

CABINET
03 August 2021

FINANCIAL UPDATE FOR THE THREE MONTHS TO 30 JUNE 2021

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 three months to 30 June 2021 and the initial 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. A surplus or deficit on the Revenue Budget will impact on the Council's General Fund balances. The Council's financial position is constantly reviewed to ensure its continued financial health.

Legal Implications: There are no direct implications from the content of this report.

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. Members will be aware that the Council continues to face a financially difficult and uncertain future. As such, the Strategic Risk Register (monitored by Audit Committee) includes a specific risk relating to this issue.

Equality Impact Assessment: There are no direct impacts from the content of this report.

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

1.0 Introduction

1.1 The Council agreed the 2021/22 Annual Budget at its meeting on 4 February. The aim is to keep a tight control on spending on services within a flexible budget management framework, allowing budget holders to manage savings within controllable budgets to help mitigate budget pressures and thus contain or minimise a budget deficit for the Council as a whole.

1.2 The purpose of this report is to highlight to Cabinet our current financial status and the likely reserve balances at 31 March 2022. It encompasses both

revenue, in respect of the General Fund, the Housing Revenue Account (HRA), and Capital Programme. The detail underpinning these projections is included within the body of report in the following sections / appendices:

- The projected General Fund outturn position for 2021/22 (Section 3 + Appendices A to D)
- The projected HRA Outturn position for 2021/22 (Section 4 + Appendices E and F)
- The projected Capital Outturn position for 2021/22 (Section 5 + Appendix G)
- The projected Reserves Outturn position for 2021/22 (Section 6)
- Summary Treasury Management position (Section 7).

- 1.3 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). Any variance against the agreed budget will impact on the Council's reserves.
- 1.4 The Council's financial position will be constantly reviewed to ensure its continued financial health and delivery of excellent Value for Money.

2.0 Executive Summary of 2021/22

- 2.1 The report indicates a projected General Fund outturn variance of £63k under spend and a HRA outturn variance of £314k under spend. At this early stage of the year the focus is on the identification of a deliverable Capital Programme, therefore the forecast outturn position will be refined during the year.
- 2.2 Although Covid-19 continues to dominate the national picture, the implications for the Council are beginning to ease. The volume of the various business grant schemes have reduced, the Income Compensation Scheme came to an end in June, and the usage of the Furlough Scheme and the need to redeploy staff has lessened. This is expected to continue across the remainder of the financial year despite infection rates increasing again as hospital intakes remain more manageable and deaths much lower than during previous waves. This, combined with the progress made on the vaccination programme, has enabled the government to largely ease the remaining lockdown restrictions.
- 2.3 The financial performance of the Council in this quarter has been more stable with all services having reopened. However, overall Income remains lower than normal, particularly in Leisure and Car Parks as patronage slowly returns to more normal levels. However, other services such as Planning continue to see strong demand. Increased prices per tonne for recycled materials have also provided greater than forecast income. Collection fund income indicates a quicker than forecast return to pre Covid-19 collection levels.
- 2.4 There remains some staffing difficulties in key services, particularly Waste, leading to higher usage of agency staff than planned although this is partially offset by underspends on the staffing establishment. Some additional staffing costs have been met through drawdowns from Earmarked Reserves agreed at Outturn.

3.0 The General Fund

- 3.1 The forecast General fund under spend for the current year is £63k after transfers to and from Earmarked Reserves as shown at **Appendix A**. **Appendix B** provides the most significant service variances above £20k.
- 3.2 The current incomes from our major fee income streams are shown in **Appendix C**. It shows that Income is £123k below budget in the quarter. This is largely due to Leisure income being £211k below forecast, along with Car Parking income £50k lower. Increased Planning, Building Control and Licensing income of £189k above budget offsets this to a degree. Other Service income streams remain relatively close to expectations. A consequence of the improved income is that the Council will be able to claim less through the Government's Income Compensation Scheme, therefore the Government support for Covid-19 is showing as £100k below forecast.
- 3.3 As per 2021/22, the Government has awarded further Business Rates reliefs for Retail and Nursery businesses. This impacts our income collected, but is compensated through additional S31 Grant. This will again generate a deficit that will unwind next year. It is intended to roll forward the gain into 2022/23 through earmarking into reserves. However, overall the Collection Fund shows encouraging signs of recovery on both Council Tax and Business Rates. This is assisted by prudent underlying assumptions within the base budget.
- 3.4 The current employee costs are shown at **Appendix D**. It shows an under spend of £509k for Qtr. 1. This includes £173k relating to Pension Back-funding owed from Devon CC and therefore is not included within the full year projection. Planning is also showing an under spend of £118k due to the use of Earmarked Reserves. Generally, the remaining services slightly favour an under spend, with Environmental Services the only notable service showing a small over spend in Qtr1 which is understandable during a pandemic, but it should be noted that this situation is resolved within the full year forecast. £200k has been included to allow for a possible pay award in the region of 1.75%.

4.0 Housing Revenue Account (HRA)

- 4.1 This is a ring-fenced account in respect of the Council's social housing function. The forecast position of £314k under spend is included within **Appendix E** with major variances above £20k highlighted at **Appendix F**.
- 4.2 The main contributory factor within this favourable variance is staffing vacancies (£228k), with reduced maintenance spend also providing a significant under spend. This is marginally offset by lower than expected income from garage rentals.
- 4.3 It is anticipated that the forecast variance will increase the budgeted transfer to the Housing Maintenance Fund and so the HRA reserve balance will remain at £2m.

