Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

25 FEBRUARY 2022

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.9 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF THE THIRD QUARTER 2021/22 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 2021 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 2021***

    2) ***An updated long term financial forecast***

In respect of the in-year financial position at the end of December 2021:

- The position to the end of December 2021, as set out in more detail within the appendices, shows that overall the General Fund Revenue Account is underspent against the profiled budget by **£8.044m** (after excluding variances against COVID 19 grant supported activities, such as business grants, this position is revised to a net overspend of **£4.243m**). It is acknowledged that other expenditure or income trends may still be developing / emerging with the position also largely reflecting the timing of other general expenditure and/or income budgets. However, 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 other 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.

- Some necessary changes to the 2021/22 budget have been identified which are set out in **Appendix H,** with an associated recommendation also included within this report.

- The net impact of the budget adjustments will be moved to or from the Forecast Risk Fund. At the end of the third quarter, it has been possible to make an additional contribution to the fund of **£123k,** which supports the requirement set out in the long term forecast of identifying in-year savings of **£500k** each year, where possible.

In respect of the updated long term financial forecast:

- A summary of the most up to date position for 2022/23 was considered by Full Council on 15 February 2022 as part of agreeing the detailed budget.

- There have been no changes made to the forecast position mentioned above, but for completeness, a summary is set out further on in this report.

- The identification of on-going savings remain an important element of the long-term financial plan. The developing zero based framework in which to identify the required level of savings forms part of the key priority actions set out in the Council's Corporate Plan.

- As mentioned previously, it is important to continue to deliver against the 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.

RECOMMENDATION(S)

That in respect of the financial performance against the budget at the end of December 2021, 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;

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

(a) The latest position is noted and the Resources and Service Overview and Scrutiny Committee be consulted on the most up to date 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 2021, 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 accommodated within the overall budget with direct management action. 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.

COVID 19 continues to have an on-going impact on the Council's financial position, which cuts across many of the specific issues highlighted above. The underlying forecast remains based on relatively conservative estimates with no optimistic bias included

The Council's ability to financially underwrite the forecast therefore remains as important as ever. 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) **£3.753m** has already been set aside 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. The 2021/22 and 2022/23 budgets are also based on calling down **£1.048m** and **£0.431m** from this reserve respectively during each of those years. As discussed previously, given the increased risks introduced by the COVID 19 crisis, this current reserve level should not be seen as too pessimistic as the sensitivity testing undertaken indicates that this reserve could be depleted in as little as 3 years if some of the risks are borne out in reality.

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.

The long term approach to the forecast does provide flexibility to respond to risks such as those presented by COVID 19. For instance, the savings target was ‘relaxed’ for 2021/22. However it must be highlighted that the savings targets set out in the forecast will still need to be delivered in the longer term but they need to remain flexible and react as a counterbalance to other emerging issues and it is therefore accepted that this figure may need to be revised up or down over the life of the forecast.

It is important to continue to deliver against the forecast to retain 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** (NDR 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.

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. These arrangements mean that there are 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 2021/22

The Council's financial position against the approved budget has been prepared for the period ending 31 December 2021.

Although some expenditure or income trends may still be developing / emerging, comments are provided below where necessary, against the following key areas:

- General Fund Revenue and Proposed Changes to the in-year budget
- Collection Performance
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Treasury Activity

GENERAL FUND REVENUE

The position to the end of December 2021, as set out in more detail in the Executive Summary attached, shows that there is an overall net underspend of **£8.044m** (after excluding variances against COVID 19 grant supported activities, such as business grants, this position is revised to a net overspend of **£4.243m**).

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, the most significant of which relates to the administration of the various COVID 19 Business Support grants where a full reconciliation process will be finalised as part of the outturn for year.

Appendix B provides a more detailed narrative against significant issues or variances.

Expenditure Budgets

- At the end of Q2, the risk of potential increases in homelessness costs was identified. However, as included within **Appendix H**, the Government have continued to provide valuable financial help to support the demand on this service.

  Therefore at the present time, it is expected that the position can be managed within the existing homelessness budget, which is supported by the grant fund mentioned above, rather than having to draw down money from the general COVID 19 grant that is discussed in more detail further on in this report.

- The necessary use of agency staff continues within Planning with an associated adjustment set out within **Appendix H**. A restructuring process is underway within the service, which aims to limit the use of agency staff going into 2022/23.

Income Budgets

- As highlighted within previous financial performance / budget reports, the continuing operational difficulties experienced at the crematorium during 2021/22 have resulted in significant reductions in income.

