

Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)

To

Cabinet

On

17 September 2019

Report prepared by:

Ian Ambrose, Head of Corporate Finance

Caroline Fozzard, Group Manager for Financial Planning and Control

Agenda
Item No.

Corporate Budget Performance – Period 4

Policy and Resources Scrutiny Committee

Cabinet Members: Councillor Ian Gilbert and Councillor Ron Woodley

Part 1 (Public Agenda Item)

1 Purpose of Report

The corporate budget performance report is a key tool in scrutinising the Council's financial performance. It is designed to provide an overview to all relevant stakeholders. It is essential that the Council monitors its budgets throughout the year to ensure that it is meeting its strategic objectives and that corrective action is taken where necessary.

2 Recommendations

That, in respect of the 2019/20 Revenue Budget Performance as set out in appendix 1 to this report, Cabinet:

- 2.1 Note the forecast outturn for the General Fund and the Housing Revenue Account as at July 2019;
- 2.2 Approve the planned budget transfers (virements) of £1,872,260 between portfolio services, as set out in section 3.7;
- 2.3 Approve the transfer of £2,000,000 from the Children's Social Care Reserve previously approved to assist with the increase in demand and cost within this area;
- 2.4 Approve the transfer of £500,000 from the Interest Equalisation Reserve to fund the additional interest costs due to advance borrowing to take advantage of exceptionally low interest rates.

That, in respect of the 2019/20 Capital Budget Performance as set out in appendix 2 of this report, Cabinet:

- 2.5 Note the expenditure to date and the forecast outturn as at July 2019 and its financing;
- 2.6 Approve the requested changes to the 2019/20 capital investment programme as set out in Section 2 of Appendix 2;
- 2.7 Note the requested additions to the Fire Improvement Works budget of £750k p.a. for the five years from 2020/21 to 2024/25 as set out in the Fire Safety Report elsewhere on this agenda.

3 Background and Summary

Revenue – General fund

- 3.1 In February 2019 the Council agreed for 2019/20 a General Fund revenue budget of £125.647M. This report details the projected outturn position for 2019/20 based on information as at the end of July (period 4).
- 3.2 The first four months of 2019/20 has continued in the same vein as the previous financial year, with increasing service demand placing strain on available resources, despite additional ongoing investment being put into priority areas. Childrens social care and highways continue to be the main pressure areas, although this is offset somewhat by higher than budgeted income from business rates and the contribution from the Essex wide Business Rates pool of an estimated £2M.
- 3.3 The budget does include just under £3M contingency yet to be drawn that could be used to meet the forecast overspend should continued actions not succeed in pulling spend back into line with allocated budgets. The Council also continues to maintain healthy reserves, some of which such as the childrens social care reserve are set aside specifically to guard against these in-year pressures.
- 3.4 The current year end forecast for the General Fund is a £2.6M net overspend which is 0.8% of the gross budget. This net overspend is after the expected additional Business Rates income of £2M. There are some further mitigations which have been applied to this net overspend. In setting the Council budget for 2019/20, £2M was specifically set aside in the Childrens Social Care Reserve to deal with the expected additional cost and demand pressures in this area which is now recommended for release. In addition, the Council had set a contingency within its overall base budget of which £3M remains for the rest of this financial year. At this early stage in the year it would not be advisable to release the full amount, however previous years' use of the contingency would indicate that a proportion of this sum would be available to support the current estimated net overspend. It has therefore been assumed within the net overspend, that £1.5M of contingency is likely to be available by the year end to support this position. There is still a requirement to continue with actions to address the service pressures and continued active budget management across all Council services to achieve a balanced budget by year end.

- 3.5 In conclusion, and despite the current spending and income financial pressures being faced, the Council's financial resilience and ability to cope with unexpected challenges including the residual forecast net overspend remains robust and therefore a balanced year end budget remains achievable.
- 3.6 The Council continues to assess the potential financial implications of Brexit on the provision of Council Services, and the next budget monitoring report to Cabinet due in November will include an update and resourcing requirement, as necessary.

