

Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)

To

Cabinet

On

15 September 2020

Agenda
Item No.

Report prepared by:
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Control

Resourcing Better Outcomes - Financial Performance Report – 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 Resourcing Better Outcomes financial 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 2020/21 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 2020.

2.2 Approve the planned budget transfers (virements) of £824,300 between portfolio services, as set out in section 4.11;

That, in respect of the 2020/21 Capital Budget Performance as set out in appendix 2 of this report, Cabinet:

2.3 Note the expenditure to date and the forecast outturn as at July 2020 and its financing;

2.4 Approve the requested changes to the capital investment programme for 2020/21 and future years, as set out in section 3 of appendix 2.

3 COVID-19 Impact and Implications

- 3.1 It is still too early to assess the overall health and economic impact of COVID-19. The challenge is clearly worldwide, and national governments continue to wrestle with putting in place the right package of measures to save lives and to try to minimise the spread of the virus and its impact across the population. Consideration has now turned to how they can safely get their respective economies working again.
- 3.2 The pandemic has had a huge direct operational and financial impact right across the Local Government Sector. All local authorities are struggling with the challenges of uncertainty, large financial pressures and concerns for their residents and local areas in such unprecedented times. Most of the demand and financial pressures highlighted in this report are inextricably linked directly or indirectly to COVID-19.
- 3.3 Effectively managing the short and medium term financial challenges that COVID-19 has brought to the Borough will be an important factor in our future success. There is a separate report elsewhere on this Cabinet agenda that provides an updated assessment of the implications so far and estimates the potential range of impact on the Council's Medium Term Financial Strategy 2020/21 – 2024/25. This report will focus on providing some detail and commentary of the financial variances at a portfolio level that are currently forecast for 2020/21. This is based on the best information that we currently have available.

4 Revenue – General fund

- 4.1 In February 2020, the Council approved a General Fund revenue budget requirement for 2020/21 of £130.429M. This report provides details of the current projected outturn position for 2020/21 based on information as at the end of July 2020 (Period 4). In headline terms the Council is currently forecasting a net overspend of £10.3M for 2020/21, which is around 3.0% of the gross expenditure budget. This also takes into account the three tranches of Emergency COVID-19 Grant (circa £12M) that we have received so far this year.
- 4.2 Other more recent Government initiatives such as the opportunity to spread collection fund deficits and the income guarantee scheme for losses in sales, fees and charges have not yet been assessed or included. At the time of writing this report we had just received the initial guidance on the income guarantee scheme, and we need to assess the potential impact. No technical details on the collection fund arrangements have yet been received. Both initiatives will help to improve the current forecasted position for 2020/21 and ideally this will be reflected in the Period 6 financial performance update which is scheduled to be reported to the Cabinet meeting in November 2020.

- 4.3 The Council is trying to deal with many of the same uncertainties and financial challenges that all other upper tier authorities right across the country are experiencing. It is incredibly difficult to untangle and isolate specific demand and cost pressures that are prevalent across the Authority now due to the impact of COVID-19. It is possible that part of the financial challenge is a continuation of some of the service pressures that were prevalent in 2019/20. This should have been minimised though by the extra investment that was approved for key services as part of the budget setting process for 2020/21. Where required some service recovery plans have been developed but it has proved impossible to fully implement them effectively due to the continuing response and challenges caused by the COVID-19 crisis.
- 4.4 The local government pay settlement for 2020/21 has just been agreed at 2.75%, which is 0.75% higher than budgeted and this is estimated to add around £0.75M to the financial pressure of the Council.
- 4.5 The 2020/21 approved budget did include a one-off £3M earmarked support for Children's Services which has not yet been released or included in the forecast outturn assessment at this early stage of the year. This would clearly reduce the current forecast level of overspending in this area. The Council also has a general contingency of around £1.5M which is still available and uncommitted, but again it has been decided not to release this at this early stage in the year. The situation will continue to be carefully monitored and further consideration and assessment will be provided as part of the Period 6 monitoring report.
- 4.6 A clear area of major concern is the impact COVID-19 is having on income collection and the potential increases in bad and doubtful debts right across all our main income sources. Based on our latest analysis and assessment we are currently forecasting a £1.5M deterioration in our collection of Business Rates. A combination of increasing benefit claimants - working age Local Council Tax Support (LCTS) had increased from 7,700 to 9,316 by the end of July 2020 (21% increase) which has the effect of reducing our Council Tax base, together with additional challenges for collection means that we are currently forecasting a £3.6M shortfall in Council Tax income collected for 2020/21. Our total forecast collection fund deficit of £5.1M (£1.5M + £3.6M) should be slightly offset by a circa £0.5M benefit from our continued participation in the Essex business rates pool.
- 4.7 The Council's new 'Getting to Know Your Business' programme has now started to be implemented. This programme will help to establish a baseline for all services in terms of their costs, income generation potential, value for money and performance. This data will highlight key lines of enquiry where benchmarking may suggest that either our costs or income levels are above or below average. This will lead to potential changes in operation or highlight areas for Cabinet to consider a review of existing policies.

