

ECONOMY POLICY DEVELOPMENT GROUP

12 March 2020

FINANCIAL UPDATE FOR THE NINE MONTHS TO 31 DEC 2019

Cabinet Member Cllr Alex White

Responsible Officer Andrew Jarrett – Deputy Chief Executive (S151)

Reason for Report: To present a financial update in respect of the income and expenditure so far in the year.

RECOMMENDATION(S):

- 1. The PDG note the financial monitoring information for the income and expenditure for the nine months to 31 December 2019 and the projected outturn position.**

Relationship to the Corporate Plan: The financial resources of the Council impact directly on its ability to deliver the Corporate Plan; prioritising the use of available resources brought forward and any future spending will be closely linked to key Council pledges from the updated Corporate Plan.

Financial Implications: Good financial management and administration underpins the entire document.

Legal Implications: None.

Risk Assessment: Regular financial monitoring information mitigates the risk of unforeseen over or underspends at year end and allows the Council to direct its resources to key corporate priorities.

Equality Impact Assessment: It is considered that the impact of this report on equality related issues will be nil.

Impact on Climate Change: There are no direct impacts from the content of this report.

1.0 Introduction

- 1.1** The purpose of this report is to highlight to Cabinet our current financial status and the likely reserve balances at 31 March 2020. It embraces both revenue, in respect of the General Fund; the Housing Revenue Account (HRA), and Capital and aims to focus attention on those areas which are unlikely to achieve budget. It is particularly important for next year's budget setting and, looking further ahead, for the medium term financial plan.
- 1.2** Favourable variances generating either increased income or cost savings are expressed as credits (negative numbers), whilst unfavourable overspends or incomes below budget are debits (positive numbers).

2.0 Executive Summary of 2019/20

2.1 The table below shows the opening position of key operational balances of the Council, the forecast in year movements and final predicted position at 31 March 2020:

Usable Reserves	31/03/2019	Forecast in year movement	31/03/2020
	£k	£k	£k
Revenue			
General Fund (see paragraph 3.2)	(2,501)	270	(2,231)
Housing Revenue Account (see paragraph 4.2)	(2,000)	0	(2,000)
Capital			
Capital Receipts Reserve	(3,620)	(1,047)	(4,667)
Revenue Contribution to Capital Earmarked Reserve	(415)	235	(180)

3.0 The General Fund Reserve

3.1 This is the major revenue reserve of the Council. It is increased or decreased by the surplus or deficit generated on the General Fund in the year. This reserve held a balance of £2.501m as at 31/03/19.

3.2 The forecast General fund **deficit** for the current year is £270k after transfers to and from Earmarked Reserves as shown at Appendix A.

The **most significant variances** comprise:

	£k
Waste Services – Shared savings scheme and vacancies	(151)
Trade Waste and recycling - Increase in customers and reduced discounts etc.	(64)
New vehicle contract – Funded by EMR (Not an overspend on the contract)	67
Public Health – Air Quality S106 (covered by EMR) and legal costs	92
Planning – Downturn in Planning income less salary savings	154
Garden Village project – funded by EMR	23
Garden Village – Capacity funding	(150)
S106 spend re Public Open Space – funded by EMR	178
Cullompton Master Plan – funded by EMR	56
Local Plan – Funded by EMR	32
Tiverton Town Centre Regen – abortive capital costs	87
Bank charges – Additional charges	10
Cemeteries – Income below anticipated in budget	25
Car Parking – Shortfall Premier Inn; extra security and electricity usage	33
Private Sector Housing – legal costs of prosecution	19

