

Financial Monitoring 2022/23 - Early Indications

Finance and Investment Advisory Committee - 24 May 2022

Report of: Chief Officer - Finance and Trading

Status: For information

Also considered by: Cabinet - 26 May 2022

Key Decision: No

Executive Summary:

The economic consequences of the recent pandemic, alongside other global events, has seen inflation rise to a thirty year high, with households across the District feeling the effects of a rise in the cost of living. Sevenoaks District Council is not immune to these economic pressures.

During the pandemic the financial strength and flexibility afforded by the Council's still unique 10-year budget meant that the Council was able to take sound financial decisions to minimise the impact as much as possible. This means the authority remains in a far stronger position than much of the rest of local government.

Portfolio Holder: Cllr. Matthew Dickins

Contact Officer(s): Adrian Rowbotham, Ext. 7153

Alan Mitchell, Ext. 7483

Recommendation to Finance and Investment Advisory Committee:

- (a) To note this report and forward any comments to Cabinet.

Recommendation to Cabinet:

- (a) To note this report and consider any comments from the Finance and Investment Advisory Committee.

Introduction and Background

- 1 As part of the recent budget setting process, Members considered the challenges that lay ahead. Nevertheless, in a rapidly moving financial environment it is even more important than normal that Members and

officers alike continue to be ever mindful of those areas in which risks and opportunities may arise so the Council can continue to thrive financially and, in so doing, deliver valued services for the District's residents, such as its trademark weekly rubbish and recycling collection. Indeed, this approach was recognised and praised in the recent independent LGA Corporate Peer Challenge.

- 2 The first round of monitoring does not historically happen until June due to the additional work required to produce the previous year's outturn position. In order to maintain sound financial controls and being aware of the current financial landscape an early Financial Impact Review has been undertaken to identify areas that could have a significant financial impact on the Council.

Areas of significant potential financial impact

- 3 Set out below are what are currently understood to be the principal anticipated areas of financial risk to the authority for this year. These will be considered further and addressed as appropriate as the year progresses

Direct Services (Cleaner & Greener)

- 4 Within Direct Services, it is anticipated there will be overspends on agency staff as well as fuel and vehicle costs, with commercial income down too. Together, these could amount to £696,000.
- 5 However, it should be noted that the new collection rounds approved by Cabinet are expected to save £126,000 in a full year, which is not included in the figure above.

Agency Staff Costs

- 6 Members will recall there was an unfavourable variance on agency staff use in 2021/22 mainly due to COVID-19, albeit with some offset by underspend on salaries due to vacancies. Given the continued pressure on the service, a backlog of leave to be taken, and sickness absences, agency use is still required in order to protect the current high service levels, notably the weekly rubbish and recycling collections.
- 7 Work is being undertaken to address this position, for example by reviewing the use of agency staff and exploring options to tender for their provision.

Fuel and vehicle costs

- 8 Transport costs are higher than anticipated for a number of reasons. First, the price of fuel. Although, by virtue of the volume of fuel it purchases, the Council does not pay pump prices for diesel, it is still exposed to the global increase in prices and the Council has seen a 40% increase since May 2021. Second, with home working increasingly the norm, the volumes of waste being collected are at an all time high, increasing wear and tear on the vehicles and fuel consumption. Thirdly, the cost of parts has increased and availability decreased.

- 9 A Vehicle Replacement Strategy is currently being developed which is seeking to replace the existing fleet with a younger and more environmentally friendly one, compatible with the Council's Net Zero commitment and is anticipated to reduce maintenance and operating costs.

Commercial Income

- 10 On commercial income, Members will be aware that the budget has been significantly increased in recent budget setting processes. Officers expect income to be around 15% lower than budget this year, with budgeted levels being met next financial year.
- 11 As the economy recovers following the pandemic, the Direct Services Business Development Team is focussing on increasing customers for commercial trade waste as well as exploring opportunities for securing improvements to garden waste subscriptions and markets income. A review of fees and charges is also due to be carried out.

Utilities (Finance & Trading)

- 12 There is no commercial equivalent to the energy price cap which affords a degree of protection from price increases to domestic users. The Council is always looking to reduce its energy consumption, however, as the owner of many properties across the District requiring energy - from lighting in our car parks to heating our buildings - the Council is exposed to increased costs in this area, with a variance of £317,000 anticipated this year.
- 13 The Council's electricity and gas supply is managed through contracts. To mitigate the impact of rising prices and afford price certainty, contracts were renegotiated earlier this year to forward purchase fifty percent of our requirement at a fixed rate.

Other

- 14 The ten-year budget already includes inflation assumptions for both staff and non-staff costs. The current figure for the pay award is 2% each year. For 2020/21 the final pay award was 1.75% and resulted in a £42,000 saving. Every percentage point rise equates to £119,000. For non-staff costs the current assumption is 2.25%, with every percentage point rise equating to £117,000.
- 15 The cost of finance and building materials are rising. These could have an impact on the Council's capital programme. Any necessary amendments to the programme will be presented to Members for their consideration.

Way forward

- 16 From this initial review it is clear that there is potentially a financial impact on the 2022/23 budget position and possibly into future years.
- 17 Additional work is being undertaken to provide greater risk certainty and develop mitigations. Members will be kept abreast of developments in future financial monitoring reports and the annual budget setting process.

Key Implications

Financial

All financial implications are included within the content of this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Net Zero Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to be Net Zero by 2030. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

Appendices

None

Background Papers

None

Adrian Rowbotham
Deputy Chief Executive and Chief Officer - Finance & Trading