CABINET
03 December 2020

FINANCIAL UPDATE FOR THE THREE MONTHS TO 30 September 2020

Cabinet Member Cllr Andrew Moore
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 six months to 30 September 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)**	**17**	**(2,234)**
Housing Revenue Account (see paragraph 4.2)	**(2,000)**	**0**	**(2,000)**
Capital			
Capital Receipts Reserve	**(5,157)**	**1,326**	**(3,831)**
Revenue Contribution to Capital Earmarked Reserve	**(301)**	**138**	**(163)**

2.2 As we would expect, the Covid 19 pandemic has continued to have a significant impact on the financial performance of the Council in this quarter. Lockdown ended, but the need for other precautionary measures, for example social distancing in our leisure centres which in turn had capacity implications, have continued to impact income performance. In some areas, activity has exceeded expectations eg car parking, but it is fair to say that, in all areas, recovery will be a long and bumpy road stretching well into next year.

2.3 A second lockdown, largely unexpected, is now upon us. Coming as it did at the end of the reporting window, some allowance for its effects has been included in these numbers based on the assumption that it is lifted 2 December. Undoubtedly, it will reverse some of the recoveries made, although how much depends on its ultimate duration. There is good news regarding a vaccine but it does not lift the immediate uncertainties. The lead time to its deployment has not yet been established and further measures may be necessary in the meantime.

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 £17k after transfers to and from Earmarked Reserves as shown at Appendix A.

3.3 The **most significant variances** comprise:

		Pressure £k	Saving £k
Corporate Management	Salary savings including element from Director post not replaced		(45,000)
Legal & Democratic Services	External Consultancy Fees - Review of 3RDL	32,500	
Car Parks	P&D income shortfall due to reduction of users in our car parks across the district due to lockdown and free parking for 2 months in 3 of our short stay car parks. The second lockdown has been factored into the year end forecast	451,080	
Car Parks	Reduction in income from Off-Street fines as enforcement was stopped during lockdown and free parking within 3 short stay car parks for 2 months	25,000	
Public Health combined	Licensing income - forecasting a 25% reduction due to the pandemic	33,900	
Public Health combined	Reduction in private water sampling income due to the pandemic	27,750	
Public Health combined	Cemetery income showing down against budget, will review month by month	20,000	
Grounds Maintenance	Salary savings - delay in recruiting for vacant posts		(34,000)
Property Services	Reduction in rental income on Fore Street flats due to postponed Tiverton Regeneration Project	22,000	
Property Services	Vacant post in Caretaking Services		(20,000)
Waste Services	Trade Waste - reduced income due to businesses closing during the pandemic	81,500	
Waste Services	Trade waste - disposal charges are down due to less collections		(50,000)
Waste Services	Garden waste - increase in permit sales		(53,600)
Waste Services	Recycling materials - reduced price and tonnage for paper/plastic	67,000	
Waste Services	Fleet Management - 12 month delay in recruiting shared Transport Manager with Exeter City Council	20,000	
Waste Services	Agency costs - additional rounds and back filling staff due to COVID-19	65,000	
Waste Services	Salaries - savings mainly due to a delay in recruiting posts		(29,500)
Waste Services	Fuel savings - due to new and more efficient vehicles and lower price for fuel		(38,000)
Community Development	Market income - reduced income due to a suspension of market tolls during Q1 and a reduction in traders due to shielding	39,000	

		Pressure £k	Saving £k
Recreation And Sport	Reduced salary costs up to P4 due to Covid-19 and vacancies, additional staffing costs in P5 onwards offset by expected savings from vacancies		(48,000)
Recreation And Sport	Job Retention Scheme funding received for furloughed staff		(269,500)
Recreation And Sport	Saving against vending stock and equipment for resale		(45,300)
Recreation And Sport	Reduction in income due to Covid-19 - leisure centres closed for 4 months, then running at reduced capacity from August with second closure in November	2,126,000	
Recreation And Sport	Utilities underspend across Leisure due to the impact of Covid-19		(85,200)
Finance And Performance	Finance & Procurement salary variance due to vacant Group Managers post and reduction in hours		(79,260)
Finance And Performance	Additional salary costs within Finance to help cover sickness, increased workload and year end overtime	23,800	
Finance And Performance	Agency costs to cover vacant Group Managers post - this is partly offset by £17k being the release of earmarked reserves relating to 19/20 costs	117,040	
Revenues And Benefits	Housing Benefit Subsidy and Overpayment recovery	30,000	
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	HB New Burdens Grant for grant administration - Test & Trace		(24,538)
Revenues And Benefits	Overtime across Revenues & Benefits to cope with the demands of COVID19 and effects on ongoing workload	40,000	
Revenues And Benefits	Forecast under recovery of Court costs for C/Tax and NNDR	40,000	
Planning And Regeneration	Development Management - supplies & services overspend on defending appeals, consultancy, advertising fees and other minor variances	81,000	
Planning And Regeneration	Development Management - reduced income due to COVID19, a reduction in the developer applications with the larger fees	134,000	
Planning And Regeneration	Economic Development - savings from delay in recruiting for vacant roles and market manager post costs moved 100% to markets, previously 50% paid from here		(29,000)

		Pressure £k	Saving £k
Planning And Regeneration	Forward Planning - savings from delay in recruiting for vacant roles		(49,000)
Planning And Regeneration	Statutory Plan - 1 year saving on GESP membership as a fallow year		(37,500)
Planning And Regeneration	Building Control - reduced income due to COVID19, a reduction in the larger fee value developer applications, although market share of smaller domestic applications has increased	34,000	
Human Resources	Salary savings due to vacant posts to be reviewed during the year		(54,530)

