Committee(s): Policy, Resources & Economic Development Committee	**Date:** 30 September 2021
Subject: Budget Monitoring Update Report	**Wards Affected:**
Report of: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources)	**Public**
Report Author/s: Name: Phoebe Barnes Corporate Manager - Finance Telephone: 01277 312839 E-mail:phoebe.barnes@brentwood.gov.uk	**For Information**

Summary

The purpose of this report is to set out the forecast revenue and capital budget positions as at period 5 for 2021/22 and to give an overall financial update for the Council.

The commentary of the report does not attempt to cover all budgetary changes but draws attention to the key factors affecting net expenditure differences.

The General Fund is forecasting a balanced budget, this is where income matches to expenditure. The utilisation of reserves has allowed the Council to mitigate in year budget pressures so there is no impact on the Council's general working balance.

The Housing Revenue Account (HRA) is currently forecasting a deficit position of £290k. In year pressures associated with the housing development programme regarding costs that cannot be capitalised have impacted this negative position.

The Capital Programme including slippage totalled £33.211m. Majority of projects are forecast to complete with an expected delay in some projects resulting in a budgetary impact of £550k below the budget. This underspend will be considered as slippage into next year's programme.

Main Report

Introduction and Background

1. The report provides a financial update for the General Fund, Housing Revenue (HRA) and Capital Budgets for 2021/22, based on operational and financial impacts for the period April to August 2021. As a result of current operational and transitional arrangements, the financial impact of COVID-19 is included in the report.

2. On 24th February 2021 Ordinary Council set a budget for the General Fund that forecast a £240k surplus. To date as at Period 5 monitoring, it is expected the outturn for 2020/21 will be a balanced position.

3. At the same meeting, the HRA budget was agreed at a net surplus of £434k. Currently the projection is that the HRA will generate a deficit of £290k which will be funded from its general working balance.

4. A total capital commitment of £33.211m was approved. The updated forecasts shows that it is expected £32.708m will be committed this financial year.

Issue, Options and Analysis of Options

General Fund

5. Based on the activity to the end of August 2021, the General Fund revenue forecast is a net position. This is where the total expenditure equals the total income. Appendix A provides a detailed subjective analysis of the activity making up the variance compared to the surplus set originally.

6. The General Fund working Balance is forecast to be £2.874m as of 31st March 2022. £240k less than the original budget, however the balance remains above the minimum reserve level set by the Section 151 at £2.5 million.

General Fund Forecast

	2021/22 Current Budget £'000	2021/22 Forecast Outturn £'000	2021/22 Variance £'000
Total General Fund Net Expenditure	9,147	9,527	380
Total Funding	(9,387)	(9,527)	(140)
General Fund (Surplus)/Deficit	**(240)**	**0**	**240**
Working Balance B/fwd	2,874	2,874	0
Surplus/(Deficit) in year	240	0	240
Working Balance C/fwd	**3,114**	**2,874**	**240**

General Fund Variances

7. Appendix A provides the General Fund subjective analysis for 2021/22. Within this appendix the subjective summary of variances is:

	Budget £'000	Forecast £'000	Variance £'000
Employee Related	11,591	11,650	59
Premises Related	1,795,	2,234	439
Transport Related	920	961	41
Supplies & Services	4,020	4,469	449
Third Party Payments	3,112	3,245	133
Transfer Payments	15,594	12,088	(3,506)
Capital Financing Costs	3,512	3,693	181
Income	(40,785)	(38,340)	2,445
Total	**(241)**	**0**	**241**

8. Employee Related Expenses – Pressure is due to costs associated with agency staff at the Brentwood Centre. Officers are working on the centre to be managed by a third party which will reduce the financial pressure of the centre and ensure the centre is managed effectively.

9. Premises Related Expenditure – Significant pressures here are associated with running costs of the Brentwood Centre and pressures of Voids for the Council's commercial spaces.

10. Transport Related Expenditure - Fuel Costs have risen causing pressure on the budgets for running the Council's Fleet

11. Supplies & Services – Professional support required in supporting the Local Development Plan through its inspection.

12. Third Party Payments – Support required for the LDP as well as Environmental Health Services. Environmental Health are struggling with recruiting to posts however there is a national shortage on these roles.

