

FINANCIAL UPDATE FOR THE THREE MONTHS TO 30 JUNE 2020

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 Cabinet note the financial monitoring information for the income and expenditure for the nine months to 30 June 2020 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 2021. 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 2020/21

- 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 2021:

Usable Reserves	31/03/2020	Forecast in year movement	31/03/2021
	£k	£k	£k
Revenue			
General Fund (see paragraph 3.2)	(2,251)	1,503	(748)
Housing Revenue Account (see paragraph 4.2)	(2,000)	0	(2,000)
Capital			
Capital Receipts Reserve	(5,157)	1,608	(3,549)
Revenue Contribution to Capital Earmarked Reserve	(301)	138	(163)

- 2.2 As we would expect, the Covid 19 pandemic has had significant impact on the financial performance of the Council in this quarter. Whilst there are areas of additional expenditure due to the pandemic, in particular rough sleeping, Appendix C shows how the greatest effects relate to our income streams with a full year deficit of £2.9m. This reflects not only the effects of lockdown, but also the ongoing underperformance as service activity takes time to recover to pre-pandemic levels.

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 £2.251m as at 31/03/20.
- 3.2 The forecast General fund **deficit** for the current year is £1,503k after transfers to and from Earmarked Reserves as shown at Appendix A.

The **most significant variances** comprise:

£k		
Corporate Management	Salary savings including element from Director post not replaced	(50,800)
Legal & Democratic Services	External Consultancy Fees - Review of 3RDL	22,500
Car Parks	P&D income shortfall due to reduction of users in our car parks across the District due to lockdown	463,700

Car Parks	Reduction in income from Off-Street fines as enforcement was stopped during lockdown	20,000
Public Health combined	Licensing income - forecasting a 20% reduction due to the pandemic. This is worst case scenario, we hope the position improves	27,000
Public Health combined	Reduction in Private water sampling income due to the pandemic	27,750
Grounds Maintenance	Salary savings - delay in recruiting for vacant posts	(23,000)
Waste Services	Trade Waste - reduced income due to businesses closing during the pandemic	110,000
Waste Services	Trade Waste - disposal charges are down due to less collections	(50,000)
Waste Services	Garden waste - increase in permit sales	(20,000)
Waste Services	Recycling materials - mainly due to the price and tonnage for paper being down	30,000
Waste Services	Agency costs - additional rounds and back filling staff due to COVID-19	55,000
Waste Services	Fuel savings - due to new and more efficient vehicles and lower price for fuel	(40,000)
Community Development	Market income - reduced income due to a suspension of Market tolls during Q1 and a reduction in traders due to shielding	35,000
Recreation And Sport	Reduced salary costs in Q1 due to Covid-19, additional staffing costs in Q2 offset by expected savings from vacancies	(41,000)
Recreation And Sport	Reduction in income due to Covid-19 - leisure centres closed for 4 months, then running at reduced capacity from August onwards	1,924,000
Revenues And Benefits	Housing Benefit Subsidy & Overpayment recovery	60,000
Revenues And Benefits	Various New Burdens grants from DWP in respect of Housing Benefits initiatives delivered within existing resource	(43,190)
Revenues And Benefits	NNDR new burdens grant for grant administration	(170,000)
Revenues And Benefits	Overtime across Revenues & Benefits to cope with the demands of COVID19 & effects on ongoing workload	20,000
Revenues And Benefits	Forecast under recovery of Court Costs for C/Tax & NNDR - Issuing 'soft' reminders No Courts booked in 20/21	74,130
Planning And Regeneration	Development Management - reduced income due to COVID19, a reduction in the developer applications with the larger fees	325,000
Planning And Regeneration	Forward Planning - savings from delay in recruiting for vacant roles	(36,500)

Planning And Regeneration	Building Control - reduced income due to COVID19, a reduction in the developer applications with the larger fees although market share of smaller domestic applications has increased	40,000
Planning And Regeneration	Land Charges - reduced income from search fees due to enforced halt in house sales during pandemic	25,000
Human Resources	Salary savings due to vacant posts to be reviewed during the year	(40,000)

