

**FINANCIAL UPDATE FOR THE THREE MONTHS TO 31 December 2020**

**Cabinet Member** Cllr Andrew Moore, Cabinet Member for Finance

**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 31 December 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
<b>Revenue</b>			
General Fund (see paragraph 3.2)	(2,251)	89	(2,162)
Housing Revenue Account (see paragraph 4.2)	(2,000)	0	(2,000)
<b>Capital</b>			
Capital Receipts Reserve	(5,157)	1,338	(3,819)
Revenue Contribution to Capital Earmarked Reserve	(301)	138	(163)

- 2.2 Covid 19 continues to dominate the financial performance of the Council in this quarter. In November government enforced lockdown 2.0 lasting from 5 November to 2 December. This has since been followed by a third lockdown which began on 5 January. With the soaring infection rates attributed to the new strain of the disease, there is an expectation that this will last until at least the end of February. By then, the most vulnerable should have been vaccinated; although it is entirely possible that the lockdown or significant preventative measures will continue even after this time.
- 2.3 With that in mind, this forecast also reflects the deemed significant risk that the leisure centres will have to remain closed until the end March. This ongoing disruption to service delivery and so service income reflects in the return to deficit in this reporting period.

## 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 £89k after transfers to and from Earmarked Reserves as shown at Appendix A.

### 3.3 The **most significant variances** (>£20k) comprise:

	<b>Description of Major Movements</b>	<b>Pressure £</b>	<b>Saving £</b>	<b>PDG</b>
<b>Corporate Management</b>	Salary savings including element from Director post not replaced		(45,000)	Cabinet
<b>Corporate Management</b>	Estimate of recruitment costs for 3 Rivers director posts	40,000		Cabinet
<b>Legal &amp; Democratic Services</b>	External Consultancy Fees - Review of 3RDL	32,500		Cabinet
<b>Car Parks</b>	P&D income shortfall due to reduction of users in our car parks across the District due to lockdowns, free parking for 2 months in 3 of our short stay car parks, free Sat/Sun parking in 4 car parks in Dec & free parking in 4 car parks on Sun during January.	526,420		Economy
<b>Car Parks</b>	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		Economy
<b>Public Health combined</b>	Licensing income - forecasting a 25% reduction due to the pandemic.	30,000		Community
<b>Public Health combined</b>	Reduction in Private water sampling income due to the pandemic	24,000		Community
<b>Public Health combined</b>	Salary saving in Public Health due to vacant hours of Specialist Officer and Vacant post of Specialist Lead for 3 months		(25,000)	Community
<b>Public Health combined</b>	Cemetery Income showing down against budget, will review month by month.	30,000		Environment
<b>Grounds Maintenance</b>	Salary savings - delay in recruiting for vacant posts		(61,000)	Environment
<b>Property Services</b>	Reduction in rental income on Fore Street flats due to postponed Tiverton Regeneration Project	29,940		Economy
<b>Property Services</b>	Market Walk rates & service charges for void units	30,000		Economy
<b>Property Services</b>	Property Services salary underspend due to vacant post - 1 post is off-set against Agency overspend		(50,000)	Homes
<b>Property Services</b>	Agency overspend to cover vacant post within Property Services	20,000		Homes
<b>Waste Services</b>	Trade Waste - reduced income due to businesses closing during the pandemic	66,500		Environment
<b>Waste Services</b>	Trade Waste - disposal charges are down due to less collections		(60,000)	Environment
<b>Waste Services</b>	Garden waste - increase in permit sales		(48,000)	Environment
<b>Waste Services</b>	Recycling materials - reduced price and tonnage for paper/plastic	70,600		Environment
<b>Waste Services</b>	Fleet Management - 12 month delay in recruiting shared Transport Manager with Exeter City Council	20,000		Environment
<b>Waste Services</b>	Agency costs - additional rounds and back filling staff due to COVID-19	56,000		Environment

