

Report to Council

Portfolio Holder: **Leader**

Subject: **Finance Strategy 2020/21**

1. Recommendations/Decisions Required

That the financial plans and Budget of this Authority are altered to reflect our current and predicted financial performance as follows:

- A. That to reflect the significant effort of employees made in 2019/20 and their support of a vigorous restructure and change programme to support transformation, that a non-recurring payment of 1.5%% of base salary is made to every employee at service director and below, active on the payroll as at the 1st March 2020 with the amount prorated in respect of contract hours and the number of months worked in 2019/20. The payment will attract tax, NI and pension implications for employees and the employer. This has a non-recurrent cost, (including employer on-cost) estimated to be **£345,000**.
- B. That a financial sum of **£345,000** is also placed in an earmarked reserve to reflect the development of outcome related team bonuses in future years. It should be noted that the sums identified in recommendations in A and B are similar to the net level of staffing budget underspend in 2019/20.
- C. That to reflect the associate further improvement in the financial position of the Authority, it is proposed that there is no increase in Council Tax contained within the 2020/21 Budget. This has an opportunity cost of **£135,000**.
- D. That the balance of the underspend, currently forecast at being **£2,502,932** is taken, by convention, to reserve. This figure includes the balance of £450,000 received in respect of the HMRC Custom Clearance Centre at North Weald.

2. Background

Good financial management is not only a legal requirement of local authorities but should and is expected by residents alongside the provision of high-quality services and choice.

Previously papers concerned with the financial position of the Authority and the proposed Budget for 2020/21 clearly stated that all figures would be reviewed in the light of later and better information.

The current financial position showing a cumulative underspend at the end of December 2020 of **£2.8m** with this expected to rise to around **£3.4m** at the end of the financial year. There is also a further mitigation of the risks to the Budget next year, especially the income from Qualis. \this means that final but important changes to the Budget for 2019/20 and 2020/21 need to be made.

To reflect the active support and flexibility shown by the workforce in delivering transformation, service improvements and a financial underspend it is proposed to recognise these efforts and this outcome with a 1.5% non-recurring performance payment costing approximately £345,000 with a further £345,000 being placed in earmarked reserves to fund outcome related team bonuses in future years.

To reflect this sound financial position and in particular the adding of the underspend to reserves of funds at the end of 2019/20, it is also proposed that no increase in council tax is required in 2020/21.

This approach deliberately underlines the importance of Authority employees working together to provide effective and efficient services and for residents not only to receive these services but directly benefit from improvements to these services in financial terms.

3. Financial Position as at 31st December 2019

The financial position at the end of December shows an underspend of **£2.8m** and the collection accounts for council tax and business rates being as predicted and there being no other adverse balance sheet movement. These results will be published in full at the next Finance and Performance Management Committee.

Even allowing for a year-end increase in legitimate spending and a prudent view of the Authority's commitments, a year-end underspend of at least **£3.4m** is predicted that would normally be taken to reserve.

Included with the underspend above is a net staff underspend figure of **£0.9m**. This figure includes the impact of agency and other interim staffing costs.

In future year's and as part of the manager and employee changes appropriate savings have been identified and made.

The underspend in a most simple sense reflects the fact that employees working hard, prioritising their efforts and working as teams has not only delivered better services but better services at a reduced cost.

It should also be noted that the underspend also includes the impact of the additional income from the HMRC in respect of the Custom Clearance Centre at North Weald, (£500,000 less £50,000 granted to North Weald Parish Council).

4. Budget 2020/21

The Budget for 2020/21 purposefully reflected a growing stream of income from Qualis, the Authority's wholly owned group of companies. This income in turn supported the cost of not only existing services but new developments and extended initiatives such as; climate change, improved use of technology, road rangers and local police officers.

To reflect the early stages of Qualis and that housing and economic growth would accelerate at the end of 2020/21 a council tax increase of **1.5%** was proposed.

The council tax increase was around half the rate of predicted inflation, but a further review of the current financial position and the enhancement of reserves means that a council tax rise is not required next year to fund the ambitions of the Authority.

It should be noted that this decision means that the council tax base of the authority in future years will be affected but in view of the increasing purposeful use of other income sources via Qualis this is considered an acceptable risk with a value of around £135,000 cumulatively per year.

The funding gap created by not raising council tax can be met from the unexpected additions to reserves from the underspend generated in 2019/20.

