally funded as set out in the following table:

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2021/22	£'000
Projected Deficit, Pre-Government Support	2,377
Less Government Income Protection Scheme	(506)
Projected Deficit, Post-Government Support	1,871
<u>Provisional Funding</u>	
Corporate Contingency for Covid-19	(950)
Corporate Projects Reserve	(38)
General Fund Balance	(883)
Subtotal Funding	(1,871)
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 £38k from the Corporate Projects Reserve (note - this is in addition to the budgeted contribution of £306k 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 £2.38m within services.

4 Budget Variances

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

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Strategy & Resources Committee	Adverse / (Favourable) Variance £'000	Detail
Employee and Support Services	(322)	Employee costs are now forecast to be £369k under the overall budget. The favourable variance has increased compared to the Quarter 2 forecast due to unfilled roles in the new structure, which are still being recruited to. The favourable variance is partially offset by additional HR costs such as recruitment advertising fees associated with the restructure, totalling £32k, and increased cleaning costs at Town Hall, which are expected to exceed the budget by £15k.
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 to 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>
Corporate Functions	(20)	The central training budget is forecast to be £20k underspent this year. This is because of the knock-on effects of Covid and is a one-off saving as training expenditure is expected to return to normal levels in 2022/23.

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<p>Other miscellaneous variances</p>	<p>(5)</p>	<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> <p>The residual balance on the Interest Equalisation Reserve is expected to be incorporated into the Corporate Projects Reserve at year-end.</p> <p>A separate report on the Council's investment returns has been taken to Financial Policy Panel on 30 November 2021.</p>
<p>Total Strategy & Resources Variance</p>	<p>(347)</p>	

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Environment & Safe Communities Committee	Adverse / (Favourable) Variance £'000	Detail
Car Parking	1,056	<p>Car park visitor numbers have yet to recover to pre-Covid levels. The latest net under-recovery of income is forecast at £1.056m.</p> <p>The loss of income to 30 June forms part of our Income Compensation Scheme claim to DLUHC. Officers continue to explore further opportunities to generate additional income through offering car park spaces to businesses.</p>
Environmental Health	(28)	<p>Environmental Health is forecasting a favourable variance of £50k as a result of a number of vacant posts within the service. This is offset by an under recovery of income in the cemetery of £22k.</p>
Borough Cleansing (Environmental Services)	(33)	<p>Borough Cleansing is forecasting a favourable variance on employee costs following new posts created by the organisational restructure being vacant while recruitment takes place.</p>
Domestic Waste (Environmental Services)	55	<p>Domestic Waste is forecasting a £155k adverse variance caused by both elevated fuel costs and increased agency costs, to cover long-term sickness and several vacancies within the team.</p> <p>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> <p>These adverse variances are offset by a favourable variance of £100k relating to income gains achieved by Surrey County Council for the price of recycling materials</p>

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		<p>due to higher demand for packaging fuelled by online purchases during the pandemic.</p> <p>The 2022/23 revenue budget includes a provision to cover increased inflationary pressures within the service.</p>
<p>Bulky Waste (Environmental Services)</p>	(23)	<p>As a result of increased demand for the service, the year-end forecast for income represents a favourable variance of £23k.</p>
<p>Building Control (Planning & Building Control)</p>	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 are factored into the Council's future budget plans.</p>
<p>Development Control (Planning & Building Control)</p>	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>Other Miscellaneous Variances</p>	7	
<p>Total Environment and Safe Communities Variance</p>	1,400	

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Community & Wellbeing Committee	Adverse / (Favourable) Variance £'000	Detail
Housing	519	<p>The number of households in nightly paid accommodation reduced during Q2 and the full year forecast assumes 70 households are supported, resulting in a projected £564k adverse variance.</p> <p>This adverse variance is partially offset by additional net rental income from purchased properties of £26k. Private Sector Housing is also forecasting a net favourable outturn of £21k.</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	72	<p>Routecall passengers continue to be at low levels, resulting in a £35k forecast adverse variance to budget.</p> <p>Within the Higher Needs Service, there have been some clients returning to the service but numbers have not increased as steadily as initially expected, resulting in a £51k adverse variance.</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>