Revenue – General Fund virements

- 3.7 All budget transfer virements over £50,000 between portfolio services or between pay and non-pay budget are to be approved by Cabinet. These budget transfers have a net nil impact on the Council's overall budget. The following budget transfers for Cabinet approval this period are:

| | |
|-------|--|
| £'000 | |
| 379 | Re-alignment of staffing posts in Children's and Adult's |
| 1,419 | Re-alignment of staffing posts within Corporate Strategy |
| 75 | Re-allocation of Vision 2050 fund |

Revenue – Housing Revenue Account

- 3.8 In February 2019 the Council agreed for 2019/20 a balanced Housing Revenue Account revenue budget. This report details the projected outturn position for 2019/20 based on information as at the end of July (period 4).
- 3.9 The forecast for the Housing Revenue Account indicates that the HRA will have a net surplus of (£200,000) in 2019/20, (-0.8%) of gross operating expenditure. Of this £48,000 will be used to fund additional revenue contributions to capital, with the remaining £152,000 being transferred to the HRA Capital Investment Reserve.

Capital

- 3.10 Successful and timely delivery of the capital investment programme is a key part of achieving the Southend 2050 ambition and delivering the outcomes. The investment contributes to the five themes in the following way:
- 3.11 Pride and Joy – the key investment areas are: the ongoing refurbishment and enhancement of Southend's historic pleasure pier and the town's cultural and tourism offer, including libraries, museums and theatres.
- 3.12 Safe and Well – the key investment areas are: the construction and acquisition of new council homes and the refurbishment of existing ones via the decent homes programme; social care with the building of a new care facility and day centre to provide high quality services for people with high and complex needs.
- 3.13 Active and Involved – the key investment area is the Cart and Wagon Shed for the coastal community team to use as part of their community interest company.

- 3.14 Opportunity and Prosperity – the key investment areas are: the Airport Business Park to deliver benefits for both local businesses and local communities, creating thousands of job opportunities and attracting inward investment; the secondary schools expansion programme has delivered 120 permanent additional secondary school places for September 2018 and a further 80 for September 2019. This expansion is across eight of the twelve Southend secondary schools and will result in an additional 1,050 places for 11-16 year old pupils once completed.
- 3.15 Connected and Smart – the key investment areas are: the investment in the borough's highways and transport network, including the improvements to the A127 Growth Corridor funded by the Local Growth Fund; investment in the Council's ICT infrastructure and networks to enable and transform outcome focussed service delivery.
- 3.16 In February 2019 the Council agreed a capital investment programme budget for 2019/20 of £74.361M. This budget was revised at June Cabinet to £90.073M following approved re-profiles and other amendments. £50.329M of this budget is identified as strategic schemes such as the Airport Business Park.
- 3.17 About a third of the programme is financed by Government grants and external developer and other contributions and at the end of July approximately a half had been received. The rest of the programme is funded by capital receipts, the use of reserves or by borrowing. Funding schemes by borrowing has a revenue consequence of approximately £70k for every £1M borrowed.
- 3.18 This report details the projected outturn position for 2019/20 based on information as at the end of July (period 4). The report includes details of progress in delivering the 2019/20 capital investment programme and in receiving external funding relating to that year.
- 3.19 Since June Cabinet capital challenge meetings have been held with the Deputy Leader to ensure that budgets are better aligned to the predicted spend across the years of the programme and to the delivery of the desired outcomes. The changes resulting from those meetings have been included in this report. Also since that Cabinet meeting the Investment Board has agreed some proposed new schemes can progress to Cabinet for consideration. As a result of the above, this report includes any proposed budget reprofiles, virements between schemes, proposed new schemes and proposed scheme deletions.
- 3.20 The progress of schemes for 2019/20 is detailed in section 1 of Appendix 2 with Section 2 setting out the resulting requests to:
- Carry forward £10,955,000 of 2019/20 scheme budgets into future years;
 - Bring forward £274,000 of budget from future years into 2019/20;
 - Add scheme budgets totalling £78,000 into 2019/20 where new external funding has been received;
 - Add scheme budgets totalling £3,470,000 into 2019/20 and £450,000 into 2020/21 for new schemes and additions to the capital investment programme;
 - Action virements of budget between approved schemes;
 - Remove £462,000 of 2019/20 scheme budgets no longer required;

- Move £126,000 for 2019/20, £4,083,000 for 2020/21 and £8,432,000 for 2021/22 to the 'Subject to Viable Business Case' section of the programme.