13. Capital Financing Costs – Cost of carrying long-term borrowing early due to interest rates dropping.

14. Income – Loss of income is associated with the impact of COVID-19 as parking income has not got to levels before the pandemic.

COVID-19

15. The ongoing monetary impact of the pandemic continues to be monitored closely and continues to impact on the Council's financial position. Attached within Appendix B is the forecasts decrease in income, the loss of income is where the impact of the pandemic can be felt on the Council's finances.

16. Current forecasts assume a shortfall in Income of £1.354m. Parking income has suffered the largest impact £963k, with changes in how people commute from Brentwood and how people now shop since the lockdowns were implemented. This is not isolated to Brentwood nationally the

17. For this financial year a further £309k of grant funding has been received from Central Government. This funding alongside the earmark reserve of £412k will be applied in year to predominantly bring the gap in income.

18. In addition, the Sales, Fees and Charges income compensation scheme continues into the first quarter of this financial year; however, after this point the Council will feel the full impact of any ongoing income losses e.g., from car parking. At the time of drafting the report, the income compensation scheme guidance for claiming against the scheme had just been published. A conservative assumption of £140k has been forecast to be able to claim from Central Government.

19. In total £860k is being utilised within the budget to compensate for the loss of income linked to the pandemic. With £494k hitting the Council's finances directly.

20. The Council continues to work with other authorities and other sectoral bodies to lobby Government for appropriate funding to ensure any COVID-19 losses are fully compensated. Like other authorities the council has provided detailed estimates of all its pressures to MHCLG each month to inform the governmental analysis of the impact of the pandemic on Local Government finances

Savings & Initiatives

21. The Savings initiatives built within the MTFS are set out in the table below. They are RAG rated, Red being unachieved, and green being achieved at the time of reporting and based on current periods forecasts. These initiatives are monitored through the Council's budget monitoring process and reviewed regularly.

Proposed Saving Targets

Proposed Saving Targets	2021/22 £'000	2022/23 £'000	2023/24 £'000
Corporate Vacancy Factor/Organisation Review	(426)	(435)	(445)
Capitalisation Staff Costs	(50)	(50)	(50)
Digital Efficiencies	(20)	(20)	(20)
Waste Service Review	(180)	(180)	(180)
Total Efficiency Targets	**(676)**	**(685)**	**(695)**
Leisure Strategy Income	Nil	(150)	(300)
Investment Income	(1,660)	(1,660)	(1,660)
Total Income Generation Targets	**(1,660)**	**(1,810)**	**(1,960)**
Strategic Employment Acquisition	(1,351)	(968)	(951)
Housing Delivery Model	(759)	(1,293)	(1,240)
Total Asset Delivery	**(2,110)**	**(2,261)**	**(2,191)**
Total Saving Targets	**(4,446)**	**(4,756)**	**(4,846)**

22. The Housing Delivery Model for 2021/22 will not be achieved. Officers carried out further due diligence on this proposal and the decision was made to no longer continue with this option. Thus, adding further pressure to the Council's outturn and future budgets. For 2021/22 the Council can mitigate this pressure by utilising its strong earmark reserve position. However, officers continue to explore other avenues that can generate this amount of income to the Council's future budgets.

Collection Fund

23. The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund, therefore, is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

Council Tax

24. For 2021/22 the Council's share of collected council tax is £6.438m. This income predominantly funds the Council's services within its MTFS. The collection rate is currently 97.5%.

NNDR

25. The NNDR account for business rates is the most volatile account, even more so since the pandemic.

26. In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give councils a greater incentive to grow businesses in the borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

27. Considering the retail and nursery reliefs that have been distributed to support business in the borough during the pandemic and reimbursed by Central Government, the NNDR income is currently forecast to be £0.132m below the forecast amount of £26.920m. Any shortfall or gain in income is charged to the General Fund the following fiscal year.

28. The Council is part of the Essex wide Pool for Business Rates. By pooling, any levy payments that would have been made to Central Government in relation to Business Rates growth, can be saved and distributed to the members of the pool.

