

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

**CABINET
17 SEPTEMBER 2021**

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.6 OUTTURN 2020/21 AND PROPOSED ALLOCATION OF THE GENERAL FUND VARIANCE FOR THE YEAR ALONG WITH A FINANCIAL PERFORMANCE UPDATE FOR 2021/22

(Report prepared by Richard Barrett and the Accountancy Team)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek approval of the allocation of the overall 2020/21 General Fund revenue variance and to provide an update on the Council's financial performance in 2021/22.

EXECUTIVE SUMMARY

- Given the timing of considering the outturn position for 2020/21, this report has been split into two sections. The first sets out the outturn position for 2020/21 along with associated decisions, with the second section providing a timely update on the Council's financial performance for 2021/22 so far to date.

SECTION 1 - Outturn for 2020/21

- The Portfolio Holder for Corporate Finance and Governance agreed the overall outturn position for 2020/21 on 30 July 2021, with a high level summary of the General Fund revenue position as follows:

Variance for the year before carry forward requests	(£16.427m)
Less agreed carry forwards that meet the carry forward criteria	£14.352m
Variance for the year after agreed carry forwards	(£2.075m)
Carry Forward requests from services that did not meet carry forward criteria	£0.536m
Remaining Variance for the year	(£1.539m)

The figures above exclude the revenue contribution to the capital programme, which was set out separately within the outturn report.

- The variance for the year of **£1.539m** was agreed by the Portfolio Holder for Corporate Finance and Governance on 30 July 2021 as part of the overall consideration of the outturn position for the year.
- The **£0.536m** that has been requested by services to be carried forward at the end of the year has been subject to further review as the various items do not meet the associated qualifying criteria. As they do not meet this underlying criteria, they are in effect a 'bid' by services to retain a proportion of the overall favourable outturn variance of **£2.075m** before any further allocations are considered. The various items are set out in **Appendix A** and it is proposed to agree all of the items.
- This report therefore presents for consideration the **£0.536m** requested to be carried

forward by services and the allocation of the remaining variance for the year of **£1.539m**.

- As set out in more detail later on in this report, as part of agreeing the outturn position for 2020/21, the Portfolio Holder for Corporate Finance and Governance also agreed the following two recommendations that Cabinet are being asked to consider:
 - **that the overall General Fund Outturn Variance for the year of £1.539m be used to support the essential works at the Weeley Crematorium; and**
 - **that £2.060m be allocated to support the recent bid to the Government's 'Levelling Up Fund', funded by the use of amounts identified within the 2021/22 budget as set out later on in this report.**
- In terms of the essential works at the crematorium, the cremators have become increasingly unreliable following the demise of the company who supplied and fitted the existing cremators as well as providing on-going maintenance support via an associated contract. Please see further comments later in the report in terms of the impact on the income budget during periods that the cremators have not been operational.

Following an independent assessment of the existing cremators, it is recommended that a full replacement is the best and most cost effective option to ensure a reliable cremator service in future. Given the relative urgency of the remedial works at the Crematorium, a recommendation is included below to agree in principle the proposed use of the overall outturn position for 2020/21 as set out by the Portfolio Holder for Corporate Finance and Governance. Within the same recommendation, it is also proposed to delegate the approval of the associated project initiation document / business case to the Portfolio Holder for Environment and Public Space and the Portfolio for Corporate Finance and Governance to ensure remedial works can be undertaken as soon as possible given the on-going impact on existing budgets.

SECTION 2 - Financial Performance Update 2021/22

- The Council's financial performance, including an updated long term forecast as at the end of the first quarter of the year is usually planned to be reported to Cabinet as early as possible in September / October each year. However, there remains an impact from the COVID 19 pandemic in terms of the reporting schedule, as the outturn position for 2020/21 was only finalised at the end of July, which has had a knock-on impact on the timing of subsequent financial reporting.
- Although a full financial performance report as at the end of Q2 is scheduled to be presented to Cabinet later in November (which will include an updated forecast for 2022/23 and beyond), only a high level summary position is set out in this report where, emerging issues / risks have been highlighted to provide a timely financial update in the interim period.
- A small number of in-year budget adjustments are set out in Appendix B, one of which reflects a proposed service level agreement being entered into with ECC to enable the Council to 'buy in' procurement services from them. Further details are set out later on in this report along with an associated recommendation below.
- The long term forecast continues to provide flexibility in terms of managing the various risks to the forecast and it is worth highlighting that **£3.753m** remains in the Forecast Risk Fund at the end of 2020/21, which is in-line with the planned position going into 2022/23

and beyond.

