

Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)

To

Cabinet

On

14th January 2021

Report prepared by:

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Agenda
Item No.

Resourcing Better Outcomes - Financial Performance Report – Period 8
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 November 2020.

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

2.2 Note the expenditure to date and the forecast outturn as at November 2020 and its financing;

2.3 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 The overall assessment of the health and economic impact of COVID-19 is continuing and will undoubtedly do so for a long time to come. The challenge is clearly worldwide, and national governments are still wrestling with how they can tactically put in place the right package of measures to save lives and to try to minimise the spread of the virus and its impact across their respective populations.
- 3.2 These plans have been disrupted by major concerns of a resurgence in the virus and the potential impact of a second or even third wave of the pandemic. There has been a significant rise in the number of confirmed positive cases and several areas across the UK have already had additional lockdown measures imposed locally to try and contain and reduce the spread and impact of the virus. A new extended tier system is now in place and at the time of writing this report Southend-on-Sea, along with the rest of Essex had just moved into the top tier 4 category, which means the most severe restrictions are now imposed locally.
- 3.3 Alongside these worrying developments, there has also been some very positive announcements around the successful testing of various potential vaccines to immunise people against the virus. Consideration has now turned to how these new vaccines can be safely and quickly deployed across populations, prioritising the most vulnerable in the first instance with the obvious ambition to finally get everyday life back to normal again. The logistics of implementing such a huge immunisation strategy will take many months but it is clearly vital for everyone's health and wellbeing and critical to successfully getting our local economies working effectively again.
- 3.4 The pandemic continues to have 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 still inextricably linked directly or indirectly to COVID-19.
- 3.5 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. This report focuses on providing some updated 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 November 2020 (Period 8).

- 4.2 The total national value of COVID-19 emergency grant funding announced so far in 2020/21 is now £4.6 Billion. On 22nd October, Southend-on-Sea received notification of its share of the 4th tranche of funding - £2,443,745. This brings our total emergency grant funding allocation for the year to £14,471,638. The total £4.6 Billion emergency grant funding has now been distributed to individual local authorities based on the Relative Needs Formula (RNF).
- 4.3 The Council, together with its partners has worked extremely hard to support local residents and businesses to help them cope with the challenges caused by the pandemic. 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 still 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. A lot of concentrated effort recently has also been deployed to try to get to grips with the underlying financial challenges. Government have played a part by providing significant additional one-off resources, but the sheer scale and impact of the virus has forced the Council to look closely again at every aspect of its operational arrangements. This effort is now beginning to have a positive impact on reducing the forecasted overspend for 2020/21.
- 4.4 In headline terms the Council is now forecasting a net overspend of £3.05M for 2020/21, which is around 1.3% of the gross expenditure budget. The forecast overspend has reduced by around £2.85M from the £5.90M level that was reported at Period 6. A significant contribution to this improvement in financial performance is due to our 2nd claim for support from the Government's Income Compensation Scheme (for the period August - November 2020). This brings our total value of compensation so far in 2020/21 to circa £4.15m. The other major variances are highlighted in Appendix 1. We are still operating in a very uncertain and challenging environment and there are genuine concerns around potential hidden demand for key services in our local communities, which makes future business and financial planning very difficult.
- 4.5 The other major financial support initiative previously announced by the Government was to provide an opportunity for local authorities to spread collection fund deficits over the next three years. The impact of this proposal has not yet been fully assessed or included as we have only just received the technical details and specific guidance. We are also waiting for clarification of the announcement contained in the headlines of the Provisional Finance Settlement 2020, regarding additional Government support equating to 75% for irrecoverable losses in the Collection Fund for 2020/21. These initiatives should provide some additional positive support to our financial position, but we need clarity on how the Government will define 'irrecoverable losses' and what the new accounting arrangements will be for our Collection Fund.

- 4.6 The 2020/21 approved budget did include a one-off £3.0M earmarked support for Children's Services which has not yet been released or included in the forecast outturn assessment at this 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 £1.0M which is still available and currently uncommitted, but again given all the uncertainty it has been decided not to release any of this amount at this point in the year. The situation will continue to be carefully monitored and further consideration and assessment will be provided as part of the 2020/21 Outturn report to Cabinet.
- 4.7 A major area of ongoing concern is the impact COVID-19 is having on income collection generally 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 now forecasting a circa £1.5M deterioration in our collection of Business Rates. Increasing numbers of benefit claimants – particularly those eligible for working age Local Council Tax Support have increased from 7,700 to 9,468 by the end of November 2020 (a 23% increase this year), which directly reduces our Council Tax base. This impact together with the additional challenges of collection means that we are now forecasting a £2.95M shortfall in Council Tax income collected for 2020/21. Although this shows an overall improved position from Period 6 it is still very concerning and will continue to be closely monitored, particularly given the latest development of moving Southend-on-Sea into Tier 4.
- 4.8 This improved position can partly be attributed to the positive response from residents to our recent reminder and raising awareness campaign of the importance of maintaining council tax payments and/or seeking advice and support from our revenues and benefits teams when needed. It is hoped that residents can continue to make payments in the current climate and the additional financial support that is being provided to our local businesses will also help to improve this situation. The total forecast collection fund deficit is now £4.45M (£1.5M + £2.95M) and given the uncertainty at this stage we have not included any benefit from our continued participation in the Essex business rates pool. The situation will continue to be carefully monitored for the remainder of the financial year.
- 4.9 The Council's new 'Getting to Know Your Business' programme has now been operational for a couple of months. The first phase of the programme has helped to establish a baseline for all services in terms of their costs, income generation potential, value for money and relative performance. This data is now being used to 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 and service delivery arrangements.

