

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

21 FEBRUARY 2020

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.3 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF THE THIRD QUARTER 2019/20 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 2019 and to present an updated long term forecast.

EXECUTIVE SUMMARY

- These regular finance reports present the overall financial position of the Council by bringing together in-year budget monitoring information and timely updates on the development of the long term forecast.
- Therefore 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 2019*
 - 2) *An updated long term financial forecast*

In respect of the in-year financial position at the end of December 2019:

- The position to the end of December 2019, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£2.864m**. 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 on-going long term financial forecast.
- Some necessary changes to the budget have been identified which are set out in **Appendix H**, with an associated recommendation included within this report. The net impact of all of the budget adjustments is a surplus of **£0.446m**.

- In addition to the adjustments included within **Appendix H**, it is also proposed to fund the cost of the changes to the Members' scheme of allowances that was agreed at Full Council on 21 January 2020. The total cost is **£0.041m** in 2019/20 and it is proposed to fund this from the net surplus of **£0.446m** highlighted above.
- After taking the above into account, the net budget surplus at the end of December 2019 is revised to **£0.405m**, which is proposed to be contributed to the Forecast Risk Fund.
- Subject to the recommendations set out below, as at the end of the third quarter a total of **£0.335** would have been contributed to the fund over the course of the whole year. This is **£0.165m** short of the required target of **£0.500m** set out in the long term forecast, which hopefully is a gap that can be closed over the remaining quarter of the year, especially in light of the comment immediately below.
- 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.

In respect of the updated long term financial forecast:

- The most up to date position for 2020/21 was considered by Full Council on 11 February 2020 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 2020/21, 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 much earlier in the financial cycle.
- As highlighted later on in this report, the long term forecast and on-going base budget continues to reflect support to external organisations, such as those who benefit from the CAROS scheme. As included in the recommendations, this commitment will remain in place but may need to be revisited in the later years of the forecast as is the case with all other budget lines.

- Although the detailed budget for 2020/21 was considered by Full Council on 11 February, the forecast remains an on-going task going into 2021/22 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 2019, it is recommended that:

- (a) The position be noted;**
- (b) the proposed adjustments to the budget, that include a contribution to the Forecast Risk Fund of £0.446m, as set out in Appendix H be agreed; and**
- (c) subject to (b) above, agrees to use £0.041m of the contribution to the Forecast Risk Fund of £0.446m to fund the cost in 2019/20 of the changes to the Members' Scheme of Allowances agreed at Full Council on 21 January 2020.**

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

- (a) The updated forecast be agreed, which includes the commitment to on-going support to external organisations within the principles set out within this report; and**
- (b) That subject to a) above, the Resources and Service Overview and Scrutiny Committee be consulted on the updated long term forecast.**

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 2019, 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;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's 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.

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 **£3.253m** will have been set aside by the end of 2019/20 within the Forecast Risk Fund to support the budget in future years. 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 continue to 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 over the life of the forecast if required. 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.

Set against the above foundations, the original long term forecast was based on the need to identify on-going savings of **£0.300m** each year. Due to changes to the forecast such as an unexpected increase in on-going costs pressures in 2020/21 to a level significantly above the **£0.150m** 'allowance', this savings figure has been increased to **£0.450m** per year. This increase is required to ensure that an annual surplus can still be delivered over the life of the forecast.

This savings 'target' will still need to remain flexible and react 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 longer term 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 **£1.758m** (Business Rates Resilience Reserve) and **£1.000m** (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.

To support the forecast, sensitivity testing has been undertaken which is set out in more detail later in this report.

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 THE THIRD QUARTER OF 2019/20

The Council's financial position against the approved budget has been prepared for the period ending 31 December 2019.

This is the third such report on the Council's financial position against the budget for 2019/20, 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 budget
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Collection Performance
- Treasury Activity
- Garden Communities / NEGC Project

GENERAL FUND REVENUE

The position to the end of December 2019, as set out in more detail in the Executive Summary attached, shows that there is an overall net underspend of **£2.864m**.

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

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

- Income achieved to date remains ahead of the profile in areas such as investment income (**£0.092m**), parking (**£0.128m**), planning (**£0.146m**), Building Control (**£0.019m**) and at the crematorium (**£0.036m**). This income position is offsetting areas of reduced income such as across cemeteries (**£0.061m**) and the career track service (**£0.053m**). Where necessary, adjustments to the budget have been included within **Appendix H** to reflect these latest income positions.
- Similarly to the position at the end of quarter 2, additional costs of responding to planning appeals / inquiries continue to be incurred. In addition to the total adjustment of **£0.313m** made in 2019/20 so far to date, a further budget adjustment of **£0.130m** is proposed at the end of the third quarter. This adjustment is included within **Appendix H** along with an associated adjustment to the planning income budget mentioned above to offset this continuation of increased costs.

