

Key Decision Required:	Yes	In the Forward Plan:	Yes
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## CABINET

15 FEBRUARY 2019

### REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

#### **A.6 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF DECEMBER 2018 AND LONG TERM FINANCIAL FORECAST UPDATE** (Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### **PURPOSE OF THE REPORT**

To provide an overview of the Council's financial position against the budget as at the end of December 2018 and to present an updated forecast on an on-going basis as part of developing the long term financial plan.

##### **EXECUTIVE SUMMARY**

- These regular finance reports present the overall financial position of the Council by bringing together information that was previously reported within corporate budget monitoring reports and performance monitoring reports along with timely updates on the development of the long term forecast.
- The above approach follows the commitment to provide regular updates on the long term financial forecast as agreed as part of the move to a long term financial sustainability plan last year and to bring the reporting of key financial performance together in one report.
- The report is split over two distinct sections as follows:
  - 1) *The Council's in-year financial position against the budget at the end of December 2018*
  - 2) *An updated long term financial forecast*

##### ***In respect of the in-year financial position at the end of December 2018:***

- The Council's financial position against the approved budget has been prepared for the period to the end of December 2018.
- The position to the end of December, as set out in more detail in the Executive Summary attached, shows that overall the General Fund Revenue position is behind the profiled budget by **£2.863m**. As has been the case in previous quarters, the variance to date primarily reflects the timing of expenditure and income although any significant issues arising to date have been highlighted and comments provided as necessary.
- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, apart from

additional details set out later on in this report, there are no major issues that have been identified to date.

- Any emerging issues will be monitored and updates provided in future reports which will include their consideration as part of updating the long term financial forecast.
- As part of updating the in-year position on an on-going basis, these regular finance reports will respond to in-year budget pressures and other changes as they emerge. **Appendix H** therefore sets out a number of changes to in-year budgets with an associated recommendation also included within this report. The net impact of all of the budget adjustments will be moved to or from the Forecast Risk Fund. The long term forecast is based on the identification of **£0.500m** of in-year outturn savings, which will be set aside over the course of the whole year within the Forecast Risk Fund to support the long term plan.
- As in previous years, it is recognised that a number of smaller variances within services emerge over the course of the year that would not necessarily be specifically highlighted or discussed within the in-year finance reports. It is still therefore possible that a range of smaller variances may remain at the end of the year and contribute to the overall outturn position. Also a number of budgets that relate to schemes / initiatives or earmarked for specific purposes may not be fully spent by the end of the year and may be subject to end of year processes such as carry forward requests and therefore remain committed. However at this stage and after taking into account the current position and information available it is anticipated that any adverse issues will be offset by favourable variances elsewhere within the overall budget at the end of the year.
- As discussed earlier in the year, **Appendix I** sets out amounts (both capital and revenue) at the end of 2017/18 that have been requested to be carried forward for more than one year. Following a review of the relevant items, it is not proposed to transfer any funding elsewhere within the overall budget and therefore the current commitments that they reflect have been reconfirmed as part of this review.

***In respect of the updated long term financial forecast:***

- The most up to date position for 2019/20 was considered by Full Council on 5 February 2019 as part of agreeing the detailed budget.
- The long term financial forecast has been reviewed based on the position considered by Full Council and is attached as **Appendix J**. Although the figures set out within the appendix will change as part of updating the forecast on a regular basis during 2019/20, there have been no issues that significantly increase the risks in future years with the forecast position remaining broadly in-line with original expectations.
- A review of risks associated with the long term approach to the forecast is also subject to on-going review and is separately reported within **Appendix K**.
- As mentioned during the year, it is important to continue to deliver against the new longer term approach to the budget as it continues to provide a credible alternative to the more traditional short term approach which would require significant additional savings to be identified over 2019/20 and 2020/21.