<b>Waste Services</b>	Agency costs - back filling staff vacancies	151,000	Environment
<b>Waste Services</b>	Salaries - savings mainly due to a delay in recruiting posts	(165,000)	Environment
<b>Waste Services</b>	Fuel savings - due to new and more efficient vehicles and lower price for fuel	(47,500)	Environment
<b>Waste Services</b>	Job Retention Scheme funding received for furloughed staff	(21,200)	Environment
<b>Community Development</b>	Market income - reduced income due to a suspension of Market tolls during Covid19 lockdowns and a reduction in traders due to shielding	49,000	Economy
<b>Recreation And Sport</b>	Reduced salary costs during closures due to Covid-19 & vacancies, partially offset by additional staffing whilst centres were open	(95,000)	Community
<b>Recreation And Sport</b>	Job Retention Scheme funding for furloughed staff	(558,550)	Community
<b>Recreation And Sport</b>	Saving against vending stock and equipment for resale	(45,300)	Community
<b>Recreation And Sport</b>	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	2,552,000	Community
<b>Recreation And Sport</b>	Utilities underspend across Leisure due to the impact of Covid-19	(125,000)	Community
<b>Finance And Performance</b>	Finance & Procurement salary variance due to vacant Group Managers post, long term sick leave and reduction in hours	(59,510)	Cabinet
<b>Finance And Performance</b>	Agency costs to cover vacant Group Managers post and overtime payments within Finance has resulted in an overspend - this is partly offset by £17k being the release of ear marked reserves	125,560	Cabinet
<b>Revenues And Benefits</b>	Housing Benefit Subsidy & Overpayment recovery	30,000	Cabinet
<b>Revenues And Benefits</b>	Various New Burdens grants from DWP in respect of Housing Benefits initiatives delivered within existing resource	(49,000)	Cabinet
<b>Revenues And Benefits</b>	NNDR New Burdens Grants for Grant administration	(258,200)	Cabinet
<b>Revenues And Benefits</b>	Agency staff to help deliver Grants until 30/06/21	46,000	Cabinet
<b>Revenues And Benefits</b>	HB New Burdens Grant for Grant administration - Test & Trace & Hardship fund	(33,935)	Cabinet
<b>Revenues And Benefits</b>	Overtime across Revenues & Benefits to cope with the demands of COVID19 & effects on ongoing workload	40,000	Cabinet
<b>Revenues And Benefits</b>	Forecast under recovery of Court Costs for C/Tax & NNDR	40,000	Cabinet
<b>General Fund Housing</b>	Salary savings - Apprentice vacancy and delay in recruitment for an Housing Options Officer and underspend on mileage costs due to Covid19	(27,000)	Homes

<b>General Fund Housing</b>	Homelessness-exercise undertaken to write off debts unlikely to be recovered	60,000	Homes
<b>General Fund Housing</b>	Homelessness-accommodation costs	20,000	Homes
<b>General Fund Housing</b>	Consultancy savings	(35,000)	Homes
<b>Planning And Regeneration</b>	Development Management - net savings from delay in recruiting for vacant roles and post moved from Enforcement	(22,000)	Community
<b>Planning And Regeneration</b>	Development Management - supplies & services overspend on defending appeals, consultancy, advertising of planning applications and other minor variances	128,000	Community
<b>Planning And Regeneration</b>	Development Management - reduced income due to COVID19, a reduction in the developer applications with the larger fees	132,000	Community
<b>Planning And Regeneration</b>	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)	Economy
<b>Planning And Regeneration</b>	Forward Planning - savings from delay in recruiting for vacant roles	(67,000)	Community
<b>Planning And Regeneration</b>	Statutory Plan - 1 year saving on GESP membership as a fallow year	(37,500)	Cabinet
<b>Planning And Regeneration</b>	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	30,000	Cabinet
<b>Customer Services</b>	Salary savings - delay in recruiting for vacant posts off set by other salary overspends and redundancy costs for Caretaking Services	(34,500)	Community
<b>Human Resources</b>	Salary savings due to vacant posts to be reviewed during the year	(53,130)	Cabinet
<b>I.T. Services</b>	Retained technical support to cover vacancies	45,000	Cabinet

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 £230k deficit will decrease the budgeted transfer to the Housing Maintenance Fund and so the HRA reserve balance will remain at £2m.

- 4.3 The overall HRA forecast of a £230k overspend in 2020/21 is made up of several deficits and surpluses. The most significant of these (>£20k) comprise the following:

Description of Major Movements	Pressure £	Saving £
Garage tenancies are lower than budgeted since new lets haven't been occurring during Covid	40,470	
The workforce have carried out non-HRA work (such as in Leisure Centres) and recovered costs in excess of the budgeted amount.		(109,000)
<u>Repairs Underspends arising from less work taking place due to Covid (main variances)</u> - staffing vacancies & delay in redevelopment team commencing (£411k) - Standby contracts coming to an end (£45k) - Saving on redevelopment overhead budget (£74k) - non-staffing savings in Planned Maintenance (£150k) - non-staffing savings in Responsive & Voids (£215k) - savings on vehicle fuel usage (£22k) - reduced DLO recharge for revenue and capital works £250k - forecast under-recovery on Disabled Facilities works £90k - forecast under-recovery on Private Sector DFGs £180k		(411,000)
Contract dispute	624,000	
Various staffing savings and some minor cost variances within Tenancy Services		(84,000)
Projected £200k increase to bad debt provision	147,000	

