

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

07 June 2022

### Joint Report of the Chief Executive and Director of Finance and Transformation

#### Part 1- Public

#### Executive Non Key Decisions

#### 1 REVENUE AND CAPITAL OUTTURN 2021/22

In accordance with the Council's Financial Procedure Rules we present a report and accompanying information detailing actual Revenue and Capital Outturn for the year ended 31 March 2022 and subsequent adjustments made in light of the Outturn position.

In the light of the current economic situation, the report also sets out how the Medium Term Financial Strategy and Savings & Transformation Strategy might be impacted moving forward.

#### 1.1 Introduction

1.1.1 A detailed revenue and capital outturn position for the year 2021/22 is provided in the Revenue and Capital Outturn Booklet attached at **[Annex 1]** which has been compiled in liaison with Chief Officers, including, where appropriate, explanatory notes of variations between revised estimates and outturn. Variations between the original and revised estimates for 2021/22 were highlighted in the notes to the Annual Estimate papers presented to Members during the 2022/23 budget cycle.

1.1.2 In accordance with the Council's Constitution the Statement of Accounts which shows the outturn in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 will be presented to the **Audit Committee** for **approval**. The Director of Finance and Transformation is to present an unaudited copy of the Statement of Accounts to the Audit Committee on 25 July.

#### 1.2 Overall Revenue Position

1.2.1 Cabinet is advised that the contribution to the General Revenue Reserve is £576,095, some £149,095 more than the Revised Estimate figure of £427,000. This after having set aside £100,000 to meet time limited one-off costs following the outcome of the Peer Review; and transferring a sum of £300,000 to the Budget Stabilisation Reserve, £500,000 to the Climate Change Reserve and £200,000 to the Planning Services Reserve.

1.2.2 The variance prior to the adjustments detailed above of £1,249,095 can be attributed to, amongst other things, above profile performance in our major operational income streams most notably planning application fee income, cost of temporary accommodation as work continues to reduce costs, increased summons costs on recommencement of court hearings following none in 2020/21 and Covid-19 grant monies used to fund costs incurred retrospectively offset by waste services contract payments. See paragraph 1.2.4 for further detail.

1.2.3 We have, as part of the closedown process, undertaken a review of the specific earmarked reserves held by the Council. As a result of this review and in liaison with Management Team, and referred to above, Cabinet is asked to note and endorse:

- Setting aside £100,000 to meet one-off costs following the outcome of the Peer Review.
- The transfer of £300,000 to the Budget Stabilisation Reserve (giving a balance of £3.0m) and from where what will be a significant claim under the utility cost sharing agreement with Tonbridge and Malling Leisure Trust for 2022/23 is to be funded and in recognition of the current challenging economic conditions.
- The setting aside of £500,000 to support energy efficiency measures – funds to be held in the Climate Change Reserve and ‘ring-fenced’ to support energy efficiency initiatives.
- The transfer of £200,000 to the Planning Services Reserve to fund planning services related work and or potential planning inquiry costs.

1.2.4 As mentioned above, the contribution to the General Revenue Reserve is £576,095, some £149,095 more than the Revised Estimate figure of £427,000. The principal reasons for the variance is given in the table below.

<b>Description</b>	<b>Revised Estimate 2021/22 £</b>	<b>Provisional Outturn 2021/22 £</b>	<b>Variation £</b>
Energy Efficiency (Climate Change Reserve)	-	500,000	500,000
Budget Stabilisation Reserve	-	300,000	300,000
Planning Services Reserve	-	200,000	200,000
Peer Review Reserve	-	100,000	100,000
Waste Services Contract Payments	3,524,500	3,672,073	147,573
Housing Benefits (Net)	96,000	189,893	93,893
IT Supplies & Services	912,950	975,935	62,985
Business Grants New Burdens Grant Funding	(104,000)	(130,680)	(26,680)
Car & Travelling Allowances	177,150	149,779	(27,371)
Reimbursement of Court Costs	-	(40,659)	(40,659)
Payment to Principals / Ticket Refunds	349,000	306,566	(42,434)

Investment Income	(296,100)	(355,049)	(58,949)
Salaries	10,927,300	10,859,935	(67,365)
KCC Covid-19 Grant Funding	(269,750)	(381,759)	(112,009)
Summons Costs Recovered	(250,000)	(385,893)	(135,893)
Temporary Accommodation	1,101,000	956,722	(144,278)
Major Income Streams	(5,352,300)	(6,133,667)	(781,367)
Other Net Changes	34,012	(82,529)	(116,541)
<b>Total</b>	<b>10,849,762</b>	<b>10,700,667</b>	<b>(149,095)</b>

1.2.5 **[Annex 2]** provides details of Service specific issues in respect of the revenue outturn for 2021/22. A more detailed analysis of the outturn position is to be found in the attached Revenue and Capital Outturn Booklet.