- Although the detailed budget for 2019/20 was considered by Full Council on 5 February, the forecast remains an on-going task going into 2020/21 and beyond with work therefore remaining on-going across the 5 key work strands of:
  - 1) Increases to underlying income
  - 2) Controlling expenditure / inflationary increases
  - 3) The identification of savings / efficiencies
  - 4) Delivering a positive outturn position each year
  - 5) The mitigation of cost pressures wherever possible.

## **RECOMMENDATION(S)**

***That in respect of the financial performance against the budget at the end of December 2018, it is recommended that:***

**(a) The position be noted;**

**(b) the proposed in-year adjustments to the budget as set out in Appendix H be agreed; and**

***That in respect of the Updated Long Term Forecast it is recommended that:***

**(a) The updated forecast be agreed and the Resources and Service Overview and Scrutiny Committee are consulted on the latest position.**

## **PART 2 – IMPLICATIONS OF THE DECISION**

### **DELIVERING PRIORITIES**

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability and awareness plays a key role in delivering the Council's corporate and community aims and priorities.

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the long term approach being taken seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors.

### **FINANCE, OTHER RESOURCES AND RISK**

#### **Finance and other resources**

The financial implications are considered in the body of the report.

#### **Risk**

In respect of the position at the end of December 2018, a number of variances will be subject to change as the year progresses although at this stage it is expected that any adverse position can be managed within the overall budget. The budget position will be monitored and reviewed as part of both the future budget monitoring arrangements and Financial Strategy Processes.

In respect of the long term forecast, there are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

However the forecast is based on relatively conservative estimates with no optimistic bias included. **Appendix K** discusses the various risks to the forecast with a Red / Amber/ Green risk assessment approach taken.

As discussed last year, another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, there are two important aspects to how this will be managed.

- 1) To date it is estimated that **£2.290m** will have been set aside by the end of 2018/19 within the Forecast Risk Fund to support the budget in future years. This is more than previous forecasts and excludes the additional contribution of **£0.717m** to fund initiatives aimed at supporting the long term forecast, which is also being held in the reserve. This money is available to be drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year.
- 2) The forecast will remain 'live' and be responsive to changing circumstances and it will be revised on an on-going basis. If unfavourable issues arise that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will therefore need to be considered but can be taken over a longer time period where possible. In such circumstance the Council may need to consider 'topping' up the funding mentioned in 1) above if required in the early years of the forecast. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten year forecast.

The 2019/20 position includes net savings of **£0.328m** which is slightly ahead of the current annual target of **£0.300m**. This figure will need to remain flexible and act as a counterbalance to other emerging issues as it is accepted that this figure may need to be revised up or down over the life of the forecast.

It is important to deliver against the forecast in the early years to continue to build confidence in the revised approach. This will, therefore, continue to need robust input from members and officers where decisions may be required in the short term or on a cash flow basis.

Another aspect to this approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can potentially put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service one year but increase it again when the forecast allows.

In addition to the above it is important to note that the Council has already prudently set aside money for significant risks in the forecast such as **£1.609m** (NDR Resilience Reserve) and **£1.100m** (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

## **LEGAL**

The Local Government Act 2003 makes it a statutory duty that Local Authorities monitor income and expenditure against budget and take appropriate action if variances emerge.

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation providing the right of veto for residents on excessive council tax increases.

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

## **OTHER IMPLICATIONS**

**Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.**

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

There are no other implications that significantly impact on the financial forecast. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver the necessary savings.

## **PART 3 – SUPPORTING INFORMATION**

### **SECTION 1 – IN YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF DECEMBER 2018**

The Council's financial position against the approved budget has been prepared for the period ending 31 December 2018.

This is the third such report on the Council's financial position against the budget for 2018/19, and expenditure or income trends are now clearer, with comments provided below where necessary against the following key areas:

- General Fund Revenue and Proposed Changes to the 2018/19 Budget
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Collection Performance
- Treasury Activity

### **GENERAL FUND REVENUE**

The position to the end of December 2018, as set out in more detail in the Executive Summary attached, shows that overall the actual position is behind the profiled budget by **£2.863m**.