  Although this can be partly offset by reduced expenditure at the crematorium, in areas such as utility costs, the likely net impact on the 2021/22 budget could be as high as **£0.750m** to **£0.800m** by the end of the financial year. This position will continue into 2022/23 given the current expected replacement cremators not becoming operational until the second quarter of the year. There is a key focus on finalising the associated procurement process to shorten the build, installation and commissioning process wherever possible.

  As set out within the Q2 report, as part of a managed intervention, departments have been asked to identify one-off savings in 2021/22 to help offset the net impact expected. Although no formal adjustments have been included within **Appendix H**, there are now a number of emerging favourable variances to help achieve this, with some examples below:

  - Parking income is currently ahead of the profile by **£0.160m.**
  - Un-ringfenced external grant income of **£0.045m** has been received during the year. This is likely to increase as further New Burdens funding is expected to be received from the Government before the end of the financial year.

  Although subject to use of the general COVID grant money receivable from the Government set out later on in this report, there is likely to be a favourable overall outturn position for the year, which will include items over and above those set out above – especially as departments are still being asked to identify one-off savings and, for example, the aggregate value of small underspends has over recent years supported a favourable year end position.

  In addition to the actions above, the level of carry forwards can also be reviewed as part of finalising the outturn for 2021/22 to support the overall position for the year. This approach is expected to be possible by re-progamming / rescheduling associated activities, to limit any consequential impacts.

OTHER EMERGING ISSUES / USE OF COVID FUNDING

Activities are continuing against a number of COVID 19 related schemes and initiatives, not least the administration of the recently announced additional business support grants. These budgets will be reviewed as part of the year end reconciliation processes with variances to date primarily reflecting the timing of income and associated expenditure.

However, as highlighted within the Q2 financial performance report, the Government did provide a number of un-ringfenced / general COVID 19 support grants. To date expenditure against these budgets that total **£2.276m** are summarised as follows:

- **£0.277m** allocated as part of the 2020/21 Outturn Report, which included the summertime plan and additional bins, bin emptying and grounds maintenance activities.
- **£0.083m** agreed by Cabinet on 8 October to 'extend' the waiving of rents as part of the CAROS scheme until the end of March 2022.
- **£0.047m** agreed by the Portfolio Holder for Corporate Finance and Governance to support the repairs to the treadwheel crane in Harwich, which 'levered' in a significant contribution from Historic England.
- **£0.765m** allocated as part of the Q2 report, which primarily reflected the reduction in income from leisure centres this year.

After taking the above into account, **£1.104m** remains available to support other / related areas of the budget.

Although not included within **Appendix H** as formal adjustments at this stage, the following have been identified as areas of the budget that can be supported by this available funding:

- Reduction in income of potentially **£0.300m** to **£0.400m** from the Council Tax Sharing Agreement with the major preceptors, given the recovery of amounts due are likely to extend into 2022 and beyond.

- The reduction in court cost income associated with the recovery of council tax highlighted above, especially as the court system is slowly returning to business as usual following the pandemic. The reduction in income could be as high as **£0.300m** by the end of the financial year.

- The net adverse position against leisure centres at the end of December 2021, totals **£0.143m.** Although this is after allowing for the **£0.750m** included within the **£0.765m** allocated from the general COVID 19 grant at the end of Q2, the year end position may be over and above this amount even after taking into account the additional support from the Government in the form of the sales, fees and charges compensation scheme.

Repeating a point from earlier in this report, at the end of the last quarter, potential additional homelessness costs were also raised as a potential 'call' on this funding. However, following receipt of additional financial support from the government as set out within **Appendix H**, this risk is now receding.

Based on the risks identified above, it would be prudent to continue to retain the unspent COVID 19 'pot' of **£1.104m** to support such unavoidable and on-going impacts from the pandemic that are likely to remain when the outturn position is finalised for the year. The position will therefore remain under review over the last quarter of the year.

Appendix H sets out other proposed budget adjustments that respond to a number of emerging issues at the end of Q3.

COLLECTION PERFORMANCE

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

As mentioned at the end of Q2, there is undoubtedly an on-going impact from COVID 19 on collection performance. However, the second half of the year continues to see on-going improvement with any necessary recovery action taken over the last quarter of the year and into 2022/23, with the aim of maximising the level of collection performance wherever possible.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**. At the end of December 2021, the HRA is showing a net overspend of **£0.059m,** which primarily reflects dwelling rental income being behind profile by **£0.111m.**

However as highlighted earlier in the year, a number of activities have been on-going with the aim of reducing the overall void rate closer to the historic level of 2%.