## 5.0 Covid 19

- 5.1 As we would expect, the financial story of 2020/21 revolves around Covid 19. Three lockdown periods effectively covering April to June, November and now January to February have defunctionalised our services. This in turn has decimated service income whilst redirecting some areas to deliver crisis critical services has incurred significant unbudgeted costs.
- 5.2 And so it continues. Whilst the vaccine programme intends to have inoculated the most vulnerable by the end of February, it may be optimistic to expect an easing of the containment measures at this time. Not least, there are frequent disclosures of new strains which may prolong matters further.
- 5.3 The progressive and unprecedented nature of the crisis has hindered forecasting. Expectations of recovery have been repeatedly delayed and there remains the potential for this to happen again. This forecast predicts

an end to lockdown 3 around the end of February with the closure of our leisure centres persisting into March due to the infection risks associated with the provision of that service. If the current lockdown restrictions continue much beyond February, then we can expect further deficiencies in income across all the other services also, with inevitable impacts on our outturn position.

- 5.4 Subsequent to this we start a new financial year on 1 April, with the distinct possibility that not only are the recovery trends assumed in next year's budget at risk but that service provision, even then, could be limited. The achievability of the budget is immediately at risk as we effectively start the year in deficit.
- 5.5 Appendix C shows how this has fed into our fees and charges income, with a deficit in the first nine months of £2.4m and an expected deficit for the year of £3.3m. This annual deficit represents 50% of budgeted fees and charges income.
- 5.6 These losses are partly mitigated by support from central government. A fourth tranche of £202k of Covid 19 support was received on 16 November bringing the total to £1,196k (£1,157k as per appendix A plus £39k which was received in March 2020 ie the prior financial year).
- 5.7 The Council has also been participating in the Coronavirus Job Protection Scheme (furlough scheme) claiming £397k to the end of December. The extension of the Scheme (now to the end of April 2021) together with the third lockdown will see further MDDC participation. It is notable that the benefit of this scheme to the Council is limited as, where applicable, furlough receipts must be deducted when calculating losses under the Income Compensation Scheme ie the compensation received is reduced accordingly.
- 5.8 The Income Compensation Scheme, which provides for the reimbursement to Local Authorities of 75% of marginal losses on allowable income streams, is now under way. The first claim of £530k has been paid and the second claim (£775k) has been submitted. A final reconciliation and balancing payment for the first year of the Scheme will be made in May (note - the scheme has been extended to include losses arising in quarter 1 of 2021/22). As further losses arise, particularly with respect to the third lockdown, so the forecast claim increases, currently to £1.7m. Although our returns have been subject to internal audit scrutiny, this is a prudent estimate of the amount which will be received. There remains some ambiguity in the scheme guidelines and hence some associated interpretation risk.
- 5.9 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 (£7.3m).
- 5.10 The Council remains exposed on the residual NDR ie after allowing for the RHL scheme, and council tax debt. Given the mechanisms of collection

fund accounting, the losses arising from any underperformance 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)" (£240k) and "Business Rates Deficit (20-21)" (£388k). Note, the impact shown here represents the Council share of the losses that are ultimately deemed non recoverable.

- 5.11 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.
- 5.12 In the funding settlement on December 17, government shared further details of the compensation arrangements relating to collection fund losses. Applying these guidelines, this is calculated at £285k for MDDC relating to council tax. The calculation methodology for NNDR does not afford enough clarity (to us, our advisors and probably also to the MHCLG) to include a meaningful amount at this stage. We will share the expected value of this benefit in due course.
- 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 (not forgetting that the full effects of Brexit also now are in play). At some time, the furlough scheme and other reliefs will wind down. Any 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 £7.179m against a 'deliverable' Capital Programme of £14.469m leaving a variance of £7.290m 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 £28.405m. 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, £12.780m related to projects to be delivered by 3 Rivers Ltd. A further £2.646m related to the Post Hill scheme, £3.650m in relation to the HIF schemes in Cullompton and Tiverton, £3.700m in relation to council house building schemes and £0.893m 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 £0.777m. This comprises £0.59m for various General Fund projects and £0.187m 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
<b>Forecast uncommitted Balance</b>	<b>(163)</b>

## 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 Q3 (includes 8 "Right to Buy" Council House sales)	(640)
<b>Current Balance</b>	<b>(5,797)</b>

(This includes £2.217m of ring fenced 1:4:1 receipts and £3.580m of general Capital Receipts)

Forecast further capital receipts in year	(200)
Forecast capital receipts required to support 2020/21 Capital Programme	2,178

<b>Forecast Unapplied Capital Receipts</b>	<b>(3,819)</b>
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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)	(745)	(177)
Interest from HRA funding	(49)	(46)	3
<b>Total Interest Receivable</b>	<b>(617)</b>	<b>(791)</b>	<b>(174)</b>

9.2 There is an interest payable saving (£340k). 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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**Circulation of the Report:**

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