5.0 Capital Programme

- 5.1 The approved Capital Programme amounts to £43,919k (this includes the approved 2021/22 Budget of £17,705k and slippage rolled forward from 2020/21, together with subsequent 2021/22 adjustments, giving a total of £26,214k. The status of this year's capital programme is shown at **Appendix G**.
- 5.2 Capital projects, by their very nature, often overlap financial years. Managers have therefore given their best estimate of what is 'deliverable' for 2021/22 based on known information at this point in the year. This amounts to £33,848k, with the remainder expected to be spent in future years. Therefore, committed and actual expenditure will be monitored against this revised 'deliverable' budget for the remainder of the year. This will continue to be revisited for material changes. Further work will be undertaken to refine what is 'deliverable' for 2021/22 and will be reflected at the quarter 2 position later this year.
- 5.3 Committed and Actual expenditure is currently £4,855k leaving a variance of £28,993k uncommitted at this point in time. Additional work has been undertaken to establish forecast slippage into 2022/23; this currently amounts to £11,151k. This relates to: £10.801m for various General Fund projects; which includes £8.966m associated with development projects and £1.0m in respect of land acquisition. There is £0.350m in respect of the HRA that relates to major repairs to our housing stock.
- 5.4 The forecast net underspend amounts to £0.620m. This comprises £0.520m for various General Fund projects and £0.100m in relation to HRA projects.

6.0 Reserves

- 6.1 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 2022:

Usable Reserves	31/03/2021	Forecast in year movement	31/03/2022
Revenue	£000's	£000's	£000's
General Fund (see section 3)	(2,186)	(88)	(2,274)
Earmarked Reserves	(20,247)	2,925	(17,322)
Housing Revenue Account (see section 4)	(2,000)	0	(2,000)
Capital	£000's	£000's	£000's
Capital Receipts Reserve	(5,498)	1,947	(3,551)
Revenue Contribution to Capital Earmarked Reserve	(255)	132	(123)

- 6.2 The General Fund 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 £2,186k as at 31/03/21 and as shown above is currently forecast to increase to £2,274k.
- 6.3 The most significant implication for Earmarked Reserves is the new proposed transfer of the new additional S31 Grant received as a result of the additional Retail and Nursery Business Rate reliefs. This will smooth the associated deficit this will cause on the Collection Fund that will unwind next financial year.
- 6.4 The other main variance from the budgeted use of Earmarked Reserves is the additional drawdowns of the reserves created at Outturn to support additional staffing and activities within Planning and Regeneration.
- 6.5 The forecast reserve balance for the Revenue Contribution to Capital Reserve and the Capital Receipts Reserve includes the associated funding of the 2021/22 Capital Programme, as these monies are committed. In reality, much of this will slip to 2022/23. 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.
- 6.6 Unapplied useable capital receipts are used to part fund the Capital Programme, the forecast movement on this account for the year to date is given below:

	£k
Unapplied Useable Capital Receipts at 1 April 2021	(5,498)
* Net Receipts to Q1 (includes 4 "Right to Buy" Council House sales)	(275)
Current Balance	(5,773)
Forecast further capital receipts in year	(300)
Forecast capital receipts required to support 2021/22 Capital Programme	2,522
Forecast Unapplied Capital Receipts at 31 March 2022	(3,551)
<i>* Forecast as prior to completion of Q1 Pooling Return</i>	

- 6.7 The opening unapplied Useable Capital Receipts balance includes £2.096m of ring-fenced 1:4:1 receipts and £3.402m of general Capital Receipts. The ring-fenced "1:4:1 receipts" need to be spent within 5 years of receipt; otherwise they need to be returned to MHCLG with interest. These can be used to fund up to 40% of new social housing developments or repurchased right to buy properties. The planned spend of these receipts is included within the proposed Housing Strategy and is summarised within the table below:

Year Of Receipt	2018/19	2019/20	2020/21	2021/22	2022/23	Totals
Year of Accountability	2021/22	2022/23	2023/24	2024/25	2025/26	
1-4-1 Receipts	£1,040,249	£539,556	£484,410	£568,410	£836,41	£3,469,034
Utilisation Expenditure @ 40%	£2,600,622	£1,348,890	£1,211,025	£1,421,025	£2,091,024	£8,672,585
MDDC Residual Funding Requirement	£1,560,373	£809,334	£726,615	£852,615	£1,254,614	£5,203,551

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

	<u>£k</u>
Capital Earmarked Reserve at 1 April 2021	(255)
Funding required to support 2021/22 Capital Programme	132
Forecast uncommitted Balance	<u>(123)</u>

7.0 Treasury Management

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

	Annual Budget £k	Forecast outturn £k	Forecast variance £k
Investment Income Payable	140	104	(37)
Investment Income Received	(633)	(778)	(145)
Interest from HRA funding	(46)	(46)	0
Total Interest Receivable	<u>(539)</u>	<u>(721)</u>	<u>(182)</u>

7.2 The interest payable saving arises from a reduced expected requirement to take out external borrowing (PWLB). The additional interest generated is from additional investment in the 3 Rivers development programme.

8.0 Conclusion

8.1 Members are asked to note the Revenue and Capital forecasts for the financial year.

8.2 We continue to closely monitor the financial position and amend our expectations accordingly. The budget process for 2022/23 is now underway and Managers are working hard to develop proposals to mitigate the forecast shortfall.

**Contact for more
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Circulation of the Report:

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