In addition to the items highlighted above, **Appendix H** also sets out a number of other proposed budget adjustments that respond to both favourable and adverse issues that have emerged over the third quarter of the year along with supporting new initiatives, with some highlights as follows:

- The provision of additional staff capacity within the Waste and Recycling Team along with the purchase of additional recycling boxes / bins to respond to customer demand – total cost **£0.105m** met from the new homes bonus previously set aside to support the roll out of the new service.
- The establishment of a new Urban and Rural Infrastructure Fund – total amount set aside of **£1.184m** met from the 2019/20 New Homes Bonus grant.
- The establishment of a new Tendring Community Fund in 2020/21 – total amount set aside of **£0.500m** met from the 2020/21 New Homes Bonus grant.
- Proposed Contribution to the Women’s Cycling Tour 2020 - **£0.100m** is proposed to be set aside subject to a separate report.
- Increased recycling credit income of **£0.050m**, reflecting increased recycling rates from the operation of the new waste and recycling service.
- Business Rate Income – net additional income of **£0.383m** is expected to be receivable, primarily as a result of the Council’s membership of the Essex Business Rates Pool.

The net overall position set out in **Appendix H**, which includes vacancy savings accruing to date of **£0.108m**, results in a proposed net contribution to the Forecast Risk Fund of **£0.446m**.

At its meeting on 21 January 2020, Full Council agreed a number of increases to the Members’ Scheme of Allowances in 2019/20 and resolved that:

The implementation of the proposed amendments will remain subject to identifying the necessary funding of £0.041m, which will be considered as part of the Financial Performance Report for Quarter 3 2019/20

Given the overall favourable position set out in **Appendix H** and the associated contribution to the Forecast Risk fund of **£0.446m**, the cost of the increases in Members’ allowances of **£0.041m** can be accommodated within this overall budgetary position. Therefore a recommendation is set out above that reflects this adjustment, which results in the net contribution to the Forecast Risk Fund reducing to **£0.401m**.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**. At the end of December 2019, the HRA is showing a small net underspend of **£0.005m**. Although not standing out within the overall figures set out in the appendices, rental income is currently under recovered by **£0.091m**. This is an estimated figure as information was unable to be extracted from the housing rents system for the period to the end of December due to software issues that the relevant supplier is being consulted on. However, the position will be monitored over the remainder of the year with updates provided to Members as necessary.

CAPITAL PROGRAMME – GENERAL FUND

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

As at the end of December 2019 the programme is broadly on target against the profiled position, although a highlight is the office rationalisation project where the timing of expenditure is different to that initially anticipated. Detailed comments are provided within the appendix against this scheme along with the other projects where necessary.

One net neutral change to the budget relates to the purchase of additional recycling boxes / bins as previously highlighted, which is set out in **Appendix H**.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

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

As at the end of December 2019 the programme is behind profile by **£0.428m**.

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.

In respect of the New Build Initiatives / Acquisitions Scheme and the new homes in Jaywick Sands, both of these schemes are being supported by the use of 'one for one' capital receipts that the Council is able to retain from right to buy sales. As mentioned earlier in the year, there is currently a three year deadline imposed by the Government by which Local Authorities have to spend the money retained under the 'one for one' scheme, but the Government are considering extending this to as much as five years. Notwithstanding this, 'spend by dates' are included in **Appendix D**, which the Council needs to remain alert to. For completeness and to support the financial monitoring process, a new table setting out further details of the 'one for one' receipts received and the important milestones has now been included within the same appendix. Wherever possible, the receipts will be targeted towards a more strategic approach, but the option of purchasing properties on the open market remains a fall-back position to ensure the money retained from right to buy sales stays in the district and not paid over to the Government.

COLLECTION PERFORMANCE

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

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**.

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. However, as set out in **Appendix H** it is proposed to increase the investment income budget for 2019/20 by a further **£0.100m** that reflects the treasury performance achieved to date.

GARDEN COMMUNITIES / NEGC PROJECT

In following on from the information provided within the financial performance report at the end of the second quarter, a summary of the financial position relating to the NEGC Project is set out in **Appendix I**. This has now been expanded to include more detail along with the associated income position. This will remain subject to further updates as part of future financial performance reports and within separate reports associated with this major project as it continues to develop.

SECTION 2 – UPDATED LONG TERM FORECAST

The detailed budget for 2020/21, which was based on the most up to date financial forecast was considered and agreed by Full Council on 11 February 2020.