After excluding the variance for employee costs of **£0.274m**, the remaining net variance is **£2.589m**

As set out in the appendices, elements of this remaining variance are due to the timing of expenditure and income or where commitments / decisions have yet to be made.

**Appendix B** provides a detailed narrative against significant variances with some highlights as follows:

- Employee Costs – as set out above, expenditure is behind profile by **£0.274m**. Following review, it is estimated that **£0.211m** of this amount relates to vacancies where there is no associated commitment and therefore is the amount accrued over the third quarter that can be 'banked' at the end of December 2018 as a saving. This is included within the proposed adjustments to the budget set out in **Appendix H** as part of the net contribution to the Forecast Risk Fund. The corresponding figures at the end of July 2018 and September 2018 were **£0.100m** and **£0.200m** respectively.
- Income is running ahead of the profile in areas such as investment income (**£0.091m**), parking (**£0.138m**), crematorium (**£0.024m**), street naming and numbering (**£0.064m**) and building control (**£0.023m**). In respect of parking, income is ahead of the annual budget by **£0.016m** at the end of December 2018. Where necessary, these items were reflected in the 2019/20 budget considered by Full Council on 5 February 2019.
- Planning income has now started to run ahead of the profiled budget by **£0.037m** at the end of the quarter, which reverses the trend from the first two quarters of the year.

It is still however worth highlighting that planning income received towards the end of this financial year may have to be removed and accounted for in 2019/20 to reflect new accounting guidance. This remains under review and will be reflected in the outturn position for 2018/19 as necessary.

- There has been an increase in IT related costs relating to Microsoft licences with further details set out in the Appendices. This is currently being reviewed as part of the wider digital transformation project with a separate report planned on being presented to members in March 2019.
- Increased premises maintenance costs have been experienced at the Council's leisure facilities. Along with reducing income, there is a need to review the long term strategy for the Council's sports facilities to respond to these challenges going into 2019/20 and beyond.
- Homelessness costs are now starting to exceed the budget. Although work remains focused on homelessness prevention initiatives, increased demand for temporary accommodation is likely to remain a longer term challenge. This will be reviewed as part of developing the long term forecast going into 2019/20.
- A significant issue emerging over the course of the year is the cost of responding to planning appeals. At the end of December 2018, the cost forecast to be incurred for the year is **£0.155m**. Although it is proposed to reduce other budgets to offset the cost in 2018/19, a longer term view may need to be reflected as part of developing the long term forecast.

A review of amounts carried forward for more than one year requested by Cabinet and the Resources and Services Overview and Scrutiny Committee has been completed. A full schedule of carryforwards is set out within **Appendix I**. At the present time it is not proposed to make any transfers out of the relevant budgets and they remain committed as originally agreed. This situation will remain under review as part of future financial performance reports and may be subject to separate decisions during the year as related projects are developed etc.

**APPENDIX H** sets out a number of proposed budget adjustments that respond to both favourable and adverse issues that have emerged over the first half of the year with some highlights as follows:

- Investment income – a continuing positive cash flow and interest rate position are estimated to raise an additional **£0.100m** from treasury activities.
- Waste and Recycling Contract – As highlighted when the 2019/20 budget was being developed, inflationary uplifts on contract costs have been higher than budgeted. It is anticipated that this will result in increased costs of **£0.100m** in 2018/19.
- New Burdens funding – additional grant income of **£0.098m** has been received from the Government but there is no directly associated expenditure commitment.
- Business Rate Income – additional income of **£0.500m** is expected to be receivable via the Council's membership of the Essex Business Rates Pool.

In addition to the above, as part of finalising the budget for 2019/20 a number of items were agreed in 2019/20 but funded from the in-year position for 2018/19. These are also set out within **Appendix H** and will be carried forward into 2019/20 as necessary.

The net overall position set out in **Appendix H**, which includes the vacancy saving of

**£0.211m** highlighted earlier, results in a net contribution to the Forecast Risk Fund of **£0.506m**, which brings the total transferred to this reserve in 2018/19 to **£0.990m**. Therefore the total target contribution of **£0.500m** has been exceeded, which provides a strong position to develop the future years forecast against.