- 4.10 Most services are also continuing to develop further recovery and mitigation plans to try to improve the current financial situation and prepare for the huge financial challenge for 2021/22 – 2025/26. Adult Social Care are currently part way through a comprehensive independent diagnostic assessment to identify areas for review and improvement. All services are continually being challenged to try to improve efficiency and productivity to ensure that the resourcing of better outcomes for our residents are achieved, whilst also representing the best value for money for the local taxpayer.
- 4.11 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 more significantly for the transition, preparation, and implementation of our recovery from the pandemic.
- 4.12 We will evaluate the implications of the Spending Review 2020 to understand any implications for 2020/21 and interpret the finer details of the Government's recently announced one-year provisional financial settlement for 2021/22. We will also continue to assess the impact of any future Government announcements and analyse the accounting implications of the two collection fund initiatives (75% support for irrecoverable losses and spreading of collection fund deficits). Once implemented these initiatives should improve the current overall forecast financial outturn for 2020/21.
- 4.13 The final area that still provides some concern and uncertainty in these unprecedented times is the potential impact of whatever the exact terms of the country's negotiated exit with a trade deal from the European Union will be. At the time of writing this report the full details of Brexit were still being assessed and evaluated. The UK Government and the European Parliament were finalising their respective appropriate governance arrangements to vote through the overall proposed exit package. We will continue to monitor the situation and update Cabinet and Council as appropriate.

5 Revenue – Housing Revenue Account (HRA)

- 5.1 In February 2020, the Council approved a balanced Housing Revenue Account budget for 2020/21. This report provides the details of the projected outturn position for this year based on actual activity and financial performance as at the end of November 2020 (Period 8).
- 5.2 Despite the challenges of COVID-19 the current forecast for the HRA indicates that it will have a net surplus of (£0.629M) in 2020/21, (around -2.7%) 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. The major improvement in the financial performance from Period 6 is due to an estimated £0.160M underspend based on the revised internal borrowing requirement for the HRA Capital Programme for 2020/21.

- 5.3 There is a risk of increasing levels of rent arrears caused by the impact of COVID-19 on tenant's income and their continuing ability to pay. An initial £0.250M provision has been included as part of the current forecast. This situation will be kept under constant review and work is ongoing with tenants to try and provide appropriate support and advice to mitigate any impact.
- 5.4 A range of additional expenditure pressures have been experienced, primarily to clear the backlog of works on voids and gas appliances. These extra costs are directly attributed to COVID-19. There are also other potential expenditure implications which are still under discussion with South Essex Homes.
- 5.5 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 – Southend 2050

- 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.

7 Capital – Deliverability and Affordability

- 7.1 There is inevitably a gap between the capital investment programme ambition and the finite available resources to afford and deliver the programme. This limits the number and value of schemes that are affordable and deliverable.
- 7.2 The average capital investment delivered over the last 12 years has been circa £60m. Therefore on average it has been assumed to be the core deliverable level of programme each year. There will always be exceptions over and above this amount, for example where the Council is passporting grant or providing loans to partner organisations or purchasing property for strategic and regeneration purposes. These must form part of the capital investment programme but they do not create an issue with deliverability.
- 7.3 In order to aim for a deliverable level of programme each financial year there will need to be prioritisation and re-sequencing of projects. Since July a programme review has been underway. Multiple rounds of capital challenge sessions have taken place with project managers and directors to:
- re-assess schemes in light of the Council's updated outcomes, refreshed roadmap and six recovery priorities;
 - re-assess schemes in light of the effects of the global pandemic on deliverability and affordability;
 - ascertain more realistic budget profiles based on expected delivery timescales and to ensure resources are in place to deliver them;
 - review the overall programme to achieve a more even investment profile across the years, to ensure it is realistic and affordable as a whole;
 - consider whether any schemes can be stopped or paused;
 - consider whether any schemes should be subject to a viable business case assessment;
- 7.4 This has led to some schemes being deleted from the capital investment programme whilst others have been moved to the 'subject to viable business cases' section below the main programme. These schemes can be brought up into the main programme at the appropriate time in line with the approach where schemes can enter the programme during the financial year and not just annually at budget setting. This approach should ensure that the programme is affordable, deliverable and focussed on the Council's key priorities.
- 7.5 The resulting requested changes to the capital investment programme for 2020/21 and future years are included in section 3 of appendix 2.
- 7.6 Just over a quarter of the programme is financed by Government grants and external developer and other contributions and at the end of November over three quarters 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. In order to be affordable these revenue implications need to be sustainable in the medium and longer term.