3.4 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 £358k 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 £358k in 2020/21, made up of several deficits and surpluses, the most significant of which comprise the following:

	Pressure £k	Saving £k
The rents raised in-year are lower than budgeted due to void levels increasing during Covid	29,076	
Garage tenancies are lower than budgeted since new lets haven't been occurring during Covid	37,042	
The workforce have carried out non-HRA work (such as in Leisure Centres) and recovered costs in excess of the budgeted amount.		(94,000)
Reduced investment income yield	26,000	

	Pressure £k	Saving £k
Repairs Underspends arising from less work taking place due to Covid (main variances) - staffing vacancies & delay in redevelopment team commencing (£393k) - Standby contracts coming to an end (£45k) - non-staffing savings in Planned Maintenance (£259k) - non-staffing savings in Responsive & Voids (£175k) - reduced DLO recharge for revenue and capital works £289k - forecast under- recovery on Disabled Facilities works £40k - forecast under-recovery on Private Sector DFGs £150k		(384,000)
Contract dispute	624,000	
Projected increase to bad debt provision	147,000	

5.0 Covid 19

5.1 The Covid 19 pandemic continues to have a significant impact on the financial performance of the Council this year. The first lockdown ended at the beginning of July and so we entered a recovery phase. Although service offerings resumed, restrictions continued in different guises. Leisure centres reopened in August as operating practices were reworked to accommodate the implications of the “new normal.” Social distancing increased staffing costs, as officers guided clients in the new arrangements, and also limited capacities and thus ultimately income. Car parking exceeded expectations but remained in deficit. Partly due to local regeneration initiatives with some car parks free during August and September in Crediton, Cullompton and Tiverton but also no doubt a result of disrupted habits such as homeworking. The current situation, with lockdown 2 whilst at the same time the news of a vaccine brings hope of a more meaningful relief, highlights just how volatile this situation is.

5.2 Appendix C shows how this fed into our fees and charges income, with a deficit in this first half year of £1.529m and an expected deficit for the year of £2.869m. Another way of saying this is that first half year losses represent 53% of full year losses. It might have been expected that the worst was behind us and so this proportion would be higher. However, continuing uncertainty, this second lockdown and the onset of winter are all contributing to a forecast extended recovery.

5.3 This has been an unprecedented event with no prior reference. However, as the crisis unfolds trends are emerging which when applied to some basic assumptions, allow us to forecast ahead. However, as we see now, unforeseen events are a challenge to this process and we must constantly revisit these numbers accordingly.

5.4 These losses are partly mitigated by support from central government. A fourth tranche of £202k of Covid 19 support has been announced bringing the total to £1,196k.

5.5 The Council has also been participating in the Coronavirus Job Protection Scheme (furlough scheme) claiming £333k to date. The extension of the scheme together with the second lockdown will see further MDDC participation.

5.6 Guidelines were published for the government's Income Protection Guarantee scheme. This offers relief to councils for income losses due to Covid 19. Under the scheme the Council will suffer the first 5% of losses and thereafter compensation will be paid at the rate of 75p in the £ on "lost planned sales." Certain loss types are specifically excluded including commercial income. The process required the first application be made in September (relating to April to July losses) with follow up rounds in February and May next year. Ambiguities regarding the administration of the scheme remain and we have submitted our first submission to internal audit scrutiny. We have recognised £1.4m in the forecast which is intended to be a prudent balance of likely outcomes.

5.7 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 (£7.54m).

5.8 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:

	Actual Collection Rate 2019/20	**Predicted Collection Rate** 2020/21	**Rate Variance**
NDR	99.20%	94.15%	-5.05%
Council Tax	98.50%	96.73%	-1.77%

5.9 Given the mechanisms of collection fund accounting, the losses arising from this reduced performance will 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 losses 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 slowdown in the capital programme caused by the pandemic will mitigate the reduced funding.

5.11 A MHCLG press release on 2 July stated:

"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."

5.12 Since this time, there has been no expansion on this declaration to cement the support we may receive in respect of collection fund losses.

5.13 This is an evolving situation which we will continue to monitor against government briefings and our own experience. The concern is that, whilst government support to local businesses is welcomed, it may have only delayed economic impacts from the pandemic. At some time, the furlough scheme and other reliefs will wind down. A resulting economic downturn may prove to be the most profound financial impact of all, as it will inevitably flow into collection rates for both NDR and council tax.

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 6.1, 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 £7.069m against a 'deliverable' Capital Programme of £14.469m leaving a variance of £7.400m 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 £22.408m. 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, £11.230m 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, £3.537m in relation to council house building schemes and £0.769m in relation to major repairs to our housing stock. For further detail, please refer to Appendix G.

6.8 The forecast net underspend amounts to £0.861m. This comprises £0.621m for various General Fund projects and £0.240m 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 Q2 (includes 6 “Right to Buy” Council House sales)	(452)
Current Balance	**(5,609)**
(This includes £2.117m of ring fenced 1:4:1 receipts and £3.492m of general Capital Receipts)	
Forecast further capital receipts in year	(400)
Forecast capital receipts required to support 2020/21 Capital Programme	2,178
Forecast Unapplied Capital Receipts	**(3,831)**

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)	(731)	(163)
Interest from HRA funding	(49)	(46)	3
Total Interest Receivable	**(617)**	**(777)**	**(160)**

9.2 There is an interest payable saving (£330k). 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.

10.2 We continue to monitor the effects of this rapidly evolving crisis and amend our expectations accordingly. Managers are working hard to understand the deficits and develop proposals for their recovery. Also, the budget process for 2021/22 is now well advanced and we are working to understand how this crisis will affect us in future years.

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