

REPORT TO EXECUTIVE

Date of Meeting: 7 April 2020

REPORT TO COUNCIL

Date of Meeting: 21 April 2020

Report of: Chief Finance Officer

Title: Overview of General Fund Revenue Budget 2019/20 – Quarter 3

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To advise Members of the overall projected financial position of the General Fund Revenue Budgets for the 2019/20 financial year after nine months.

2. Recommendations:

It is recommended that Members of the Executive note the report and Council notes and approves (where applicable):

- i. The General Fund forecast financial position for the 2019 financial year;
- ii. The supplementary budgets of £1,440,390 as detailed in paragraph 8.13;
- iii. The outstanding Sundry Debt position as at December 2019; and
- iv. The creditors payments performance

3. Reasons for the recommendation:

To formally note the Council's projected financial position and to approve additional expenditure required during the financial year.

4. What are the resource implications including non financial resources.

The impact on the General Fund working balance is set out in sections 8.11.

The financial position has stabilised and the General Fund Working Balance is projected to stand at £4.328 million at year end.

5. Section 151 Officer comments:

The Council's financial position has been set out prior to the implications of the Government's response to Coronavirus. In reality, this will likely have a relatively small impact on the final position for 2019-20, but has significant implications for 2020-21.

The current position provides the City Council with a relatively strong working balance, at the end of the financial year, although that will be severely under pressure in 2020-21 as the loss of income from all our activities covers the services that the Council provides. Without Government support, a prolonged period of income loss will threaten the Council's viability during the next twelve months and likely require service reductions and the issuing of a section 114 notice. Many District Councils will undoubtedly be in the same position and therefore it is important that our voices are heard in Central Government.

The Government announced a £1.6 billion grant for Local Authorities to support Social Care (Adults and Children), the Homeless and Rough Sleepers and to offset loss of income. Exeter will receive £72,737 from this pot and notwithstanding the vital need to support our Homeless and rough sleepers, this would equate to covering around three days' worth of lost car park income. This gives an indication as to the scale of challenge that the Council faces.

Alongside viability, the Council also faces Cashflow challenges. As the Billing Authority, the Council receives Council Tax and Business Rates and then distributes this to the precepting Authorities and Business Rates pool. If the regular payments are not received, the Council will be forced to borrow at fairly high rates to cover the difference, unless the Government provide access to cash. This will impact the Council from the middle of April so an urgent decision is required from Central Government. This will impact all District Councils and also Unitaries who have to make payments to the Police and Fire Services.

Looking forward, the MHCLG have indicated that the Fair Funding review will be delayed. At this stage it is unclear whether this means a further delay in the Business Rates reset or merely a delay in the Consultation timetable. The section 151 Officer will keep members updated as further information arises.

6. What are the legal aspects?

Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.

7. Monitoring Officer's comments:

- 7.1 S. 114 of The Local Government Finance Act, 1988 places responsibilities on the Chief Finance Officer. In particular Section 114 (3) requires the "the Chief Finance Officer to *report under this section if it appears to him "that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely*

to exceed the resources (including sums borrowed) available to it to meet that expenditure.”

7.2 The purpose of this Section 114 notice is to make it clear to Members of the Council that it faces a financial of an extremely serious nature; with a significant unfunded financial deficit forecast in the current year.

7.3 Any such Section 114 notice, therefore, has serious implications aimed at prompting action to attempt to avoid a negative General Fund balance.

8. Report details:

Overview of General Fund Revenue Budget 2019/20 – Quarter 3#

8.1 Impact of COVID-19

This report is based on forecasts made based on the first three quarters of 2019/20. It has now become evident that there are significant risks to ECC’s income streams in light of COVID-19, in particular car parking, markets and halls and commercial rents. The Prime Minister’s advice issued on 16 March to avoid unnecessary travel and contact with others may result in a significant reduction in footfall over the next 12 weeks leading to a decrease in car parking income and possible loss of rental income and business rates. Businesses will be hoping for positive announcements from the government on direct support. This may mitigate the worst impacts on individual businesses but the direct impact on council income may not be protected. We are now near the end of the 2019/20 financial year and while some impact will be seen in the year-end figures the largest impact will be in 2020/21.