3.21 As at the end of July the expected capital outturn for 2019/20 is £82,352,000.

3.22 The 2019/20 capital budget is part of the wider capital investment programme spanning several years. The table below shows the revised programme if all the above requests are approved:

| | 2019/20 £(000) | 2020/21 £(000) | 2021/22 £(000) | 2022/23 £(000) | 2023/24 £(000) | Total £(000) |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| At June Cabinet | 90,073 | 88,963 | 40,420 | 6,855 | 6,855 | 233,166 |
| Amendments | (7,721) | 5,491 | (8,117) | 1,242 | 0 | (9,105) |
| Revised programme | 82,352 | 94,454 | 32,303 | 8,097 | 6,855 | 224,061 |

4 Other Options

4.1 The Council could choose to monitor its budgetary performance against an alternative timeframe but it is considered that the reporting schedule provides the appropriate balance to allow strategic oversight of the budget by members and to manage the Council's exposure to financial risk. More frequent monitoring is undertaken by officers and considered by individual service Directors and the Council's Corporate Management Team (CMT) including approval of necessary actions.

5 Reasons for Recommendations

5.1 The regular reporting of Revenue and Capital Budget Monitoring information provides detailed financial information to members, senior officers and other interested parties on the financial performance of the Council. It sets out the key variances being reported by budget holders and the management action being implemented to address the identified issues.

5.2 It also informs decision making to ensure that Members' priorities are delivered within the agreed budget provision.

5.3 It is important that issues are addressed to remain within the approved budget provision or where they cannot be contained by individual service management action, alternative proposals are developed and solutions proposed which address the financial impact; Members have a key role in approving such actions as they represent changes to the budget originally set and approved by them.

6 Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

The robustness of the Councils budget monitoring processes and the successful management of in-year spending pressures are key determinants in

maintaining the Council's reputation for financial probity and financial stewardship. This also enables the ability of the Council to redirect and prioritise resources to ensure delivery of agreed outcomes.

6.2 Financial Implications

As set out in the body of the report and accompanying appendices.

6.3 Legal Implications

The report provides financial performance information. It is consistent with good administration for the Council to consider monitoring information in relation to plans and budgets that it has adopted.

Section 3 of the Local Government Act 1999 requires the Council as a best value authority to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Monitoring of financial and other performance information is an important way in which that obligation can be fulfilled.

The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council is also required by section 28 of the Local Government Act 2003 to monitor its budget, and take corrective action as necessary. The Council's chief finance officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for the Cabinet to receive information about the revenue and capital budgets as set out in the report.

6.4 People Implications

None arising from this report

6.5 Property Implications

None arising from this report

6.6 Consultation

None arising from this report

6.7 Equalities and Diversity Implications

None arising from this report

6.8 Risk Assessment

Sound budget monitoring processes underpin the Council's ability to manage and mitigate the inherent financial risks associated with its budget, due to the volatility of service demand, market supply and price.

The primary mitigation lies with the expectation on CMT and Directors to continue to take all appropriate action to keep costs down and optimise income (e.g. through minimising spending, managing vacancies wherever possible). Adverse variances will require remedial in-year savings and budget reductions. The back-stop mitigation would be to draw on reserves to rebalance the budget, but this will only be done at year end should other measures fail.

With the likely scale of funding pressures and future resource reductions, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year.

6.9 Value for Money

The budget set reflects the Council's drive to improve value for money and to deliver significant efficiencies in the way it operates. Monitoring the delivery of services within the budget set helps to ensure that the planned value for money is achieved.

6.10 Community Safety Implications

None arising from this report

6.11 Environmental Impact

None arising from this report

7 Background Papers

None

8 Appendices

Appendix 1 Revenue Budget Performance 2019/20 – July 2019

Appendix 2 Capital Investment Programme Budget Performance 2019/20 – July 2019