8 Capital – Budget Updates and Projected Outturn

- 8.1 In March 2020 the Council agreed a capital investment programme budget for 2020/21 of £108.6M. In June 2020 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 at June Cabinet.
- 8.2 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, July, September and November Cabinet meetings for inclusion into the capital investment programme. Also the Forum 2 scheme budget was removed as a result of the decision to bring this project to a conclusion. Together with budget re-profiles this had the net effect of decreasing the 2020/21 budget to £62.3M.
- 8.3 £27.4M of this budget is identified as strategic schemes such as the Airport Business Park, Southend Pier schemes and the Delaware and Priory new build.
- 8.4 This report details the projected outturn position for 2020/21 based on information as at the end of November (period 8). The report includes details of progress in delivering the 2020/21 capital investment programme and in receiving external funding relating to that year.
- 8.5 Since November Cabinet the Investment Board has agreed some proposed new schemes can progress to Cabinet for consideration. The Council has also purchased the Victoria shopping centre as a strategic acquisition on the High Street and for the future regeneration benefits it offers through its proximity to Better Queensway. As a result of this and the ongoing review, this report includes any virements between schemes, re-profiles across years, new external funding, proposed new schemes, proposed scheme deletions and movements between the main programme and the 'subject to' section.
- 8.6 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:
- Carry forward £3,605,000 of 2020/21 scheme budgets into future years;
 - Bring forward £905,000 of budget from future years into 2020/21 and £2,655,000 of budget from future years into 2021/22;
 - Add scheme budgets totalling £2,570,000 into 2020/21 and £109,000 into 2021/22 where new external funding has been received;
 - Add scheme budgets totalling £1,694,000 into 2020/21 and £121,000 into 2021/22 for new schemes and additions to the capital investment programme;
 - Action virements of budget between approved schemes;

- Remove £115,000 from 2020/21 and £246,000 from 2021/22 for scheme budgets no longer required;
- Transfer £10,900,000 from the 'Subject to Viable Business Case' section to the main Capital Investment Programme in 2020/21, £500,000 in 2021/22 and £500,000 in 2022/23;
- Transfer £714,000 from the main Capital Investment Programme to the 'Subject to Viable Business Case' section in 2021/22, £6,769,000 in 2022/23 and £685,000 in 2023/24;

8.7 As at the end of November the capital outturn for 2020/21 is currently estimated at £74,624,000.

8.8 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)	2025/26 £(000)	Total £(000)
At November Cabinet	62,275	66,766	46,356	17,010	21,978	0	214,385
Amendments	12,349	2,326	(4,410)	(2,504)	(8,559)	8,663	7,865
Revised programme	74,624	69,092	41,946	14,506	13,419	8,663	222,250
General Fund	58,837	50,858	22,664	6,778	5,778	8,663	153,578
HRA	15,787	18,234	19,282	7,728	7,641	0	68,672

2020/21 capital expenditure to 31/12/2020: £44,175,000

For 2020/21 the revised budget includes the purchase of the Victoria Centre (£10.9M) and the inclusion of £3.2M of new budget for the Next Steps Accommodation Programme. Although these take the revised budget over £60M they should not affect the deliverability of the programme as the first is a one-off purchase and the second relates to grant monies that have to be spent by March 2021. More details of these new budgets can be seen in Appendix 2.

For 2021/22 the revised budget includes £6.7M for the Priory New Build and £5.6M for the Airport Business Park launchpad. Although these take the revised budget over £60M they should not affect the deliverability of the programme as they are part of on-going projects that are delivering at pace.

9 Other Options

9.1 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.

10 Reasons for Recommendations

- 10.1 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.
- 10.2 It also informs decision making to ensure that the Council's priorities are delivered within the approved budget provision.
- 10.3 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.

11 Corporate Implications

11.1 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.

11.2 Financial Implications

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

11.3 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.

11.4 People Implications

None arising from this report

11.5 Property Implications

None arising from this report

11.6 Consultation

None arising from this report

11.7 Equalities and Diversity Implications

None arising from this report

11.8 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.

11.9 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. Effectively 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.

11.10 Community Safety Implications

None arising from this report

11.11 Environmental Impact

None arising from this report

12 Background Papers

Approved 2020/21 Budget – Report to Council 20 February 2020
Medium Term Financial Strategy 2020/21 – 2024/25
Resourcing Better Outcomes – Financial Performance Reports Period 4
(Cabinet - September 2020) and Period 6 (Cabinet – November 2020)

13 Appendices

Appendix 1 Period 8 – November 2020 Revenue Budget Performance
2020/21

Appendix 2 Period 8 – November 2020 Capital Investment Programme
Performance 2020/21