29. The Council is approximately £0.020m above the threshold at which it would trigger a safety net payment from the Pool. Therefore, taking income from the pool rather than adding growth to the Pool. The borough has seen a decline in its rating list especially as large businesses begin to scale down office sizes.

30. Ford have recently won a retrospective appeal regarding the valuation of their former HQ in Warley, covering the period from April 2017 to the closure of the site in September 2019. This represents a loss of NDR income to the Collection Fund of approximately £456k. This will be covered from the NDR appeals provision. Officers will review the balance over the remainder of the year to determine whether it is prudent enough to cover other potential income losses.

Earmarked Reserves

31. The detailed earmarked reserve balances enclosed in Appendix C. A summary is provided in the table below

Earmark Reserve Forecast

	2021/22 Proposed Balance £'000	2021/22 Forecast Balance £'000	2021/22 Variance £'000
Mitigation Reserves	4,466	2,896	1,570
Service Reserves	1,508	1,298	210
Specific Reserves	1,034	1,040	(6)
COVID-19 Reserves	994	447	547
Total Reserves	**8,002**	**5,681**	**2,321**

32. Drawdowns from reserves overall are to match against service expenditure. The drawdown from the NDR Collection Deficit and Tax Income Guarantee Scheme reserve are drawdowns associated with accounting within the Collection Fund, to mitigate the impact of reliefs given during the pandemic on the Council's finances.

33. The impact of the unachieved savings initiative associated with the housing delivery model, impacts the balance of reserves. The bulk of this income was to be earmarked into a financing volatility reserve. Currently there is no capacity with the Council's budget to contribute any surplus funds into this reserve.

Housing Revenue Account – HRA

34. The Council approved a HRA budget and net surplus of £434k for 2021/22, and an HRA working Balance of £1.484m as of 31st March 2022.

35. The HRA in year variances for 2021/22, and resulting working balance forecast is summarised below, with further variance detail reported in Appendix D

HRA Forecast

	Budget £'000	Forecast £'000	Variance £'000
Total Expenditure	9,995	10,627	632
Total Income	(13,453)	(13,417)	36
Non-Service Costs	7,566	7,622	56
Appropriations	(4,542)	(4,452)	0
(Surplus)/Deficit on HRA	**(434)**	**290**	**724**
Working Balance B/fwd	1,480	1,480	0
Surplus/(Deficit) in year	434	(290)	724
Working Balance Cfwd	**1,914**	**1,190**	**724**

36. The main variances contributing to the revised forecast of £290k deficit compromise of revenue costs associated to the small site's development programme regarding project support and decant costs.

Capital Programme

37. The current capital budget totals £33.211m including £12.388m of slippage from 2020/21. The detail capital program is disclosed in Appendix E

38. Currently there is £550k of identified slippage within the current programme. This is due to delays in schemes due to lack of resources and capacity to lead on them.

39. There is additional spend of £47k on the I.C.T Capital programme. This is to do with enhancing systems to continue to support agile working as well as replacing I.T equipment as it comes to its end of life. Officers are currently working through identifying what I.C.T resources are required over the next 3–5-year period to support the Council's hybrid approach to office and home working.

40. Underspends on Asset Development and Open Spaces – Car Parks are budgets that will not be committed this year. This is due to the Council reconsidering these projects in the wider context of its Capital strategy and looking at reprioritising projects and aspirations due to the restriction in surplus revenue to fund additional financing costs.

41. Small underspend on HRA Decent homes is a small delay to works that will span two financial years, the underspend will be slipped into the new financial year.

Treasury Management Update

42. At the beginning of the year the Council's total borrowing was £233m.This was financed with £103m of long-term borrowing from the Public Works Loan Board (PWLB), with the remainder being financed through short-term borrowing from other local authorities. The Council's short-term debt portfolio was 56% of total borrowing.

43. In line with other Local Authorities and advise from the Council's Treasury advisors, the Council has benefited from low short-term borrowing rates within he LA inter lending environment, due to Central Governments financial support for COVID-19. Average rates on short-term borrowing of less than 365 days fell to 0.01% within the market. However, as grants have been paid and other Council's begun to restart their delayed Capital programmes, the surplus cash the in local authority lender is decreasing and rates remain low but have begun to increase.

