FINANCIAL MONITORING 2023/23 – TO THE END OF SEPTEMBER 2022

Cabinet – 10 November 2022

Report of: Deputy Chief Executive and Chief Officer – Finance & Trading

Status: For Consideration

Also considered by: Finance & Investment Advisory Committee – 3 November 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 both in terms higher costs but also higher demand on its services.

During the pandemic, the financial strength and flexibility afforded by the Council's still unique rolling ten 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.

This report updates Members on the authority's forecast financial position and sets out measures proposed to address the challenges being faced.

This report supports the Key Aim of: Effective Management of Council Resources

Portfolio Holder: Cllr. Matthew Dickins

Contact Officers: Alan Mitchell, Ext. 7483

Adrian Rowbotham, Ext. 7153

Recommendation to Finance and Investment Advisory Committee:

a) That the report be noted, and any comments be forwarded to Cabinet

Recommendation to Cabinet:

a) Cabinet considers any comments from Finance and Investment Advisory Committee and notes the report.

Reason for recommendation:

Sound financial governance of the Council.

It is important that Members and officers alike should continue to be 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.

Introduction and Background

1 At the September meeting of the Finance and Investment Advisory Committee the July revenue monitoring was presented and that showed an unfavourable variance of £572,000.

2 Since that report significant progress has been made to identify in year savings as well as refinement of the March 2023 forecast position so that the September forecast has reduced to an unfavourable variance of £153,000. Officers continue to work on solutions to resolve the current forecasted unfavourable position.

3 The national pay negotiations has seen a final offer for 2022/23, thus affording greater certainty to our financial planning. Details of the award and the agreed course of action are set out below.

4 Meanwhile, the other areas of noteworthy potential financial impact remain broadly the same, as do their likelihood, impact and proposed remedies.

Staff Pay Costs

5 The National Employers for local government services made a final offer for 2022/23 of £1,925 per person. This equates to an average increase of 5.8% in the Council's staff costs against a figure of 2% in the ten year budget. In cash terms, this is £600,000 above the budgeted assumption. (Note this is not included in the forecast variance in the attached appendices).

6 It is proposed that in the interests of prudent financial management this be considered as two costs: the mid-year expense and the separate ongoing commitment in future years.

7 It was agreed in September that the funding of this pay award be treated at two separate requirements. First, offsetting the increase in staff costs with any net surplus that may arise from our membership of the Kent and Medway Business Rates Pool – based on previous years, this is estimated to be £250,000. Second, drawing the balance from the Budget Stabilisation Reserve.

8 Both steps are consistent with the principles which govern the use of the funds since, in the case of the former, the receipts are ordinarily treated as a windfall and therefore committed to reserves to meet future expenditure and, with the latter, the Budget Stabilisation Reserve's purpose is to assist in smoothing out peaks and troughs over the course of the ten year budget period.

9 Furthermore, to ensure there is no long term impact on the Budget Stabilisation Reserve, it was proposed that a corresponding savings or income be identified as part of the 2023/24 Budget which can replenish the Reserve over the course of the ten year budget – in other words, committing to reserves an anticipated £35,000.

10 For the future expenditure (i.e. 2023/24 onwards), this will be addressed through the forthcoming budget setting process, adopting the same approach which has seen the authority successfully meet other financial challenges.

Other Areas of Note

11 Members will note from the appendices that the challenges and areas of potential impact remain broadly as set out in the Financial Monitoring 2022/23 – Early Indications report, with some likely to prove transitory, others potentially mitigatable midyear, and others more structural and therefore likely to be brought forward as part of the forthcoming budget setting process.

12 Equally, favourable variances are forecast in areas such as Corporate Management, development management and parking income.

13 As at the end of September 2022, these amount to a forecast year end unfavourable variance of 0.87%, or £153,000 against a net revenue budget of £17.528m.