- 3.3 All the major variances are highlighted in Appendix B. The current incomes from our major funding streams are shown in 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 £410k deficit will decrease 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 overspend by £410k in 2020/21, made up of several deficits and surpluses, the most significant of which comprise the following:

	£k
Under recovery of housing rents predicted in year due to Covid 19	372
Under recovery of non dwelling rents in year due to Covid 19	120
Salary saving mainly due to vacancies, in particular: Redevelopment Works (HO212) £43k; Voids Maintenance ((HO140) £26k; Disabled Adoptions (HO120) £16k.	(103)

5.0 Covid 19

- 5.1 The Covid 19 pandemic has had significant impact on the financial performance of the Council in this quarter. There have been some additional costs, for example in respect of rough sleeping and the Tiverton hub which supported those residents who were shielding during the lockdown. However, the greatest impacts are in respect of income. The lockdown reduced many areas of service activity, some to nil, not least in our leisure centres and car parking. This includes a free parking scheme in August and September directed at rejuvenating trade in the town centre.
- 5.2 Appendix C shows how this fed into our fees and charges income, with a deficit in quarter 1 of £1.056m and an expected deficit for the year of

£2.930m. As lockdown eases, more of our services come back on stream. However, it will take some time before they reach pre pandemic levels of activity, in some cases this will continue into the 21/22 financial year.

- 5.3 As we have heard so often, these are unprecedented times. As we move through the crisis, we gather more information. However, it is limited and inherently, forecasting in these circumstances is a learning process. We are constantly revisiting these predictions, which will be especially relevant if there is a second peak with services curtailed as a result.
- 5.4 These losses are partly mitigated by support from central government. There have been 3 tranches of Covid 19 support totalling £994k which are included in this report. The last tranche of £500m announced on 16 July, allocated £130k to MDDC.
- 5.5 The Council have also been participating in the Coronavirus Job Protection Scheme or furlough scheme, receiving £259k in the quarter. Further receipts are expected in respect of July by which time it is expected that most officers will have returned to work.
- 5.6 The government have also announced an Income Protection Guarantee. This offers relief to councils for income losses due to Covid 19. Under the scheme the Council will suffer the first 5% of losses. This is to account for an “acceptable level of volatility.” Thereafter compensation will be paid at the rate of 75p in the £ on “lost planned sales.” We await further details so that we may reasonably predict what this means for MDDC. It will be helpful to know the period to which this scheme relates and to receive confirmation as to how losses will be equated. Further, what income is in scope? Commercial income is specifically excluded but we need to know how this is defined.
- 5.7 Applying the outline criteria that we have, to the full year losses detailed in Appendix C, would indicate a payment to the Council in the region of c£2m. **However, given all the uncertainties, this funding has not been included in Appendix A.**
- 5.8 Finally, we must consider the impact on the collection fund. The government has announced a scheme granting 100% relief from ndr for all retail, hospitality and leisure businesses in 2020/21. The Council will instead receive these monies by means of a s31 claim from government in year (£7.33m).
- 5.9 The extent to which the Council is estimated to be exposed on the residual ndr ie after allowing for the RHL scheme, and council tax debt is detailed in the table below:

£k	Collectable	Forecast Collection	Deficit	Deficit %
NDR	9,569	8,777	792	8.3%
Council Tax	59,497	56,517	2,980	5.0%
Total	69,066	65,294	3,772	5.5%

Given the mechanisms of collection fund accounting, these losses will actually flow into 2021/22 funding, and impact that year's budget. In order to recognise this pending shortfall, provision will be made in the current year via ear marked reserves. Currently these are shown in Appendix A as "Council Tax Deficit (20-21)" and "Business Rates Deficit (20-21)." Note, the impact shown here represents the Council share of the above amounts that are ultimately deemed non recoverable.