44. On the flipped side, PWLB rates for long term borrowing have had some volatility as the market reacted to the vaccine roll-out. These rates have begun to stabilise and current PWLB rates which include the certainty rate (published 17th September) are tabled below.

Year	Rate %
5 year	1.26
10 year	1.62
20 year	1.95

30 year	1.88
40 year	1.84
50 year	1.74

45. During the year, the Council has replaced £66m of the short-term borrowing with long term from PWLB at an average interest rate of 1.64% To align the Council's borrowing needs with the capital programme of 2020/21 as well as take advantage of PWLB rates dropping below their target rate.

46. The Council's short-term debt profile is now 30% of total borrowings. With borrowing as at period 5 totalling £242m.

47. Officers are currently exploring a drawdown facility. This option looks to agree with a private investor a facility to drawdown a total of £40m over a 2-year period.

48. The reason officers are sought to explore this avenue of borrowing is to look at alternative options compared to PWLB, to diversify the risk in the Councils borrowing portfolio and to determine whether a more competitive rate could be sourced against PWLB's 40-year rate.

49. The Council currently holds £30m of investments as of 31st August 2021 invested at an average rate of 0.16%. Investments to date, have been short-term cashflow investments with other local authorities and deposits into call accounts.
    Over several years due to the low yield on interest rates and to minimise the consolidation of investments in a restricted number of high security counterparties, the Council has used internal balances and temporary borrowing to fund its capital programme. Hence the Council's investment portfolio is minimal. However, the security of funds continues to be the priority even with investment in other LA's.

Consultation

50. Regarding setting the budget for 2022/23 the Council is currently consulting with residents and local business in an online consultation. This consultation ends 3rd October and results of this consultation will be presented to the next PRED committee.

References to Corporate Plan

51. Financial monitoring of the MTFS, HRA, Capital programme and Treasury Activity, underpins achieving all aspirations of the Corporate Plan

Implications

Financial Implications
Name/Title: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources)
Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk

52. The Council's Medium Term Financial Strategy (MTFS) for 2022/23 to 2024/25 will be reported to PRED in February 2022. This budget monitoring report will form the basis of the preparation of the MTFS. Risk associated with the 2021/22 forecast will inform the MTFS to consider actions to minimise those risks and any additional financial risks identified in preparing the budget and relevant strategies.

Legal Implications
Name & Title: Amanda Julian, Corporate Director (Law & Governance) and Monitoring Officer
Tel & Email: 01277 312500/amanda.julian@brentwood.gov.uk

53. The Council has a variety of statutory duties which it must fulfil by law. Including setting a balanced budget for each fiscal year and must take steps to monitor income and expenditure against the budget set. It cannot lawfully not to carry out those duties. Financial monitoring of the budget throughout the year complies with the duties under the Local Government Act 2003, the Housing Act 1985, the Local Government and Housing Act 1989 and the Local Government Finance Act 1992 and subsequent legislation. For other activities, the Council provides services in pursuance of a statutory power rather than a duty, and though not bound to carry out those activities, decisions about them must be taken in accordance with the decision-making requirements of administrative law.

Economic Implications
Name/Title: Phil Drane, Corporate Director (Planning & Economy)
Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk

54. There are no direct economic implications, although it is important that the Council maintain a robust budget to inform how the Council interacts with residents, businesses, partners and customers through the provision of certain services.

Other Implications Risk Management

55. The Council already faced a challenging situation to balance the budget from 2022/23 onwards. So, the impact of Covid-19 on future years budgets will be considered carefully as part of the Council's MTFS process.

56. Within the General Fund Forecasts are major increase in costs for the LDP, professional legal fees to support workstreams such as planning enforcement, Brentwood centre and affordable housing development. These are sustainable for the short term only. Prioritization of workstreams need to be reviewed to align future budgets.

Background Papers

Appendices to this report

Appendix A: General Fund Subjective Variances
Appendix B: COVID-19 Income Impact
Appendix C: Earmark Reserve Forecast
Appendix D: HRA Subjective Variances
Appendix E: Capital Programme