- The outturn report considered by the Portfolio Holder for Corporate Finance and Governance referred to above, included a detailed summary of the various COVID 19 grants paid to the Council by the Government / ECC. Associated activities remain on-going in 2021/22 and a detailed update will be provided as part of the financial performance report for Q2 that will be presented to Cabinet in November.

RECOMMENDATION(S)

That in respect of the Outturn Position for 2020/21, Cabinet:

- (a) Agrees that the total of £0.536m requested by services can be retained by them via the associated carry forward requests as set out in Appendix A; and**
- (b) after considering the recommendations of the Portfolio Holder for Corporate Finance and Governance, agrees:**
 - (i) that subject to the approval of an associated Project Initiation Document / Business case, it is approved in principle that the necessary remedial works be carried out at the Weeley crematorium funded by using the overall General Fund Outturn Variance for the year of £1.539m.**
 - (ii) that subject to b(i) above, the approval of the Project Initiation Document / Business Case associated with the proposed remedial works at the Weeley Crematorium be delegated to the Portfolio Holders for Environment and Public Spaces and Corporate Finance and Governance; and**
 - (iii) that £2.060m be allocated to support the recent bid to the Government's 'Levelling Up Fund', funded by the use of amounts identified within the 2021/22 budget as set out later on in this report;**

That in respect of the Council's Financial Performance for 2021/22, Cabinet:

- (a) Considers and notes the high level summary of in-year position for 2021/22 to date and the long term forecast update for 2022/23 and beyond; and**
- (b) agrees the proposed in-year adjustments to the budget as set out in Appendix B;**
- (c) that subject to b) above, agrees an exemption to the Council's procurement rules to enable a Service Level Agreement be entered into with ECC to enable the Council to 'buy in' various procurement services from them to support its day to day operational activities and the delivery of one-off projects as necessary; and**
- (d) authority be delegated to the Assistant Director for Finance and IT and the Deputy Chief Executive to agree the terms of the Service Level Agreement in consultation with the Portfolio Holder for Corporate Finance and Governance.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Careful planning to ensure financial stability underpins the Council's capacity to deliver against its priorities. Both the capital and revenue budgets of the authority are prepared and monitored with the aim of supporting key objectives. The outturn position reflects this process and supports

the successful financial planning process.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The main financial implications are as set out elsewhere in this report.

Risk

There are no direct risks associated with this report although the ability to fund future financial forecasts is recognised as a strategic risk to support the achievement of financial resilience of the Council in both the short and long term.

LEGAL

The Council is legally required to calculate a Council Tax requirement each financial year. Within this framework is the requirement to monitor and report accordingly on the financial position of the authority against this requirement.

The approval of the outturn position each year is delegated to the Corporate Finance and Governance Portfolio Holder. Any further decisions that may be required following the outturn process, such as allocating money brought forward from the prior year will be reported to Cabinet at a subsequent meeting. In effect, the approval of the outturn delegated to the Corporate Finance and Governance Portfolio Holder will primarily only place available funding that needs further allocation in reserves until a formal / separate decision is presented to Cabinet.

The outturn position for 2020/21 and associated actions agreed by the Portfolio Holder for Corporate Finance and Governance on 30 July 2021 are within the Council's powers and reflect the statutory requirements and responsibilities of the Council in the preparation of its accounts.

Paragraph 2.3 of the Council's Procurement Procedure Rules set out in Part 5 of the Council's Constitution requires alternative delivery options for whole or part of services to be achieved in accordance with the Council's Procurement Strategy, which expressly refers to 'Our Partners in Procurement' and that the Council will seek to work with a number of partners to maximise any procurement opportunities and provide best practice. This includes other public bodies and shared services. Due to the fact that the in-house procurement service has 100% vacancies, there are no employment issues to address and the Public Contract Regulations 2015 permit public sector shared service and collaboration arrangements within certain criteria which will be observed in any Service Level Agreement arrangement. The Council's Procurement Procedure Rules will still be observed in any bids or tender exercises managed by ECC on behalf of TDC.

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.

Although there are no direct equality and diversity issues, the overall Financial Strategy and budget process aims to recognise any such issues where appropriate within the Council's wider Financial Framework.

PART 3 – SUPPORTING INFORMATION

SECTION 1 – OUTTURN 2020/21 AND PROPOSED ALLOCATION OF THE OVERALL GENERAL FUND VARIANCE FOR THE YEAR

The Financial Outturn for 2020/21 was agreed by the Portfolio Holder for Corporate Finance and Governance on 30 July 2021. As part of agreeing that report, carry forward amounts requested by services were split into two categories – those meeting the relevant carry forward criteria and those that did not. The carry forward criteria was set out in detail within the outturn report considered by the Portfolio Holder for Corporate Finance and Governance on 30 July 2021.