- 5.10 Shortfalls in collection fund receipts also have a disproportionate effect on cash flow. As a collecting authority we collect on behalf of Devon County Council, Devon and Cornwall Police and Devon and Somerset Fire and Rescue Service. As such, we are committed to making precept payments to these bodies regardless of the amount we receive. That is, from a cash flow perspective, we must manage the full amount of the deficit in receipts for ndr and council tax. In the short term, the slow down in the capital programme caused by the pandemic will mitigate the reduced funding.
- 5.11 Also of note in this context, is the following statement from Robert Jenrick MP, at the MHCLG, included in the press release of 2 July: "In the next Spending Review, we will determine what support councils need to help them meet the pressures of income loss from council tax and business rates." Further, in the same press release: "In the next Spending Review, the government will agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020 to 2021." This hints at further support in respect of collection fund losses.
- 5.12 This is an evolving situation which we will continue to monitor against government briefings and our own experience. This will reflect in our monthly reports. Further, the 2020/21 budget is being reviewed to enable a thorough understanding of our expected funding shortfall and measures that may be taken to tackle this.

6.0 Capital Programme

- 6.1 Capital projects, by their very nature, often overlap financial years. The status of this year's capital programme is shown at Appendix G.
- 6.2 The approved Capital Programme amounts to £36.961m (this includes the approved 2020/21 Budget of £27.220m and slippage rolled forward from 2019/20 of £9.741m).
- 6.3 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 20/21; this amounts to £14.469m. Therefore, committed and actual expenditure will be monitored against this revised 'deliverable' budget for the remainder of the year.
- 6.4 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.

- 6.5 Committed and Actual expenditure is currently £5.618m against a 'deliverable' Capital Programme of £14.469m leaving a variance of £8.851m uncommitted at this point in time.
- 6.6 Additional work has been undertaken to establish forecast slippage and potential underspends against the approved Capital Programme and are also detailed on Appendix G.
- 6.7 Covid 19 together with other factors have affected the amount of Capital projects that are deliverable in year and at this stage, the forecast slippage amounts to £22.115m. This mainly relates to: £2.175m related to the GP Practice NHS Hub which is now due at the end of the project, £1.0m in respect of Land Acquisition, £11.409m related to Projects to be delivered by 3 Rivers Ltd (these will be amended during the year if they come forward more quickly than currently anticipated). A further £2.506m related to the Post Hill Scheme and £3.537m in relation to Council House building schemes. For further detail, please refer to Appendix G.
- 6.8 The forecast net underspend amounts to £0.377m, this comprises of £0.09m for various General Fund Projects and £0.287m in relation to various HRA Projects. Again, for further detail please refer to Appendix G.

7.0 Revenue Contribution to Capital EMR

- 7.1 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 2020	(301)
Funding required to support 2020/21 Capital Programme	138
Forecast uncommitted Balance	(163)

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

- 8.1 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 2020	(5,157)
Net Receipts to Q1 (includes 3 "Right to Buy" Council House sales)	(164)
Current Balance	(5,321)

(This includes £1.913m of ring fenced 1:4:1 receipts and £3.408m of general Capital Receipts)

Forecast further capital receipts in year	(406)
Forecast capital receipts required to support 2020/21 Capital Programme	2,178
Forecast Unapplied Capital Receipts	<u>(3,549)</u>

8.2 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.

8.3 The forecast reserve balance for the Revenue Contribution to Capital Reserve and the Capital Receipts Reserve includes the associated funding of the 20/21 Capital Programme, as these monies are committed. In reality, much of this will slip to 21/22. 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.

9.0 Treasury Management

9.1 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	(568)	(723)	(155)
Interest from HRA funding	(49)	(49)	0
Total Interest Receivable	(617)	(772)	(155)

9.2 There is an interest payable saving (£290k). This largely arises from a reduced expected requirement to take out external borrowing (PWLb), as the 3 Rivers development programme has slipped, due to Covid 19 amongst other causes.

10.0 Conclusion

10.1 Members are asked to note the revenue and capital forecasts for the financial year. In these times the landscape can change quickly. Currently we are keen to understand the criteria for government’s Income Protection Guarantee. When these become available, the implications for MDDC of the scheme will be included in future monitoring reports.

10.2 In the meantime, managers are working hard to understand the deficits and develop proposals for their recovery. This process includes a 2020/21 budget review and will continue into the budget setting process for 2021/22.

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