- 4.8 Services are also continuing to develop further recovery and mitigation plans to try to improve the current financial situation. Adult Social Care will undergo a comprehensive independent diagnostic to identify areas for review and improvement. All services are being challenged to try to improve efficiency and productivity to ensure that the resourcing of better outcomes for our residents are achieved at the best value for the local taxpayer.
- 4.9 Clearly, we are all still living with the virus without a current proven and available vaccine and any new spikes that result in a local lockdown or a further tightening of the current arrangements will create additional challenges that we will need to respond proportionately and appropriately to. The Council has also deliberately and prudently maintained a sensible level of reserves that could be used as a last resort at the year end.
- 4.10 Despite the clear and obvious financial challenges highlighted in this report the Council remains in a much stronger and resilient financial position than many other Local Authorities. We will continue to lobby Central Government with our other Essex local authorities for extra resources to both help with our local response but also the transition, preparation, and implementation of our restoration. We will also assess the impact of more recent Government announcements that should help to improve the current overall forecast financial position for 2020/21.
- 4.11 All budget transfers (virements) over £250,000 between portfolios or between pay and non-pay budgets are considered and 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:

£	
824,300	Final re-alignment of budgets to support the go-live of the Passenger Transport Joint Venture

<u>824,300</u>	<u>TOTAL</u>
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5 Revenue – Housing Revenue Account

- 5.1 In February 2020, the Council approved a balanced 2020/21 Housing Revenue Account budget for 2020/21. This report details the projected outturn position for this year based on actual activity and financial performance as at the end of July 2020 (Period 4).
- 5.2 Despite the challenges of COVID-19 the current forecast for the Housing Revenue Account indicates that it will have a net surplus of (£0.3M) in 2020/21, (around -1.3%) of gross operating expenditure. This positive position is predominantly due to increased levels of rental income received due to a lower level of voids within the Housing stock, which demonstrates good housing management practice. It must be noted that there is a risk on the levels of rent arrears due to the impact of COVID-19 on tenant's income and their continuing ability to pay. This situation will be kept under constant review and work is ongoing with tenants to try and provide appropriate support and mitigate any impact.

- 5.3 It is currently anticipated that any surplus will be transferred to the HRA Capital Investment Reserve at the year-end for future planned investment into the housing stock. Potential to use some of the forecast surplus to fund additional revenue contributions to capital is also under consideration.

6 Capital

- 6.1 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:
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 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.
- 6.6 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.
- 6.7 In March 2020 the Council agreed a capital investment programme budget for 2020/21 of £70.957M. The outturn for 2019/20 showed a final spend of £59.5M against a revised budget of £71.0M, an underspend of £11.5M. The proposed budget carry forwards, accelerated delivery requests and other budget re-profiles and amendments initially resulted in a revised budget for 2020/21 of over £124M. It was clear that the programme needed to be reduced and a preliminary review was conducted which concentrated on the key strategic schemes' ability to deliver in the new environment and taking into consideration the position on external funding aligned to those schemes. This reduced the 2020/21 budget to £94.6M.

- 6.8 Despite the challenges to the delivery of the capital investment programme as a result of the global pandemic, the Council's ambition to deliver better outcomes is not diminished. So in line with the approach where schemes can enter the programme during the financial year and not just annually at budget setting, there were a number of priority projects that were approved at the June and July Cabinet meetings for inclusion into the capital investment programme. This increased the 2020/21 budget to £96.0M
- 6.9 £48.612M of this budget is identified as strategic schemes such as the Airport Business Park and the Delaware and Priory new build.
- 6.10 Very few changes are proposed at this stage, as there are still uncertainties around the implications of the COVID-19 pandemic on the capital investment programme delivery for 2020/21 and future years. There is a report elsewhere on the agenda which is considering the future development of the Forum 2 project. If this report is approved, then this will remove £18.950M from the overall programme. As a clearer position on several external factors is available, the capital investment programme will be subject to a more fundamental review. The first stage of this review is planned to complete in time for inclusion in the Period 6 performance report to Cabinet in November.
- 6.11 Progress of schemes will be re-assessed in light of the Council's updated outcomes, refreshed roadmap and six recovery priorities (where major projects are in the capital investment programme these are included as strategic schemes). Some schemes may be removed from the main programme entirely and others held as 'subject to viable delivery plans' until it can be demonstrated that there is the capacity and resources to deliver them in the timescales indicated. Schemes can then be brought back into the main programme as and when it is appropriate to do so. This approach follows the current approach introduced two years ago when schemes can enter the programme during the financial year and not just annually at budget setting.
- 6.12 Just over a quarter of the programme is financed by Government grants and external developer and other contributions and at the end of July approximately 40% 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.
- 6.13 This report details the projected outturn position for 2020/21 based on information as at the end of July (period 4). The report includes details of progress in delivering the 2020/21 capital investment programme and in receiving external funding relating to that year.
- 6.14 Since June Cabinet 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 virements between schemes, new external funding, proposed new schemes and proposed scheme deletions.

