

FINANCIAL MONITORING 2022/23 - TO THE END OF JANUARY 2023

Finance and Investment Advisory Committee - 23 March 2023

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

Status: For Consideration

Also considered by: Cabinet - 20 April 2023

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 of 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

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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.
- b) Approve the changes to reserves set out in the report
- c) To approve the creation of the Building Control Reserve

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 The forecasted year-end position as of 31 January 2023 is estimated to be an unfavourable variance of £188,000 against a net revenue budget of £17.528m.
- 2 Earlier in the year reports have been presented to this committee that showed significant in year financial challenges, including the national pay award which on its own resulted in an additional cost of £629,000. During the year significant progress has been made to identify in year savings and Officers continue to work on solutions to resolve the current forecasted unfavourable position.

Staff Pay Costs

- 3 The National Employers for local government services final offer of £1,925 per person, an average increase of 5.8% was accepted. The cost of this offer has now been included in the forecast.
- 4 It was agreed in September that the funding of this pay award be treated as 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 £379,000 from the Budget Stabilisation Reserve.

- 5 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.
- 6 Furthermore, to ensure there is no long-term impact on the Budget Stabilisation Reserve, it was proposed that a corresponding savings or income item 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 £38,000 per year.
- 7 For the future expenditure (i.e. 2023/24 onwards), this is being addressed through the 2023/24 budget setting process, adopting the same approach which has seen the authority successfully meet other financial challenges.

Net Service Expenditure - Favourable Variances

- 8 Retained Business Rates - Income of £2.476m 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 has been 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.
- 9 Pay costs - the expenditure forecasts on staff costs total £449,000 above budget. The agency staff costs are forecasting by an unfavourable variance of £783,000 on agency costs.
- 10 Within Development Management is a favourable variance of £25,000 being forecast due to increased fee applications and prior year receipts in advance.
- 11 Miscellaneous Finance is forecasting a favourable variance of £142,000. This is the in-year saving achieved across several services to offset the forecasted unfavourable position.
- 12 Support services, Audit and legal functions are forecasting a favourable variance of £23,000 & £36,000 respectively. This is due savings on staff costs in both areas.
- 13 Corporate Other is showing a favourable variance of £141,000 which is the additional savings from the vacancy savings budget.

- 14 Corporate management is forecasting a favourable variance of £166,000. This is mainly the Government Grant (£140,000) that was received to offset the cost of the additional employers NI from April to November, when the rate changed from 13.8% to 15.05% before being return to 13.8% from December. The cost for the period April to December is shown within the individual services, plus underspend on consultants of £25,000.
- 15 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 January, 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.
- 16 Car Parking income continues to recover well and are forecasting favourable variances of £224,000. The budget was reduced by 20% compared to the budget prior to the pandemic and has been revised by 5% to reflect the anticipated rate of recovery. Off-Street Enforcement is forecasting a favourable variance of £64,000 as PCN's exceed the budgeted levels.
- 17 Investment Returns - the return to date on the treasury management investments held by the Council is above budget with interest received totalling £308,000 compared to a budget of £112,000 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

- 18 Conservation is forecasting an unfavourable variance of £57,000 due to the additional investment required to deliver the service.
- 19 Local Tax is forecasting an unfavourable variance of £104,000 due to the write off of court costs and not being able to meet the enforcement income budget.
- 20 Land Charges are forecasting an unfavourable variance of £77,000 due to a downturn in volumes of searches and corresponding income.
- 21 CCTV is forecasting an unfavourable variance of £66,000 due to the increase in utility costs.
- 22 Print Shop is forecasting an unfavourable variance of £78,000 due to underachievement of income due to the reduction of external business demand.
- 23 Direct Services are forecasting an overall unfavourable variance of £1,099,000. This includes £331,000 due to the pay award being higher than budgeted as explained above. The remaining variance 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.

- 24 Swanley meeting point - Business Hub is forecasting an unfavourable variance due to the costs being incurred which were not in the 22/23 budget.
- 25 Within Support - Central Offices an unfavourable variance of £60,000 is being forecasted. This is to reflect the increase in utility costs caused by world events.
- 26 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.

Reserves

- 27 A review of reserves was undertaken as part of the budget process and within the Carry Forward Reserve £69,000 was identified as no longer required so will be transferred to the Budget Stabilisation Reserve.
- 28 The Building Control Service is not permitted to make a surplus over a rolling 3 year period. Historically we have rolled balances over financial years but this can be difficult to monitor. Therefore to assist officers with the effective monitoring and utilisation of multi-year balances it is proposed to create a new Building Control Reserve, ringfenced for reinvestment in the delivery of the service.

Future Issues and Risk Areas

- 29 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:
 - Impact on rising utility costs relating to leisure centres, may see an impact on smaller leisure trusts, such as Senico.
 - 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.
 - Covid-19 continues to have a potential impact on income levels and expenditure.

- Potential staff salary budget pressure due to staff absences. Additional pressures from the leisure centres due to air handling units. Argyle Road boilers are at end of life with increased risk of failure over the winter months.
- Rental pressures due to cost-of-living crisis, request for rent holidays.
- Predictions for a recession and cost of living pressures, will all have a direct impact on rising homelessness and demand for emergency accommodation.
- budget pressure expected on leisure centres maintenance budget.

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 - January 2023 Budget Monitoring Commentary

Appendix B - January 2023 Financial Information

Background Papers

None

Adrian Rowbotham

Deputy Chief Executive and Chief Officer - Finance & Trading