8.2 Financial Summary

FUND	Planned Transfer (to) / from Working Balance	Budget Variance Over / (under)	Outturn Transfer 2019/20
	£	£	£
General Fund	849,250	(781,780)	67,470

8.3 General Fund (Appendix 1 & Appendix 2)

The current forecasts show an overall projected underspend of £785,425 against a revised budget of £22,891,720. This includes supplementary budgets of £4,319,860 already agreed by Council.

Variances of more than +/- £30,000 are detailed below.

8.4 Chief Executive & Growth Director

Budget Heading	Over / (Underspend)
IT Services	(£79,200)

Responsible Officer: Corporate Manager, Executive Support

The 2018/19 refund to shareholders was higher than anticipated and contract savings have been identified in 2019/20. The combined figure of these two savings will more than outweigh the expected drop in return due in 2019/20 that has been identified by the company.

Strategic Management

£40,620

Responsible Officer: Chief Executive & Growth Director

The forecast overspend is a result of additional costs on revamping the council's website and further expenditure in relation to implementing Agile and Flexible working. It is envisioned that this will bring greater savings and rental income from leasing out Phase 1 of the Civic Centre that will outstrip these costs.

8.5 Communities, Health, Well Being & Leisure

Budget Heading	Over / (Underspend)
Active & Healthy People	(£124,370)

Responsible Officer: Active & Healthy People Programme Lead

£80,000 staff costs that were included within the ECC budget will now be funded by grant funding from Sport England.

The three year Exeter Voluntary and Community Support Sector Service Contract commenced in December instead of September; this budget is funded by Neighbourhood CIL contributions and so the 2019/20 saving will be re-allocated in future years.

Grants and Social Inclusion

(£291,635)

Responsible Officer: Active & Healthy People Programme Lead

The new Exeter Grants Programme funded by Neighbourhood CIL and New Homes Bonus was introduced in September, this has resulted in a one-off in year saving of £57k in the existing ECC budgets. £234k of the new grants budgets will not be fully allocated in this financial year, but the funding will be available to re-allocate in future years.

8.6 Strategic Housing, City Development, Housing Needs & Homelessness, Customer Services, Welfare Reform, Revenues, Benefits & Business Rates and Democratic Services

Budget Heading	Over / (Underspend)
Housing Needs & Homelessness	(£38,300)

Responsible Officer: Service Lead, Housing Needs & Homelessness	
The Devon Home Choice budget included an allowance for new IT software including significant installation costs, however, the tender was won by the existing provider so the additional expenditure is not required. The Devon Home Choice budget is funded by members of the scheme through funds held in a reserve.	
General Fund Housing - Property	£90,000
Responsible Officer: Service Lead – Housing Tenancy Services & Service Lead – Housing Assets	
The Housing Needs team have reassessed and re-banded a large number of households in Private Sector Leased (PSL) properties in order to create some move-on out of temporary accommodation. This provided an opportunity to handback some PSL properties with financially onerous lease agreements, which has led to a rise in handback costs alongside a reduction in rental income. Although this represents an in-year overspend, it will achieve future revenue savings due to ending leases with favourable terms to the landlord.	
Planning Services	(£140,000)
Responsible Officer: City Development Manager	
Planning fee income has been higher than anticipated this year due to a number of major planning applications. Fee income attributable to the 20% fee uplift introduced in 2018 can only be used to improve the Planning service, if this is unspent at year end it will be transferred to an earmarked reserve, the remaining additional income will increase the ECC general fund working balance.	

8.7 Communication, Tourism & Culture

Budget Heading	Over / (Underspend)
Culture	(£48,420)
Responsible Officer: Service Lead Communications, Tourism & Culture	
Following the success of the Exeter Festival during the 2018/19 financial year significant extra income has been gained through sponsorship and other opportunities associated to the festival, hence the current underspend.	