Other net neutral budget adjustments have also been included within **Appendix H** and include **£0.155m** planning appeal costs highlighted earlier.

### **HRA REVENUE**

An overall position is set out in the Executive Summary with further details included in **Appendix C**.

At the end of December 2018, the HRA is **£0.314m** behind the net profiled budget. The most significant issue emerging to date is dwelling rental income which is behind profile due to right to buy sales and void periods where major repairs etc. are undertaken before re-letting the properties. It is proposed to adjust the budget to reflect this issue with the relevant adjustment set out in **Appendix H**.

### **CAPITAL PROGRAMME – GENERAL FUND**

The overall position is set out in **Appendix D**.

As at the end of December 2018 the programme is ahead of the profile by **£0.252m**. Detailed comments are provided within the appendix.

A limited number of changes to the budget are proposed which are set out in **Appendix H**.

Apart from the matters highlighted above or within the appendix, there are no additional issues to highlight at present.

### **CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT**

The overall position is set out in **Appendix D**.

As at the end of December 2018 the programme is behind profile by **£0.249m**.

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings. There are no specific issues to highlight at this stage and the expectation is that expenditure / commitments will be broadly in line with the budget over the course of the year as work is progressed and procurement processes completed.

### **COLLECTION PERFORMANCE**

A detailed analysis of the current position is shown in **Appendix E**.

A number of invoices highlighted as being outstanding at the end of the second quarter have now been paid. However, **£0.034m** still remains outstanding from Brightlingsea Town Council that primarily relates to their contribution to the running costs of Brightlingsea Pool in prior years.

Apart from the above, there are no significant issues to highlight at the present time. Income will continue to be collected over the remainder of the year with recovery arrangements and action taken as necessary.



## **TREASURY ACTIVITY**

A detailed analysis of the current position is shown in **Appendix F**.

Income from treasury activities has remained ahead of the profiled position even after allowing for an additional **£0.080m** that the budget was adjusted by at the end of September 2018. **Appendix H** therefore proposes to increase the investment income budget by a further **£0.100m** to reflect the current level of performance of the investment portfolio.

Apart from the above, there are no significant matters to highlight at the present time with investment and borrowing activity on-going in line with the Treasury Strategy and associated practices / requirements.

## **SECTION 2 – UPDATED LONG TERM FORECAST**

The detailed budget for 2019/20, which was based on the most up to date financial forecast was considered and agreed by Full Council on 5 February 2019.

Although the budget for 2019/20 has now been agreed, the forecast for 2020/21 and beyond remains an on-going process with the latest position set out in **Appendix J**.

The only changes to date reflect a 're-basing' of the forecast to take account of the agreed budget for 2019/20 against which the 2020/21 forecast and beyond will be developed. As the 2019/20 budget required only **£0.027m** to be called down from the forecast risk fund, there is a significant knock-on benefit to later years of the forecast.

Although some costs for 2019/20 were higher than initially expected such as inflation, the level of net savings achieved was **£0.028m** higher than the annual target of **£0.300m**. Cost pressures included within the forecast were also broadly in-line with the overall annual allowance of **£0.150m**

However the risk assessment of each line-of the forecast has been reviewed (**Appendix K**) and it is recognised that there remains a number of potential adverse issues that the Council could face going into 2020/21 and beyond, not least the outcome from the Government's fair funding review and associated changes to the business rates retention model. This line of the forecast has therefore been reclassified as a 'red' risk compared to previous reports given the indications of the Government's thinking around the future of the Local Authority funding model that has been set out in recent consultation documents.

Other emerging cost pressures also remain as a high risk to the forecast, not least the need to maintain the Council's asset and property portfolio over the life of the forecast and beyond.