Net Service Expenditure – Favourable Variances

14 Retained Business Rates – Income of £2.226m forms part of the 2022/23 budget. In previous years any receipts over and above this amount, including those that result from being a beneficiary of the Kent Business Rates Pool have been transferred to the Budget Stabilisation Reserve, but it is agreed that this year it is used to help offset any overspend. We are currently waiting for the initial estimate, but it is expected to be approximately £250,000.

15 Pay costs – the expenditure forecasts on staff costs is £345,000 below budget, however this is being offset by an unfavourable variance of £646,000 on agency costs.

16 Within Development Management is a favourable variance of £150,000 being forecast due to increased fee applications and prior year receipts in advance.

17 Miscellaneous Finance is forecasting a favourable variance of £140,000. This is the in year saving achieved across a number of services to offset the forecasted unfavourable position.

18 Income - the Council receives a number of different income streams to help balance the budget and details in relation to the main streams are included in Appendix B. At the end of September, income as detailed within the report is below budget in some areas such as Land Charges but positively is above budget in areas such as Taxi Licensing, Car Parking – On Street & Car Parks, Planning – Development Management and Building Control.

19 Car Parks and On-Street Parking income are recovering well and are forecasting favourable variances of £237,000 and £50,000, respectively. The budget has been reduced by 20% compared to prior to the pandemic and is being increased by 5% annually in line with the 10 year budget.

20 Investment Returns – the return to date on the treasury management investments held by the Council is above budget with interest received totalling £180,000 compared to a budget of £78,000 for the year to date. This is due to the interest rates being far higher than they have been for some years and also due to the income being received from the Multi-asset income Funds. In addition to this, the capital programme continues to be funded and Quercus 7 acquisitions have been funded in the most advantageous way possible which includes internal borrowing.

Net Service Expenditure – Unfavourable Variances

21 Land Charges are forecasting an unfavourable variance of £62,000 due to a downturn in volumes of searches and corresponding income.

22 Direct Services are forecasting an unfavourable variance of £500,000. This is due to a number of reasons including the higher refuse volumes than pre pandemic which has contributed to the additional cost of agency staff and the requirement to hire vehicle where existing vehicles are being repaired due to the increased wear and tear. There has also been an underachievement of the increased income budget for trade waste as businesses recover from COVID-19.

23 Within Support – Central Offices an unfavourable variance of £90,000 is being forecasted. This is to reflect the increase in utility costs caused by world events. This is an estimation as utility bills will be received shortly.

24 Investment Property Income is forecasting an unfavourable variance of £265,000. This reflects the current occupation levels of the portfolio and the income that will not be received together with the Business Rates costs.

Future Issues and Risk Areas

25 Chief Officers have considered the future issues and risk areas for their services and the impacts these may have on the Council’s finances as follows:

- A future pressure on homelessness may be seen once current host placements end for the Government’s Homes for Ukraine Scheme. Additional funding for homelessness pressures arising from the Homes for Ukraine Scheme has been allocated by KCC, which could potentially contribute to temporary accommodation costs.

- Lower income for Print Studio services from both internal and external customers.

- Costs of unscheduled District Council by-elections.

- Land Charges income to be kept under review throughout the year due to the current market downturn.

- Covid-19 continues to have a potential impact on income levels and expenditure. Service pressures and vehicle hire and repairs continue to cause issues for Direct Services.

- There remains the risk that planning decisions and enforcement action will be challenged, either at appeal or through the Courts.

- Recruiting to vacant posts continues to be difficult.

- The financial impact of proposed changes to the Planning System will need to be carefully considered.

- Cost of living impact on service demands.
- Volatility in the markets around utility prices.
- Rental income pressures due to market volatility.
- Pressures on maintenance budgets due to increased costs and redundant services in buildings requiring update.
- Possible capital expenditure required for upgrading of building equipment and components.
- Property Investment Strategy - Ongoing effect of COVID-19 on income and expenditure.

Key Implications

Financial

The financial implications are set out elsewhere in this report.

Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Detailed budget monitoring is completed on a monthly basis where all variances are explained. Future risk items are also identified.

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

Appendix A – September 2022 Budget Monitoring Commentary

Appendix B – September 2022 Financial Information

Background Papers

None

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