General Fund Housing - Grant funding – to be earmarked	(127)
Property – Loss of income; etc. partly offset by salary savings	61
Customer services – Vacancy and overtime savings	(48)
HR – Review of service needs - restructuring	24
Legal – Various including consultancy budget saving	(53)
Democratic Services – District Elections shortfall	25
Electoral Registration – Increase in IER funding and delayed boundary review	(69)
Member Services – Vacancy saving	(7)
Leisure – Vacant posts, growth in membership etc. offset by utilities overspend and reduction in casual swim	47
Revs and Bens – Various including reduced overpayment recovery and software costs	65
3 Rivers Impairment – Partly offset by a statutory reversal of £757k	883
Statutory Adjustments – Reversal of Capital impairment 3 Rivers	(757)
Statutory Adjustments – Reduction in Minimum Revenue Provision (less borrowing than anticipated)	(50)
Interest income – additional income	(100)
Interest Payable – reduction in charge	(60)
Earmarked Reserves transfers	(120)
Net Business Rates retention – more levy due to growth (benefit in future year)	88

3.3 The major variances are highlighted at Appendix B. The current incomes from our major funding streams are shown at Appendix C, whilst current employee costs are shown at Appendix D.

4.0 Housing Revenue Account (HRA)

4.1 This is a ring-fenced account in respect of the Council's social housing function. Major variances and proposed corrective action are highlighted at Appendix F.

4.2 It is anticipated that the forecast variance of £668k surplus will increase the budgeted transfer to the Housing Maintenance Fund and so the HRA reserve balance will remain at £2m.

4.3 Overall, the HRA is forecast to underspend by £668k in 2019/20, made up of several deficits and surpluses, the most significant of which comprise the following:

- £70k estimated surplus in Affordable Rents (tenancy)
- £50k forecast increase in revenue from rechargeable works (DLO)
- £50k underspend relating to planned revenue works – Building Services (DLO)
- £150k underspend in relation to staffing within repairs team, Building Services (DLO)
- £100k forecast reduced activity (reduced income) on DFG works – Building Services (DLO)
- £90k underspend relating to staffing within Housing Services (tenancy)
- £230k underspend relating to future HRA Projects

- £125k underspend on an external contract for modernisation works (Capital) which is funded by the MRA
- £60k overspend

5.0 Capital Programme

- 5.1 Capital projects, by their very nature, often overlap financial years. The status of this year's capital programme is shown at Appendix G.
- 5.2 The approved Capital Programme amounts to £35.193m (this includes the approved 2019/20 Budget £14.597m, slippage rolled forward from 2018/19 of £12.077m, additional projects detailed in quarter 2 of £4.874m and projects approved since Q2 amounting to £3.645m). These additional projects are as follows:

(£0.266m)	Adjustment to 3 Rivers Loan – Orchard House
£3.714m	3 Rivers Loan – Knowle Lane
£0.197m	RTB Buyback

£3.645m Total

- 5.3 The revenue monitoring report reflects the fact that the 3 Rivers project, Rear of Town Hall development (Riverside) is likely to overspend by c£757k (£519k excluding contingency provision). We have therefore impaired this loan by an equal amount. As this is a capital loan it is reversed in the revenue account but it will have an impact in 2020/21 when it will trigger Minimum Revenue Provision (MRP) payments over 3 years of £252k per annum. This is an increase of £127k per annum from the September forecast.
- 5.4 We also have a "working capital loan" with 3 Rivers which is currently at risk (£504k). This was due to be repaid over 5 years but as there is doubt over the ability of the company to repay this in this timescale, it is prudent to impair it over the remaining life of the loan, 4 years at £126k per annum. This is a real cost to the revenue account. Both the £757k and the £126k are shown against Corporate Management.
- 5.5 As stated in 5.1, some of these projects will overlap financial years. Managers have therefore given their best estimate of what is 'deliverable' for 19/20; this amounts to £15.701m (£11.782m in Quarter 2). Therefore, committed and actual expenditure will be monitored against this revised 'deliverable' budget for the remainder of the year.
- 5.6 The deliverable budget has been established following meetings with managers to determine a realistic forecast of spend based on known information at this point in the year. This will continue to be revisited for material changes.
- 5.7 Committed and Actual expenditure is currently £13.374m against a 'deliverable' Capital Programme of £15.701m leaving a variance of £2.327m uncommitted at this point in time.