Although the budget for 2020/21 has now been agreed, the forecast for 2021/22 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 2020/21, against which the 2021/22 forecast and beyond will be developed.

The risk assessment of each line-of the forecast has also been reviewed (**Appendix K**) and it is recognised that there remains a number of potential adverse issues that the Council could face going into 2021/22 and beyond, not least the outcome from the Government's fair funding review and associated changes to the business rates retention model.

Given the increased funding required to meet unavoidable cost pressures in 2020/21, it may signal the need to increase the cost pressure 'allowance' in future years. This will remain under review and will need to be balanced against the annual savings target also built into the forecast.

The forecast remains based on responding to cost pressures relating to the Council's assets outside of the 'base' revenue position by utilising the associated fund of **£1.134m** that has been set aside for this purpose.

It is also proposed to deal with one-off projects and initiatives that support the Council's priorities outside of the 'base' revenue position by using one off money and/or the reprioritisation of existing budgets where necessary. The above approach will also be supported by the Council's newly adopted business case / project initiation processes, which will include the consideration of maximising the use of existing resources or external funding where possible.

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 2020/21. 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 and 2018/19 the requirement to contribute **£0.500m** to the Forecast Risk Fund was delivered.

In respect of 2019/20 to date, net contributions to the Forecast Risk Fund total **£0.335m**, made up of:

- **£0.077m** contributed to the fund as reported at end of June 2019.
- **£0.147m** contribution from the fund as reported at the end of September 2019.
- **£0.405m** proposed contribution to the fund at the end of December 2019 as set out in **Appendix H** and after taking into the account funding of the increase in Members' allowances highlighted earlier in the report.

The shortfall to date in 2019/20 of **£0.165m** remains subject to the outturn position for 2019/20, where it may be possible to identify the required net underspends to meet this cost. If not, then the final position for the year will need to be reflected in the revised forecast going into 2020/21 and beyond.

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

Year	Net Overall Position as Set out in the Updated Forecast (at the end of September 2019)	Latest Net Overall Position
2021/22	£0.935m (Deficit)	£0.842m (Deficit)
2022/23	£0.651m (Deficit)	£0.509m (Deficit)
2023/24	£0.365m (Deficit)	£0.172m (Deficit)
2024/25	£0.076m (Deficit)	£0.169m (Surplus)
2025/26	£0.215m (Surplus)	£0.515m (Surplus)
2026/27	£0.507m (Surplus)	£0.867m (Surplus)

Although subject to changes in future years, the forecast moves to an annual surplus position from 2024/25, slightly ahead of the forecast presented earlier in the year, primarily due to estimated increases in underlying funding growth and the overall favourable position reflected in the 2020/21 budget.

Appendix J 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. However this position has benefited from the increased collection fund estimated performance in 2020/21. The level of this reserve will need to be considered in light of this and set against the savings target currently built into 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 within these reports that enables timely action to be taken in response to any adverse issues that may

emerge. It is also important to highlight that the continuing delivery of the long term forecast provides 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.

In terms of a longer term rolling forecast, it is proposed to review the current position in 2023 and consider extending the forecast period out beyond 2026/27.

2020/21 represents year 4 of the 10 year long term financial plan, which set out to protect as far as reasonable possible the Council's front line services. It is also important to highlight that although further investment in the Council's corporate priorities will be considered in the first half of 2020/21, the long term plan has enabled the Council to continue to deliver good quality affordable services as well as continue to provide support to external organisations such as the CAB and those in receipt of a grant from the CAROS scheme.

The remaining 6 years of the forecast continues to reflect such support to external organisations, and in respect of the CAROS Scheme it will continue on the following key principles:

- Those currently in receipt of a CAROS grant will continue to receive support.
- Those now occupying TDC property but not currently in CAROS will be eligible to join the scheme until 2023.
- No new properties will be able to make applications and all existing outstanding leases will need to be agreed by 2023.
- No organisation can benefit from both a CAROS grant and stepped / tapered rent. The most beneficial option to the external organisation will be applied.
- The scheme to continue based on the existing condition of offsetting the rent payable to £500 or 25% (whatever is the greater)
- For organisations to be considered for support as part of any future review, there must be a valid lease in place.

As mentioned earlier, it is proposed to review the long term forecast in 2023 which would see 3 to 4 years to go until the end of the original 10 year plan. This will provide an opportune time to review the Council's financial position going forward, including key budgets such as the support to external bodies set against the financial position of the Council at that time.

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 Budget

Appendix I – NEGC Project - Financial Summary

RELATING TO SECTION 2 OF THE REPORT

Appendix J – Updated Long Term Financial Forecast

Appendix K – Risk Analysis of Each Line of the Forecast