### 1.3 Capital Plan

1.3.1 Members will note a Capital Plan spend net of specific government grants and other contributions of £857,000 against a budget provision of £2,393,000. Factors that contributed to the net underspend are given below. In the year 2021/22 the Covid-19 pandemic also continued to have an impact on the level of spend.

- Capital renewals budgets totalling £758,000 with actual capital renewals expenditure totalling £260,000. Capital renewals provisions reflect predictions as to when assets will need to be replaced. Underspend can largely be attributed to a lower than anticipated spend on capital renewals at our leisure facilities; and in respect of information technology.
- The very nature of capital expenditure and funding can see the rescheduling, reprofiling and review of future budget provision. Scheme budget provisions that are to be rescheduled, reprofiled or subject to review include the Temporary Accommodation, Pembury Road, Tonbridge adaptation works – in year underspend £740,000; 47 High Street, Tonbridge including the ground floor unit – in year underspend £260,000; and Tonbridge Castle Offices: Re-tile Roof – in year underspend £60,000.

1.3.2 **[Annex 3]** provides details of Service specific issues in respect of the capital outturn for 2021/22. A more detailed analysis of the outturn position is to be found in the attached Revenue and Capital Outturn Booklet.

### 1.4 Treasury Management and Investment Strategy Review

1.4.1 Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible.

1.4.2 The Treasury Management Code requires an annual review report of the previous year to be presented and endorsed by Members. A copy of the annual review report for the year 2021/22 is attached at **[Annex 4]**.

1.4.3 As this is a **technical document**, if Members have any questions, could we please ask that you contact **Donna Riley on extension 6381** in advance of the meeting.

## 1.5 Balances and Reserves

1.5.1 **[Annex 5]** Table 1 shows the movement on the Special Projects Reserve.

1.5.2 **[Annex 5]** Table 2 details the movement on Other Earmarked Reserves.

1.5.3 **[Annex 5]** Table 3 gives details of some revenue adjustments agreed by the Director of Finance and Transformation during the closedown process.

1.5.4 The Council is required to have regard to the level of its balances and reserves before making decisions concerning its finances. The Council's General Fund working balance is set at £1,250,000 and this sum is considered appropriate for an authority of our size and scale. The position in respect of the Council's General Revenue Reserve is given below.

<b>General Revenue Reserve</b>		
	<b>£</b>	<b>£</b>
Balance at 1 April 2021		7,085,526
Contribution to / (from) Reserve		576,095
<b>Balance at 31 March 2022</b>		<b>7,661,621</b>

1.5.5 The Medium Term Financial Strategy anticipated a General Revenue Reserve balance at 31 March 2022 of £7,513,000.

## 1.6 Audit Committee

1.6.1 As mentioned earlier, an unaudited copy of the Statement of Accounts for 2021/22 is to be presented to the Audit Committee for approval on 25 July. The Accounts reflect the revenue and capital outturn position as detailed in this report and accompanying information, together with the subsequent adjustments as appropriate.

## 1.7 Medium Term Financial Strategy / Savings and Transformation Strategy

1.7.1 When the budget was set in February 2022 the projected funding gap was £2,350,000 including the initiative already built into the Medium Financial Strategy – scaling back of office accommodation – in the sum of £200,000. Cabinet will not be surprised to hear that the position outlined only in February is now exacerbated by the conflict in Ukraine and its impact on global economic conditions.

1.7.2 The extent of the impact on the Council's finances and, in turn, funding gap are, not surprisingly, very difficult to determine. Factors to consider (not exhaustive):

- 1) Inflation – over what time period will the current high levels of inflation return to the Bank of England target rate used in the MTFs? That aside, the current high levels of inflation (CPI April 2022 at 9%) are currently adding further budgetary pressure and increasing the funding gap.
- 2) Energy – rising energy prices - albeit not a significant cost relative to the Council's 'direct' budget. The same cannot be said, however, for the Tonbridge and Malling Leisure Trust where the Council can expect a significant claim under the utility cost sharing agreement for 2022/23. What happens beyond 2022/23 is of course dependent on where energy prices are at the time and whilst the increases that we are presently seeing are almost unprecedented, there is little intelligence on when the price rises will subside.
- 3) Interest rates – recent interest rate rises will help mitigate cost pressures in the short term, but not over the medium term. In other words, we will potentially see a 'cash flow' benefit.
- 4) Fees and charges – bearing in mind the high inflation levels at the present time, Cabinet is urged to consider, in the forthcoming budget setting process, increases in fees and charges of more than those modelled in the MTFs.
- 5) Government support – will the government provide any financial support bearing in mind the fact that such unprecedented levels of inflation and energy costs were not factored into the local government finance settlement? As of today, there has been no indication that any 'ad-hoc' assistance will be given by central government.
- 6) Council tax – will the government set the council tax increase above which a referendum is to be held at more than 2% or £5 whichever is the higher for 2023/24 in recognition of the uplift in inflation seen following the 2022/23 local government finance settlement? As Members will appreciate, the current threshold is below the current CPI (April) level.
- 7) Income – potential adverse impact on income including council tax and fees and charges more widely as cost of living pressures deepen.
- 8) Business Rate Retention – on a more positive note, the progress with the Panattoni Park development on the old Aylesford Newsprint site will generate additional business rates for the borough. With the current business rate retention system, this will benefit TMBC all the time the threshold remains the same. However, there will be a reset of thresholds at some point, and therefore any additional income generated could be relatively shortlived.