- 5.8 Additional work has been undertaken to establish forecast slippage and potential underspends against the approved Capital Programme and are also detailed on Appendix G.
- 5.9 Forecast slippage amounts to £7.078m, which mainly relates to: £0.638m in relation to the 3 Rivers Project at the rear of the Town Hall which is forecast to be completed in 21/22, £0.236m for the 3 Rivers Project at Orchard House that will be completed in 20/21, £0.600m in relation to Land Acquisition for operational needs, £2.1m related to the GP Practice NHS Hub and £1.450m in relation to Council House building at Round Hill, Tiverton. For further detail, please refer to Appendix G.
- 5.10 A comprehensive review of projects has also been undertaken to either remove them from the 19/20 Programme where no longer required or re-profile into the 20/21 to 23/24 MTFP that will also be presented at 13th February 2020 Cabinet. The forecast net underspend amounts to £13.521m, this mainly relates to: £3.953m for the District Wide Redevelopment Project, £2.0m for Waddeton Park, (this is now included in future years in the Capital MTFP presented at the October Cabinet), £2.1m to enable Social Housing projects and two Council House Building Projects at £2.0m each which have been further quantified in the forward MTFP. In addition to these £1.2m for the Tiverton Redevelopment Project which has now been aborted & forecast 'sunk' costs of £87k will be coded to Revenue. Again, for further detail please refer to Appendix G.

6.0 Revenue Contribution to Capital EMR

- 6.1 The Capital Earmarked Reserve has been set aside from Revenue to fund Capital Projects; the movement on this reserve is projected below:

	£k
Capital Earmarked Reserve at 1 April 2019	(415)
Funding required to support 2019/20 Capital Programme	235
Forecast uncommitted Balance at 31 March 2020	(180)

7.0 Capital Receipts Reserve (Used to fund future capital programmes)

- 7.1 Unapplied useable capital receipts are used to part fund the capital programme, the movement on this account for the year to date is given below:

	£k
Unapplied Useable Capital Receipts at 1 April 2019	(3,620)
Net Receipts to Q3 (includes 23 "Right to Buy" Council House sales)	(1,617)
Current Balance	(5,237)

(This includes £1.710m of ring fenced 1:4:1 receipts and £3.527m of general Capital Receipts)

Forecast further capital receipts in year	(100)
Forecast capital receipts required to support 2019/20 Capital Programme	670
Forecast Unapplied Capital Receipts 31 March 2020	<u>(4,667)</u>

7.2 The ring fenced “1:4:1 receipts” need to be spent within 3 years of receipt; otherwise they need to be returned to MHCLG with interest. These can be used to fund up to 30% of new social housing developments or repurchased right to buy properties.

7.3 The forecast reserve balance for the Revenue Contribution to Capital Reserve and the Capital Receipts Reserve includes the associated funding of the 19/20 Capital Programme, as these monies are committed. In reality, much of this will slip to 20/21. It is also important to note that these balances need to be almost fully utilised in order to balance the Capital Medium Term Financial Strategy.

8.0 Treasury Management

8.1 The interest position so far this financial year can be summarised as follows:

Interest Receivable:

	Budget £k	Forecast outturn £k	Forecast variance £k
Investment Income Received	(443)	(543)	(100)
Interest from HRA funding	(49)	(49)	0
Total Interest Receivable	(492)	(592)	(100)

8.2 There is an interest payable saving (£60k) due to the fact we have not taken out external borrowing (PWLB), as expenditure has been lower than anticipated and we have funded initially from internal resources.

9.0 Conclusion

9.1 Members are asked to note the revenue and capital forecasts for the financial year. Managers are working hard to offset overspends, some of which are unavoidable, with budget savings to deliver an outturn close to the budget. Members will be aware that management action has improved the position from Quarter 1 which was showing a projected overspend of £427k.

9.2 The work undertaken to produce this monitoring information to 31 Dec 2020 will be used to inform the 2020/21 Budget setting process where required.

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