6.15 The progress of schemes for 2020/21 is detailed in sections 1 and 2 of Appendix 2 with Section 3 setting out the resulting requests to:

- Add scheme budgets totalling £3,248,000 into 2020/21 where new external funding has been received;
- Add scheme budgets totalling £400,000 into 2020/21 for new schemes and additions to the capital investment programme;
- Action virements of budget between approved schemes;
- Remove £55,000 of 2020/21 scheme budgets no longer required;

6.16 As at the end of July the capital outturn for 2020/21 is currently estimated at £99,622,000. This is expected to reduce following the fundamental review of the capital investment programme as highlighted in 6.10 and 6.11. An updated assessment will be included in the Period 6 performance report and presented to Cabinet in November 2020.

6.17 The 2020/21 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:

	2020/21 £(000)	2021/22 £(000)	2022/23 £(000)	2023/24 £(000)	2024/25 £(000)	Total £(000)
At July Cabinet	96,029	76,724	23,324	13,270	16,835	226,182
Amendments	3,593	0	0	0	0	3,593
Revised programme	99,622	76,724	23,324	13,270	16,835	229,775

7 Other Options

7.1 The Council could choose to monitor its budgetary performance against an alternative timeframe but it is considered that the current reporting schedule provides the appropriate balance to allow strategic oversight of the budget by members and to also formally 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 the implementation of any necessary remedial actions.

8 Reasons for Recommendations

8.1 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 associated management action being implemented to address any identified issues.

8.2 It also informs decision making to ensure that the Council's priorities are delivered within the approved budget provision.

- 8.3 It is important that any adverse variances are addressed in order for the Council to remain within the approved budget provision or where this cannot be achieved by individual service management action, alternative proposals are developed and solutions proposed which will address the financial impact. Members will have a key role in approving any actions if the alternative proposals represent significant changes to the service delivery arrangements originally approved by them.

9 Corporate Implications

9.1 Contribution to the Southend 2050 Road Map

The robustness of the Council's budget monitoring processes and the successful management of in-year spending pressures are key determinants in maintaining the Council's reputation for strong financial probity and effective stewardship. This approach also enables the Council to redirect and prioritise resources to ensure the delivery of agreed outcomes for the benefit of local residents, local businesses and visitors to Southend-on-Sea.

9.2 Financial Implications

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

9.3 Legal Implications

The report provides financial performance information. It is good governance and sensible management practice 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 effective budgetary control. To comply with these best practice arrangements, it is important that Cabinet receive information and comment accordingly on the performance of the revenue and capital budgets as set out in the report.

9.4 People Implications

None arising from this report

9.5 Property Implications

None arising from this report

9.6 Consultation

None arising from this report

9.7 Equalities and Diversity Implications

None arising from this report

9.8 Risk Assessment

Sound budget monitoring processes underpin the Council's ability to manage and mitigate the inherent financial risks associated with its budget, primarily caused by 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. Any adverse variances will require the development of remedial in year savings plans and appropriate spending reductions wherever possible. The ultimate back-stop mitigation would be to draw on reserves to rebalance the budget, but this will only be done at year end and will only be considered should all other in year measures fail.

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

9.9 Value for Money

The approved budget 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 helps to highlight areas of concern and to assist in the achievement of improved value for money.

9.10 Community Safety Implications

None arising from this report

9.11 Environmental Impact

None arising from this report

10 Background Papers

Approved 2020/21 Budget – Report to Council 20 February 2020
Medium Term Financial Strategy 2020/21 – 2024/25

11 Appendices

Appendix 1 Period 4 – July 2020 Revenue Budget Performance 2020/21

Appendix 2 Period 4 – July 2020 Capital Investment Programme
Performance 2020/21