There is a certain change in the risk profile and appetite that sits behind this change but taking into account local and national issues these risks are acceptable, especially as there is already a clear relationship between the additional income raised by Qualis and the funding of developments proposed by the Authority's services.

5. Alternative Options Considered

The following alternative options have been considered in relation to the current and forecast financial position:

Issue	Options	Comments	Decision and Rationale
In respect of the forecast 2019/20 underspend	Take all the benefit to reserve	Increases financial flexibility but usable reserves are already above the local target of 25% of net turnover.	Rejected , unnecessary retention of reserves is not good practice especially due to the low return received on investments
	Take some of the benefit to reserve the remainder being used to recognise the efforts of the workforce	Emphasises the link between team performance and service outcomes and efficiency whilst also purposively adding to reserves to allow zero increase in council tax in 2020/21.	Proposed , as more in line with fiscal policy and Authority's Corporate Plan and Transformation Programme and allows for the generation of a well thought through bonus scheme.
In respect of a zero increase in council tax 2020/21	Trim the development list further or start developments later.	Proposals have a variable value but to reassess them again at this late stage would be problematic. Development	Rejected , not in line with corporate objectives. For 2021/22 this can be done

		timetable is already linked with success and income from Qualis.	
	Seek more efficiency savings.	More around benchmarking and targeting needs to be done and this year's savings schemes were only delivered on the back or rethinking the establishment changes	Rejected , not in line with corporate objectives. Again, for 2021/22 this can be done
	Raise charges further.	Not in line with fiscal or other strategies.	Rejected , as no strategic link
	Use additional reserve balances generated by 2019/20 underspend.	Emphasises the link between team performance and service outcomes and efficiency.	Proposed , as in line with corporate objectives and emerging fiscal strategy.

Appendix

2019/20 Month 9		YTD Gross Expenditure		YTD Gross Income		YTD Net Expenditure	
Directorate	Budget	Actual	Variance	Adj	Budget	Actual	Variance
Chief Exec	1,346,215.00	984,925.31	- 361,289.69		- 1,125.00	2,297.20	- 1,172.20
Business Support	6,679,227.50	6,639,427.49	- 39,800.01		- 223,730.00	201,325.96	22,404.04
Customer	26,048,647.50	25,583,571.23	- 465,076.27		-22,483,835.00	22,577,994.01	94,159.01
Community & Partnership	2,653,220.00	2,555,397.79	- 97,822.21		- 414,427.50	533,496.03	119,068.53
Commercial & Regulatory	3,029,406.67	2,763,367.94	- 266,038.73	Loughton	- 8,523,072.50	9,097,683.26	574,610.76
Contract & Technical	6,713,605.02	6,106,976.50	- 606,628.52		- 3,334,619.33	2,969,519.36	365,099.97
Housing & Property	1,528,622.00	1,301,607.04	- 227,014.96		- 1,048,850.00	1,173,649.99	124,799.99
HRA	5,796,800.83	5,536,040.39	- 260,760.44		- 30,000.00	229,423.62	199,423.62
Hra Property Income	-	-	-		-25,894,997.50	-26,041,045.51	146,048.01
Planning	3,186,012.50	2,915,508.97	- 270,503.53		- 1,449,947.50	1,506,940.75	56,993.25
Repairs Fund	2,658,083.33	2,991,521.09	333,437.76		- 117,610.00	120,897.27	3,287.27
Total	59,639,840.35	57,378,343.75	- 2,261,496.60		-63,522,214.33	-64,454,272.96	932,058.63
Insurance	815,720.00	886,173.71	70,453.71			70,905.98	70,905.98
Leaseholders	-	993,310.00	993,310.00			591,439.55	591,439.55
HRA Other	328,440.00	328,442.33	2.33			-	-
HRA Interest	2,834,000.00	2,821,462.30	- 12,537.70			-	-
Council Tax	3,978,160.00	5,029,388.34	1,051,228.34			- 662,345.53	- 662,345.53
NDR	Difference from Expectation						
Total	Difference from Expectation						
Projected for FY	Jan and Feb to Trend March to Budget						
2019/20	Pay Bonus Non Recurring						
	Balance Taken to Reserve						
	<i>Of which £345,000 an element is ring fence for future bonus uses</i>						
	Total						
2020/21	Council Tax to Zero, Issue from Reserve						
	Total						