- 1.7.3 During the regular liaison between the Cabinet and Management Team, Cabinet has already been briefed on the potential impacts of the above matters. As a result, Cabinet instructed Management Team to implement an “Essential Spend Only” ethos once again in order to assist in containing in-year budget pressure as a result of these external factors. In-year ‘unavoidable’ increased costs – such as the Council’s contribution under the utility cost sharing agreement for example – will be funded from the Budget Stabilisation Reserve.
- 1.7.4 The medium-term impact on the Council’s finances will be dependent on how the factors set out above, amongst other things, ‘play out’ over time. **Undoubtedly there will be an adverse impact** – it is the scale of that impact that is difficult to determine, albeit significant.
- 1.7.5 It is very difficult at this point to give an indication of what this means for our “funding gap” within the MTFs. However, if we had to give a sense of where we believe it might now sit (emphasising the word ‘might’), we would suggest somewhere between £2.5m and £3.0m, although it could be more. This would, of course, represent an increase to the figure we referenced in the report during the Budget cycle (£2.15m).
- 1.7.6 It is of paramount importance given the matters set out above that the Council forges ahead to identify and achieve this year’s savings target of £350,000 prior to the start of 2023/24. Whilst this is not an easy ask given the tough choices that have contributed to the Savings & Transformation Strategy over the past few years, it is at least something that is in our own hands.
- 1.7.7 A number of strands of work are underway and it will be important that these are reported back in a timely fashion to Cabinet in order to seek approval (or otherwise) at the earliest opportunity. **Cabinet may wish to consider setting a timetable for this.**
- 1.7.8 In terms of matters which are outside of our control – namely the rate of inflation and energy prices impacted by the Ukraine conflict – Cabinet might agree that it is worthwhile lobbying government, via MPs and other local government collectives, to put pressure on ministers to consider additional ‘ad-hoc’ funding, or at least to reflect this major issue in forthcoming settlements. **Cabinet is asked to consider whether lobbying would be appropriate, and through what channels.**

## 1.8 Legal Implications

- 1.8.1 There are a number of legislative requirements to consider as we move through the closedown process, and prepare and publish the Statement of Accounts.

## 1.9 Financial and Value for Money Considerations

- 1.9.1 The budget year 2022/23 and review and update of medium term financial planning assumptions now the focus of attention.

1.9.2 The positive outturn position is clearly welcome, but does not unfortunately change what is a difficult and challenging financial outlook and exacerbated by the conflict in Ukraine and its impact on global economic conditions.

## **1.10 Risk Assessment**

1.10.1 The compilation and presentation of the revenue and capital outturn forms part of the closedown process, leading to the preparation and publication of the Statement of Accounts which is a statutory document. Failure to prepare and publish the Accounts within the statutory timescale and in accordance with the Regulations could adversely affect the Council.

1.10.2 The Council's financial sustainability at increased risk following the Ukraine conflict and its adverse impact on global economic conditions.

1.10.3 Inflation is at a 40 year high and could creep higher. These levels were not reflected in local government finance settlements.

## **1.11 Equality Impact Assessment**

1.11.1 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.

## **1.12 Policy Considerations**

1.12.1 Budgetary and policy framework is relevant to all areas of the Council's business.

## **1.13 Recommendations**

1.13.1 Cabinet is requested to:

- 1) Note and endorse the Revenue and Capital Outturn for the year 2021/22.
- 2) Note and endorse the action taken following a review of specific earmarked reserves set out at paragraph 1.2.3.
- 3) Note and endorse the Treasury Management and Investment Strategy Review 2021/22 **[Annex 4]**.
- 4) Give consideration to a timetable for the programme of savings and transformation contributions in order to ensure the target of £350,000 is achieved by the start of the financial year 2023/24.
- 5) In respect of the significant external factors of high inflation and energy prices affecting in-year budgets, consider whether lobbying of central government would be appropriate, and if so through what channels.

Background papers:

Nil

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