Based on the above approach, revenue carry forwards totalling **£14.352m** were agreed, leaving **£0.536m** requiring further consideration as part of this report, as they did not meet the relevant criteria.

The items totalling **£0.536m**, referred to above and set out in **Appendix A**, are in effect requests by services to retain part of the overall variance for the year before any further allocations are considered. Following a review of these items, it is proposed to agree all of them.

As all of the items above are recommended to be agreed to be carried forward, the general overall variance for the year of **£1.539m** remains to be allocated.

As part of agreeing the outturn position for 2020/21, the Portfolio Holder for Corporate Finance and Governance also agreed a recommendation to Cabinet that **“the overall General Fund Outturn Variance for the year of £1.539m be used to support the essential works at the Weeley Crematorium.”**

Following the demise of the company that installed and maintained the existing cremators, a number of local authorities including Tendring District Council have been left with no service contract and the cremator equipment has become increasingly unreliable. Since March 2020, the cremators have been made serviceable and used prudently and carefully during a period of high demand. However, there have been occasions when the cremators suffered fires or have broken down entirely and significant repairs and modifications required to return them to functionality. Please see further comments later in the report in terms of the impact on the income budget during periods that the cremators have not been operational.

Following an independent assessment of the existing cremators, it is recommended that a full replacement is the best and most cost effective option to ensure a reliable cremator service in future. Once the immediate requirement for a reliable crematorium service has been re-established, it is proposed to commence detailed consideration for future requirements of the service including carbon reduction options as well as potential commercial opportunities.

Based on the above, and given the relative urgency of the remedial works at the Crematorium, a recommendation is included above to agree the proposed use of the overall outturn position for 2020/21 as set out by the Portfolio Holder for Corporate Finance and Governance. Within the same recommendation, it is also proposed to delegate the approval of the project initiation document / business case to the Portfolio Holder for Environment and Public Spaces and the Portfolio for Corporate Finance and Governance to ensure remedial works can be undertaken as soon as possible given the on-going impact on existing budgets.

As part of agreeing the outturn for 2020/21 the Portfolio Holder for Corporate Finance and Governance also agreed a recommendation to Cabinet that **“that £2.060m be allocated to support the recent bid to the Government’s ‘Levelling Up’ Fund funded by the use of amounts identified within the 2021/22 budget as set out later in the report.”**

In terms of the proposed funding identified above, the following replicates the table set out in the outturn report:

Funding Proposal	Budget Allocation
Use of New Homes Bonus Carried forward from 2020/21	£1.013m
New Homes Bonus Receivable in 2021/22	£0.644m
Lower Tier Grant 2021/22	£0.403m
TOTAL FUNDING PROPOSED	£2.060m

Similarly, to the proposed use of the outturn position for 2020/21, a recommendation is included above to agree to allocate **£2.060m** to support the 'Levelling Up Fund' bid as recommended by the Portfolio Holder for Corporate Finance and Governance.

The Council continues to carefully balance its finances across investing in its priorities and delivering a long term sustainable financial plan. By taking the opportunity to maximise the benefit from the favourable outturn position to support emerging issues and opportunities, along with the prioritised use of government funding such as the New Homes Bonus, it will continue to support the delivery of the long term forecast and financial sustainability of the Council.

The outturn report agreed by the Portfolio Holder for Corporate Finance and Governance on 30 July 2021 also set out comprehensive details around the various COVID 19 funding streams made available by the Government and ECC. Work remains in progress against the various associated activities with a detailed update planned to be presented to members as part of the financial performance report for Q2 later in the year.

SECTION 2 – FINANCIAL PERFORMANCE UPDATE 2021/22 TO DATE

This section of the report sets out an update against the in-year position to date along with commentary on the long-term forecast.

As highlighted within the Executive Summary above, there remains an impact from the COVID 19 pandemic in terms of the reporting schedule as the outturn position for 2020/21 was only finalised at the end of July, which has had a knock-on impact on the subsequent financial reporting timetable.

Although a full financial performance report as at the end of Q2 is scheduled to be presented to Cabinet later in November (which will include an updated forecast for 2022/23 and beyond) this report sets out a timely update in the interim period in respect of emerging issues / risks to date.