8.8 Environment and City Management

Budget Heading	Over / (Underspend)
Street Cleaning	(£50,000)
<p>Responsible Officer: Public & Green Space Operations Manager</p> <p>Staff costs are expected to be £45,000 less than the budget.</p> <p>Additional savings of £5,000 are expected on fuel costs.</p>	
Cleansing Chargeable Services	(£71,835)
<p>Responsible Officer: Service Lead, Cleansing and Fleet</p> <p>This shows the benefit of the new contract for the University of Exeter and the strong performance of the Garden Waste subscription service in attracting new subscribers.</p>	
Exton Road Overheads and Fleet	£67,840
<p>Responsible Officer: Service Lead, Cleansing and Fleet</p> <p>The regular contracted clearing of Oakwood House drains now required after washing street-cleaners and other vehicles is costing around £25,000 a year more than budgeted; electricity is forecast to cost £13,000 more than budgeted. Purchases of PPE (Personal Protective Equipment) have cost £10,600 more than budgeted, but this is an irregular cost.</p>	
Recycling	£380,585
<p>Responsible Officer: Service Lead, Cleansing and Fleet</p> <p>Previous reports have noted the volatility and unpredictability of the global recycling market. Budgeted income was £1.3m for the full year, but is forecast at a little under £1.0m because prices internationally have collapsed – card sorted for recycling used to bring in £88 per ton and for the whole of Q3 2019/20 the price obtainable varied between £12 and £15 per ton, paper has dropped from £103 to £68, and glass is now unsaleable. In addition, volume is heavily dependent on the mix put out by residents for collection and recent and continuing problems with the MRF have significantly reduced the quality and quantity of recycled materials recovered, leading to materially higher costs because unsaleable material has to be disposed-of. The Service is confident that investment in the MRF will eliminate this barrier to recycling rates and saleability of recovered material.</p> <p>Information systems are being reviewed to see if material changes can be identified earlier, although this is difficult because, for example, external system delays in the confirmation of recycling credits (£454k per year) meant that Q4 2018/19 was only confirmed in July 2019 and Q1 Apr-Jun 2019/20 in October 2019. It is only now apparent that this year's recycling credits are consistently in the region of £25,000 per quarter lower than budgeted.</p> <p>At year-end the reasons for the full 2019/20 results will be reviewed and compared with the 2020/21 budget to identify priority areas requiring close management next year.</p>	

Corporate Property – Estates	(£365,000)
<p>Responsible Officer: City Surveyor</p> <p>Additional rental income of £435,000 is expected to arise in this service as a result of the purchase of Senate Court and 1, Emperor Way, partially offset by the loss of income from the Guildhall shop.</p> <p>Additional costs of £70,000 are expected to arise as a result of lease requirements at several properties including the Civic Centre, Paris Street Cafe, Swan Yard Workshop, 78 Birchy Barton Hill and Bradninch Place.</p>	
Parking Services	(£70,000)
<p>Responsible Officer: Community Safety & Enforcement Service Manager</p> <p>Backdated refunds of National Non Domestic Rates (NNDR) for three car parks have resulted in a saving of £113,000</p> <p>Staffing vacancies are expected to result in pay savings of £30,000</p> <p>Additional operational costs of £73,000 are expected to arise mainly in respect of increased charges for pay by phone and card payments, and security costs.</p>	
Waterways	£60,000
<p>Responsible Officer: Community Safety & Enforcement Service Manager</p> <p>Long term sickness has resulted in additional pay costs, but this has been offset by savings on pay elsewhere in the service.</p> <p>Expenditure on buoys is expected to exceed the budget by £20,000</p> <p>Income from Canal Licences is now expected to be £40,000 less than the budget and other income is also expected to be less than the budget.</p>	
Corporate Property - Assets	(£38,000)
<p>Responsible Officer: City Surveyor</p> <p>An £18,000 European Regional Development Fund grant has been received reducing net costs in this service.</p> <p>A vacant post is expected to lead to a £20,000 reduction in costs.</p>	
Corporate Property - Energy	(£59,000)
<p>Responsible Officer: City Surveyor</p> <p>A £54,000 European Regional Development Fund grant has been received reducing net costs in this service.</p> <p>Maintenance costs are expected to be £5,000 less than the budget.</p>	

8.9 Chief Finance Officer

Budget Heading	Over / (Underspend)
Procurement	£123,230
<p>Responsible Officer: Service Lead - Commercial and Procurement</p> <p>The procurement department is still undertaking work to improve and firm up the council's procurement processes with a focus on making them legal and compliant. This work is designed to identify and achieve efficiency savings however, the current forecast position means that this is an area of uncertainty. At present, areas benefiting from the service's work may reflect reduced costs in awarding contracts and the savings will be reflected in the department's budgets where the contract sits. It is expected that savings by the department will not be reflected in the outturn position for the 2019/20 year.</p>	