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Social Centre	59	<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 £39k 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>
Parks and Open Spaces	58	<p>Sports activities and BBQs at parks have been lower than pre-Covid, resulting in a £40k adverse variance to budget.</p> <p>There have been fewer bookings at the Harrier Centre, resulting in an £18k adverse variance. This is partially offset by new lease at the Centre (£5k favourable)</p> <p>Based on bookings to date, income at Hook Road Arena will also be under budget by £25k.</p> <p>Statutory reports on the Great Pond Dam are £2k above budget.</p> <p>A new lease at Horton Country Park and lettings to cafes in parks has increased income by £22k, partially mitigating the above adverse variances.</p>
Sports, Leisure and Cultural	617	<p>At Bourne Hall, lettings and café income remain below net budget targets, resulting in a £180k forecast adverse variance, partially offset by increased recharges to SCC (£10k favourable).</p> <p>At the Playhouse, there are fewer shows than pre-Covid but pantomime ticket sales have been consistently higher than expected. Net income is anticipated to be £56k higher than reported at Q2, resulting in a £303k adverse variance to budget.</p> <p>Ewell Court House is not expected to re-open for events during 2021/22 (£63k adverse variance).</p>

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		<p>No income is expected on the GLL contract at the Rainbow Centre for the first quarter 2021/22 (£81k adverse variance) but subsequent periods have been charged as per contract.</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	1,324	

5 Employee Costs

- 5.1 At the end of December, the Council is £411k under its year-to-date employee budget of £9.97m, mainly as non-essential recruitment had been paused to manage the adverse financial impact of Covid-19.
- 5.2 In addition, following the Council's restructure and transition to a new operating model, recruitment is underway to fill vacant posts. This favourable variance has been factored into the service forecasts presented above.
- 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.
- 5.4 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 Pension Contributions to Surrey Pension Fund

- 6.1 Pensions' administration had previously been outsourced by Surrey County Council to a company called Orbis. Earlier this year, SCC transferred responsibility for pension administration back 'in-house' to Surrey Pension Fund (SPF).
- 6.2 Since November 2014, Orbis had ceased invoicing districts and boroughs for the cost of 'compensatory added years', which are historic, additional discretionary pension commitments and typically cost this Council c£100,000 per annum.

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- 6.3 New awards are typically no longer made, with all exits managed in accordance with the Local Government Pension Scheme Discretions Policy. However, historic awards still need to be paid for.
- 6.4 Despite Orbis ceasing to invoice for these costs since 2014, each year EEBC has set-aside, in the Corporate Projects Reserve, the expected annual cost, in anticipation that one day Surrey Pension Fund or Orbis would complete the necessary reconciliations and resume invoicing. The total amount set-aside by EEBC since 2014 is £727,847.
- 6.5 In November 2021, Surrey Pension Fund contacted all Surrey districts and boroughs to confirm that SPF had completed the necessary reconciliations and will invoice authorities for sums back to 2014. The sum invoiced for this Council for the period November 2014 to 2020/21 is £701,916, plus £100,600 for 2021/22. These amounts will be funded by the amounts already set-aside in the Corporate Projects Reserve, with the balance to be met from corporate contingency budgets.
- 6.6 Going forward, the current annual cost is £100,600, which the Council has included in the revenue budget from 2022/23. In future years, as the number of recipients reduce, it is expected that this cost will gradually diminish.

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

8 Update on 2021/22 Savings Delivery

- 8.1 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:

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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

8.2 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.

8.3 The £10k saving within building control is no longer deliverable, following the decision to transfer the service to Elmbridge Building Control Service. This has been factored into the Council's budget planning for 2022/23.