2021/22 IN-YEAR POSITION TO DATE

As with previous financial performance reports, key / emerging issues are set out against the various areas of the overall budget as follows:

General Fund (Revenue and Capital)

- The Government's Sales, Fees and Charges Compensation Scheme will continue for the first half of 2021/22. Therefore, this will provide valuable financial support to the Council throughout the period where facilities start to transition from being closed / restricted to normal operations. As set out in the outturn report, the Council will still need to fund the first 5% of any net loss plus a further 25%, but this will continue to be supported via the general COVID 19 new burdens grant made available by the Government if it is not possible to accommodate the impact within the overall budgetary position for the year.
- Unfortunately the Crematorium has suffered further periods of closure since the start of the year due to on-going operational issues with the cremators. At the end of July it is estimated that income of **£0.100m** has been 'lost'. As discussed elsewhere, the replacement of the cremators is scheduled to be commenced during the second half of the year and therefore the loss of income experienced during the interim period will be reviewed and reported as part of future financial performance reports. It is also worth highlighting that **£0.154m** remains in the Crematorium Reserve, which could be used to support the overall financial position for the year. This will also be subject to further review during Q2 and Q3.
- Recycling credits remain ahead of the budget at the end of July, which follows on from the favourable position at the end of 2020/21. This will be revisited along with the additional contract costs that reflect housing growth as part of updating the financial forecast later in the year.
- There is currently a large overspend against elections costs at the end of July. However this relates to the elections administered by the Council but will be reimbursed by ECC and the PFCC as claims are finalised and settled over the second half of the year.

HRA (Revenue and Capital)

- The two major issues effecting the HRA remain as the cost of repairs and reduced rent from void periods. As previously discussed, work remains on-going against these two issues and will form part of the review of the HRA Business Plan during the second half of the year. Further updates will also be included in the financial performance reports for Q2 and Q3.

Collection Performance

- As set out in the outturn report for 2020/21, the collection fund performance for both council tax and business rates was more favourable than expected despite the uncertainties introduced by the COVID 19 pandemic.
- In terms of the in-year collection performance, the following sets out an overall summary at the end of July 2021:

Cost of the LCTS Scheme	<i>Budgeted Cost</i> £12,269,000	<i>Actual Cost</i> £11,967,525	<i>Reduction of</i> £301,475
Council Tax*	<i>Collection Performance July 2019</i> 40.10%	<i>Collection Performance July 2021</i> 38.30%	<i>Reduction of</i> 1.80%

Business Rates**	<i>Collection Performance July 2019</i>	<i>Collection Performance July 2021</i>	<i>Reduction of</i>
	40.65%	37.87%	2.78%

The comparative figures included above are for 2019/20 as these provide a more relevant pre-COVID 19 comparison.

Recovery action is now being taken on outstanding amounts from last year and along with collection performance starting to recover to pre-pandemic figures, this provides a relatively strong position going forward. However, this will be kept under review with further updates provided at the end of Q2.

The Government are still providing a range of businesses with significant COVID 19 business rate reliefs during the first half of 2021/22. This therefore continues to support overall collection performance, as this money is paid directly by the Government rather than it being exposed to collection / recovery processes that would otherwise be undertaken directly with businesses.

As collection performance for council tax starts to recover, so will the money generated from the council tax sharing agreement with the major preceptors. However, at the present time it is expected that income from the major preceptors under the terms of the sharing agreement will remain behind the budget over the year. This will be kept under review and included within further financial performance reports as the year progresses.

Treasury Activities

Treasury activities continue set against the Treasury Strategy and associated treasury management practices. A more detailed review, including commentary on the continuing low interest rate environment is set out with the Treasury Outturn Report elsewhere on the agenda.

OTHER EMERGING ISSUES

Appendix B sets out a number of proposed budget adjustments that respond to other emerging issues as at the end of July 2021.

Following the recent retirement of the Council's Procurement Manager, discussions have commenced with ECC in terms of a shared service / collaborative approach as a way of providing a more comprehensive procurement service to our internal departments. This approach would involve the Council purchasing a range of procurement services from ECC on a proposed 'hourly rate' basis via a service level agreement. Although this remains subject to on-going discussions, **Appendix B** sets out a proposed adjustment, which would see budgets transferred from direct employee costs to 'contract' payments to ECC. This approach would also support the accelerated delivery programme where the Council would have access to specialist / expert advice along with additional procurement capacity e.g. it could support the procurement of replacement cremators as set out elsewhere in this report. This arrangement will be kept wider review as it may form part of a longer term solution where the Council continues to have access to such advice as part of the future delivery of projects and activities along with 'usual' operational requirements expected of a procurement function / service.