8.10 City Solicitor

Budget Heading	Over / (Underspend)
Human Resources	(£32,790)
<p>Responsible Officer: Service Lead – HR</p> <p>During the first half of the 2019/20 financial year, there were delays in services booking on to approved staff training with providers resulting in an underspend of around £56,000. However, this underspend is reduced by overspends in staff pay costs arising from the transformation in the delivery of HR Services. Such transformation has largely consisted in the introduction and implementation of the New HR iTrent Software that will streamline HR transaction activities.</p>	
Corporate Support	(£78,790)
<p>Responsible Officer: Corporate Manager Democratic and Civic Support</p> <p>The Corporate Support budget is largely affected by the performance of the Civic Centre. The forecast saving is partly attributable to efficient use of electricity in the buildings. A review of rates has reduced the NNDR expenditure and rental income from Phase 1 has been more than planned with an extra tenant on the 4th floor.</p>	

8.11 Other Financial Variations

Budget Heading	Over / (Underspend)
Repayment of Debt	(£155,580)
<p>Responsible Officer: Chief Finance Officer</p> <p>A lower than forecast need to borrow has resulted in a reduced repayment of debt calculation.</p>	

8.12 General Fund Balance

In 2019/20 it is projected that there will be an overall net contribution from the General Fund Balance of £67,470. The minimum requirement for the General Fund working balance was approved by Council in February 2019 at £3 million and it is projected that the balance will be comfortably above this level.

Movement	2019/20
Opening Balance	£4,395,024
Deficit	(£67,470)
Projected balance at year end	£4,327,554

8.13 Supplementary Budgets

It is proposed that supplementary budgets totalling £1,440,390 identified in Appendix 3 are approved and added to the 2019/20 budget.

This will have no impact on the projected General Fund working balance.

8.14 Outstanding Sundry Debt

An aged debt analysis of the Council's sundry debts is shown in the table below. The latest data shown is to the end of December.

Age of Debt	October 2018	March 2019	December 2019
Up to 29 days (current)	£843,953	£1,356,559	£1,204,919
30 days – 1 Year	£1,565,908	£1,613,514	£2,505,668
1 – 2 years	£948,849	£647,966	£472,577
2 – 3 years	£379,750	£617,436	£537,956
3 – 4 years	£613,242	£511,466	£290,301
4 – 5 years	£229,027	£275,815	£463,515
5 + years	£548,338	£583,089	£686,173
Total	£5,129,067	£5,605,845	£6,161,109

8.15 Debt Write-Offs

The following amounts have been written-off during 2019/20:

	2018/19 Total	2019/20 (Qtr 3)
• Council Tax	£351,917	£233,454
• Business Rates	£73,387	£0
• Sundry Debt	£52,786	£29,397
• Housing Rents	£65,824	£71,214
• Non-HRA Rents	£167,125	£86,442
• HB Overpayments	£195,758	£113,869

8.16 Creditor Payments Performance

Creditors' payments continue to be monitored in spite of the withdrawal of statutory performance indicator BVPI8. The percentage paid within 30 days was 95.34% after nine months of 2019/20 compared with 94.52% at the same stage of the financial year in 2018/19.

9. How does the decision contribute to the Council's Corporate Plan?

This is a statement of the projected financial position to the end of the 2019/20.

10. What risks are there and how can they be reduced?

The risks relate to overspending the Council budget and are mitigated by regular reporting to the Strategic Management Board and Members. Members have a legal responsibility to take action where balances are projected to reach an unsustainable level and the Strategic Management Board are working to address the current projected shortfall in reserves.

Areas of budgetary risk are highlighted in this report. The key areas of budgetary risks are attached as Appendix 4, for reference.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

11.4.1 There are no significant equality and diversity impacts associated with this decision.

12. Carbon Footprint (Environmental) Implications:

There are no direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

Not applicable.

Dave Hodgson, Chief Finance Officer

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-
None

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