The position reported at the end of Q2 was a void rate of 6% compared with the budgeted rate of 4%. The table below sets out the latest position at the end of Q3:

	Weeks Void	Void Rate	Comments
Sheltered Accommodation	1,651	16%	Reduced from 18% as at the end of Q2
Long Term Voids (more than 180 days)	2,660	4% (of total stock rather than an absolute void rate)	118 properties were void as at the 1 April 2021, which has reduced to 15 at the end of December 2021.
All other properties	1,694	2%	Continues in-line with the historic rate of 2%
Totals	**6,005**	**5%**	Reduced from 6% as at the end of Q2.

As set out in the table above, the overall void rate has reduced from 6% to 5% at the end of December 2021. However, there remains a continued emphasis on reducing the void rate within sheltered blocks along with maintaining a low level of long term empty voids, which should support a stronger 'base' position going into 2022/23.

In addition to the actual reduction in income due to voids, the cost of paying council tax whilst the properties are empty remains ahead of the profiled budget – the cost is currently ahead of the profile by **£0.091m**. This will be kept under on-going review during Q4, with the aim of looking to accommodate the increase within the overall HRA budget for the year.

CAPITAL PROGRAMME – GENERAL FUND

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

As at the end of December 2021, the programme is broadly on target against the profiled position or after taking account of the proposed adjustments set out within **Appendix H.** Detailed comments are provided within the appendix against a number of schemes.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

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

As at the end of December 2021 the programme is behind profile by **£0.169m.**

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.

TREASURY ACTIVITY

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

During Q3, the Treasury Management limit of **£1.000m** that can be held in total across the Council's various current accounts on any one day was exceeded. On 17 December 2021 a total of **£2.213m** was held across the various current accounts.

This happened due to a serious cybersecurity attack on the Council, meaning that the treasury officers were unable to access the systems necessary to move **£1.300m** across to the call accounts. The Council successfully dealt with the cyber security issue, but for a very limited period, the treasury limit set out above was exceeded.

The treasury risk was extremely low as the Council can hold a total of **£4.000m** across the various current and call accounts it holds with Lloyds Bank. The total held by Lloyds Bank on the day in question was **£2.404m,** which was significantly less than the total limit set out above, albeit **£2.213m** was held in the current accounts rather than the call accounts - the overall counterparty risk was therefore no different to that if the necessary transaction had taken place as planned on 17 December.

SECTION 2 – UPDATED LONG TERM FORECAST

The detailed budget for 2022/23, which was based on the most up to date financial forecast, was considered and agreed by Full Council on 15 February 2022. The report considered by Full Council also included a summary of the forecast up until 2026/27.

Although the development of the forecast will continue in 2022/23, there have been no changes since the meeting of Full Council mentioned above. However, for completeness, a summary of the most up to date forecast in terms of the estimated annual position along with the estimated surplus of the forecast risk fund is set out in the following table:

Year	Net Budget Position (including adjusting for prior year use of reserves to balance the budget)	Forecast Risk Fund - Estimated Surplus Balance at the end of the year
2023/24	£1.348m deficit	£2.425m
2024/25	£1.312m deficit	£1.613m
2025/26	£1.205m deficit	£0.908m
2026/27	£1.103m deficit	£0.306m

Although the figures set out within the table above will change as part of updating the forecast on a regular basis during 2022/23, there have been no issues arising that indicate that the long term approach has become unsustainable. Against this background and as discussed previously, it may not be possible to avoid or mitigate adverse issues, such as cost pressures, over the remaining years of the forecast. However, the level of savings required will need to continue to act as the 'safety valve' with the overall position being subject to further updates as part of reporting the quarterly position going forward.

The identification of on-going savings remains as an essential element of the long term financial plan, although it will be important to take a pragmatic and balanced view as it is recognised that there will be growth in council tax and business rates over time that could exceed current forecasts.

In addition to the above, 2022/23 also sees the continued development of a zero based approach to support the long term financial plan.

The next updated forecast will be presented to Members at the end of the first quarter of 2022/23. 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 2021/22 to date, net contributions to the Forecast Risk Fund total **£0.163m,** made up of:

- **£0.040m** contribution to the fund as reported at the end of Q2.
- **£0.123m** proposed contribution to the fund at the end of Q3 as set out in **Appendix H.**

The shortfall to date in 2021/22 of **£0.337m** remains subject to the outturn position for the year, where it may be possible to identify the required net underspends to fully meet the **£0.500m** planned contribution to this reserve. If not, then the final position for the year will need to be reflected in the revised forecast going into 2023/24 and beyond.

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 In-Year Budget