UPDATED LONG TERM FORECAST

The detailed budget for 2021/22, which was based on the most up to date financial forecast, was considered and agreed by Full Council on 16 February 2021. The report considered by Full

Council also included a summary of the forecast up until 2026/27, with a high level position set out as follows:

Year	Net Budget Position (including adjusting for prior use of reserves to balance the budget)
2022/23	£1.098m deficit
2023/24	£0.866m deficit
2024/25	£0.630m deficit
2025/26	£0.388m deficit
2026/27	£0.142m deficit

The development of the forecast will continue during 2021/22, with a more detailed position to be included within the Financial Performance report for Q2 that will be represented to Cabinet in November.

As set out in previous financial performance / budget reports, 2021/22 is seen as a transitional year as the wider economy recovers / stabilises following the COVID 19 pandemic. This sets the task of forecasting against an evolving economic position that will only become clearer as the year progresses. However against this context and as an interim update, commentary is set out below for potential emerging risks to the forecast for 2022/23 and beyond:

Income from Council Tax and Business Rates

As highlighted above, collection performance for council tax and business rates remains relatively positive supported by the more favourable collection fund position at the end of 2020/21. Although future projected growth may be impacted by any longer term impact from the COVID 19 pandemic, this major element of the budget is still expected to produce year on year growth, especially given the various regeneration / economic activities within the district.

Inflation

The following are the 3 major areas where inflation could have a major impact on the financial forecast:

- **Pay Award** – As the economy starts to recover / stabilise following the COVID 19 pandemic, an environment is emerging where significant percentage increases are being asked for by unions. Although this will be subject to on-going negotiations across the various sectors, pay awards agreed elsewhere may put pressure on the amounts agreed collectively by local authorities. The annual percentage increases currently included within the long term plan is 1.5%, which will be kept under on-going review as part of the development of the financial forecast over the second half of the year.
- **General / Underlying Inflation** – Although a period of higher inflation was expected as the economy started to recover from the COVID 19 pandemic, there are differing views as to whether this will be transitory or an indicator of a more sustained period of upward inflation pressure. It is too early to form a clear view but this will be revisited in the second half of the year as the budget proposals for 2022/23 start to be finalised.
- **Commodity Prices** – Although an extension of the point made above about general inflationary pressures, increased demand and reduced supply is having an impact on various commodities prices. Although these will largely be a risk factor for major one-off projects, the ongoing position will be kept under review to determine the response required as part of the Council's overall financial position / forecasts going forward.

Savings

The delivery of savings forms a key item within the overall performance management framework where updates will also be provided (the next update is due to be presented to Cabinet in October). It is currently proposed to move to a 'zero based' budgeting approach which will see departments review each line of their budgets to not only provide a good financial 'housekeeping' opportunity but also as part of driving out savings to continue to deliver the targets set out in the long term plan. As with the approach taken so far to date, the key principle of the long term plan is to protect front line services as far as possible so the approach suggested will compliment this underlying principle by looking to identify savings and efficiencies but limiting the impact of service delivery wherever possible.

Although the 'zero based' approach will span financial years, it is expected that savings will be able to be included within the 2022/23 budget based on work that will be undertaken in consultation with departments between now and December 2021.

Cost Pressures

In addition to the risks highlighted above, work will be undertaken in consultation with departments to identify risks to the forecast and where additional costs may have to be accommodated within the long term plan. Further updates will be provided as part of future financial performance reports that will reflect the outcome of discussions with departments.

In terms of a longer-term rolling forecast, as previously discussed, it is still proposed to review the current position in 2023, which could include the consideration of extending the forecast period out beyond 2026/27.

Housing Revenue Account

As indicated earlier, it is proposed to review the HRA Business Plan during the second half of the year.

This review will reflect the on-going issues regarding repairs and void periods along with other emerging pressures such as the costs related to potential changes to 'decent homes' standards that are expected to emerge from the Government, especially in light of the Grenfell Tower tragedy. This will also need to be set against the context of delivering against the Council's key priority of continuing to build / develop new homes in the district.

Pressures such as inflation and other costs will also need to be reflected within the business plan review, which will need to balance the priorities and aspirations of being a landlord for 3,000 plus homes, whilst responding to the challenging financial position going forwards.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A	Requests by Services to retain funding at the end of 2020/21 to apply in 2021/22 via requests to carry forward the associated budgets.
-------------------	--

Appendix B	Proposed Adjustments to the In-Year Budget 2021/22
-------------------	--