The forecast therefore remains under review with work continuing against the following key strands:

- 1) Increases to underlying income
- 2) Controlling expenditure / inflationary increases
- 3) The identification of savings / efficiencies
- 4) Delivering a positive outturn position each year
- 5) The mitigation of cost pressures wherever possible.

At present, the next updated forecast will be presented to members at the end of the first quarter of 2019/20. However if anything significant emerges before then, the position will be reported to members accordingly.

### **Delivering a favourable Outturn Position**

As previously highlighted, the Forecast Risk Fund continues to rely on in-year outturn contributions of **£0.500m** per annum to support the overall balance on the reserve which in turn underwrites the various risks to the forecast.

In respect of 2017/18, the requirement to contribute **£0.500m** to the Forecast Risk Fund was delivered.

In respect of 2018/19 to date, net contributions to the Forecast Risk Fund total **£0.990m**, made up of:

- **£0.081m** reported at end of July 2018.
- **£0.387m** reported at the end of September 2018.
- **£0.016m** which relates to the carry forwards from 2017/18 not subsequently approved under the delegation to the Finance and Corporate Resources Portfolio.
- **£0.506m** proposed at the end of December 2018 as set out in **Appendix H**.

### **Cost Pressure Mitigation**

As highlighted earlier, there are a number of cost pressures that are proposed to be funded on a one-off basis in 2019/20 as set out in **Appendix H**, and include the Airshow and Mental Health Hub. If these are to continue in 2020/21 and beyond, the costs will need to be accommodated within the on-going base budget. Subject to other cost pressures that may emerge, the current **£0.150m** annual cost pressure allowance set out within the forecast may be exceeded. If this situation arises, it may be necessary to increase the current annual net savings target of **£0.300m** to offset these additional costs on an on-going basis.

This line of the forecast therefore continues to present one of the most significant risks, as in some instances it could be outside the control the Council, such as reduced income from external bodies / the Government.

Reflecting on the above, the latest position estimates the annual deficit or surplus for each remaining year of the forecast as follows:

<b>Year</b>	<b>Net Budget Position as Set out in the Updated Forecast (including adjusting for prior use of reserves to balance the budget)</b>
2020/21	£0.694m (Deficit)
2021/22	£0.447m (Deficit)
2022/23	£0.195m (Deficit)
2023/24	£0.066m (Surplus)
2024/25	£0.333m (Surplus)
2025/26	£0.606m (Surplus)
2026/27	£0.885m (Surplus)

Although subject to changes in future years, the forecast moves to an annual surplus

position from 2023/24, slightly ahead of the initial forecast presented earlier in the year.

**Appendix I** also sets out the annual change in the Forecast Risk Fund with positive and increasing balances on this reserve estimated over the life of the forecast.

The approach to the forecast continues to be undertaken within a robust risk management framework which includes the regular reporting of a 'live' forecast as set out in this report which will enable timely actions to be taken in response to any adverse issues that may emerge. It is also important to highlight that delivery of the long term forecast in the early years will provide confidence to the revised approach being taken.

To continue to deliver various elements of the forecast and to react to any changes as the forecast develops, it will require significant member and officer effort and focus. However the approach being taken continues to be a credible alternative to the more traditional approach of taking a shorter term view, which would require significant savings to be identified over a much shorter time frame.

## **BACKGROUND PAPERS FOR THE DECISION**

None

## **APPENDICES**

### **RELATING TO SECTION 1 OF THE REPORT**

Front Cover and Executive Summary

Appendix A – Summary by Portfolio / Committee

Appendix B – General Fund Budget Position by Department

Appendix C – Housing Revenue Account Budget Position

Appendix D – Capital Programme

Appendix E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts

Appendix F – Treasury Activity

Appendix G – Income from S106 Agreements

Appendix H – Proposed Adjustments to the 2018/19 Budget

Appendix I – Carryforwards for More than One Year (as at the end of 2017/18)

### **RELATING TO SECTION 2 OF THE REPORT**

Appendix J – Updated Long Term Financial Forecast

Appendix K – Risk Analysis of Each Line of the Forecast