9 Revenue Reserves

9.1 At Q3, 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:

9.2

2021/22	£'000
Projected Deficit, Pre-Government Support	2,377
Less Government Income Protection Scheme	(506)
Projected Deficit, Post-Government Support	1,871
<u>Provisional Funding</u>	
Corporate Contingency for Covid-19	(950)
Corporate Projects Reserve	(38)
General Fund Balance	(883)
Subtotal Funding	(1,871)
Total	0

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- 9.3 The opening balance of strategic earmarked revenue reserves was £25.2m at 1 April 2021. Existing commitments against these reserves total £11.1m, leaving a forecast uncommitted balance of £14.1m. A significant proportion of these reserves are held as contingencies to mitigate known risks, or are ringfenced funds, as set-out in the following table:

Summary of Revenue Reserves	Balance at 01 April 2021 £'000	Commitments £'000	Forecast Uncommitted Balance at 31 March 2022 £'000
General Fund	3,383	-883	2,500
<u>Strategic Earmarked Reserves</u>			
Contingencies unavailable for general use	17,828	-7,416	10,412
Ringfenced funds for specific use	2,251	-915	1,336
Unringfenced funds available for general use	5,073	-2,767	2,306
Subtotal Strategic Earmarked Reserves	25,152	-11,098	14,054
Total Revenue Reserves	28,535	-11,981	16,554

- 9.4 The £11.1m commitments include £6.6m of central government grants held in the Business Rates Equalisation Reserve to fund the prior year business rates deficit in accordance with statutory collection fund rules, £2.5m commitments from the Corporate Projects Reserve (this includes previously agreed funding for the Local Plan and planning resources), £1.1m to fund 2022/23's projected revenue budget deficit and £385k from the Flexible Housing Support Grant reserve to mitigate homelessness.
- 9.5 Please note that commitments only include agreed items and do not include potential future pressures, for example should additional resourcing requirements arise (and be agreed) for the Local Plan, planning or other services in future.
- 9.6 The table shows that the uncommitted balance of unringfenced strategic reserves is forecast at £2.3m.
- 9.7 The Council's reserves may come under significant pressure in the coming years due to the long-term financial impact of Covid-19.

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- 9.8 To provide some context to reserve balances, it should be noted that the Council also has external debt of £64.4m owed to the Public Works Loans Board, repayable by 2067. The Council incurred this debt to fund the agreed acquisition of commercial properties in previous years. The Council has an annual provision in the revenue budget, funded by rental income from the properties, to cover interest payments and eventual repayment of the loans by 2067.
- 9.9 A full review of individual revenue reserves including a breakdown of commitments was recently presented to Financial Policy Panel on 30 November 2021.

10 Actions and Next Steps

- 10.1 To mitigate the projected budget deficit, the Council's senior management continues to progress the following key initiatives:
- 10.1.1 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.
- 10.1.2 Officers have submitted a claim to DLUHC for lost income to 30 June 2021, totalling £506,000.
- 10.1.3 For the venues, the Head of Operational Services will prepare a report to Community & Wellbeing Committee setting-out a recovery plan.
- 10.1.4 The Head of Service for Housing will prepare a report to Community & Wellbeing Committee to present a Homelessness and Rough Sleeper Strategy with mitigation options for the budget pressures within the Housing service.
- 10.1.5 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).
- 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 provisional outturn position in July 2022.

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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.

11.2 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:** Even in the near term, there remains uncertainty around future demand levels for the Council's services and income streams, principally due to Covid-19. 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 will need to be adjusted accordingly.

12.3 The provisional outturn position for 2021/22 will be brought back to Audit Crime & Disorder and Scrutiny Committee in July 2022.

13 Legal Implications

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

13.2 **Legal 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.

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- 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:

- Revenue Budget Monitoring Report – Quarter 2 to Audit Crime & Disorder Committee, 18 November 2021
- 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.