

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Executive Committee
<b>Date of Meeting:</b>	5 February 2020
<b>Subject:</b>	Financial Update – Quarter Three Performance Report
<b>Report of:</b>	Head of Finance and Asset Management
<b>Corporate Lead:</b>	Deputy Chief Executive
<b>Lead Member:</b>	Lead Member for Finance and Asset Management
<b>Number of Appendices:</b>	Three

## **Executive Summary:**

The budget for 2019/20 was approved by Council in February 2019 with the reserves being approved at Executive Committee in June 2019. This report is the third quarterly monitoring report of the Council's financial performance for the year.

The report highlights a quarter three surplus of £310,256 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

## **Recommendation:**

**Executive Committee is asked to consider the financial performance information for the third quarter 2019/20.**

## **Reasons for Recommendation:**

The Executive Committee is responsible for recommending the budget to Council and for the management and delivery of the approved budget during the financial year.

The quarterly financial report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any corrective action to be taken if required.

## **Resource Implications:**

As detailed within the report.

If the budget is in deficit at year-end the Council will have to use reserves to fund the overspend, meaning that these resources are not available to fund other activities or future financial management of the Council's projected medium term budgets. The Council currently has a £850,000 General Fund balance.

## **Legal Implications:**

None associated with the report.

**Risk Management Implications:**

A financial deficit will result in the utilisation of the limited reserves available to the Council. The financial performance of the Council is monitored on a monthly basis and reported to Members quarterly. Active management of the budget takes place to reduce the projected deficit whilst maintaining delivery of services.

**Performance Management Follow-up:**

Budgets will continue to be monitored on a regular basis by budget holders supported by finance. Quarterly monitoring reports will be presented to Members with the outturn position reported to the Committee in June 2020.

**Environmental Implications:**

None arising from this report.

**1.0 INTRODUCTION/BACKGROUND**

- 1.1** This report provides the quarter three (Q3) monitoring position statement for the financial year 2019/20. The purpose of this report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any action to be taken if required.

**2.0 REVENUE BUDGET POSITION**

- 2.1** The financial budget summary for Q3 shows a £310,256 surplus against the profiled budget, a significant improvement on the reported deficit of (£18,530) as at Q2. Below is a summary of the expenditure position for the Council split out between the main expenditure types.

Services expenditure	Budget	Budget Q3	Actual Q3	Variance
	£	£	£	£
Employees	9,864,860	6,646,370	6,498,019	148,351
Premises	640,349	528,913	549,734	(20,822)
Transport	157,779	112,337	98,358	13,979
Supplies & Services	1,985,608	1,190,880	1,264,113	(73,232)
Payments to Third Parties	5,497,115	3,953,328	4,168,301	(214,973)
Transfer Payments - Benefits Service	13,611,266	10,499,730	10,529,730	(30,000)
Income	(21,474,965)	(5,496,230)	(5,850,992)	354,763
	<b>10,282,012</b>	<b>17,435,329</b>	<b>17,257,263</b>	<b>178,066</b>
<b>Corporate Codes</b>				
Interest Received	(394,822)	(296,117)	(378,433)	82,316
Interest Costs	650,500	487,875	345,546	142,329
Investment Properties	(2,753,605)	(2,268,096)	(2,010,845)	(257,251)
Corporate Savings Targets	(7,500)	0	0	0
RSG and other grant funding	(36,565)	(27,428)	(31,097)	3,669
New Homes Bonus	(3,273,399)	(2,455,050)	(2,455,049)	(1)
Business rates	(2,497,557)	0	(161,129)	161,129
	<b>1,969,064</b>	<b>12,876,513</b>	<b>12,566,257</b>	<b>310,256</b>

**Note:** With regards to savings and deficits, items in brackets and red are overspends/deficit

## **2.2 Position on Service Expenditure**

The budget position in relation to service expenditure shows an overall budget surplus of £178,066 as at the end of December 2019 (deficit at Q2 of £70,705).

## **2.3 Employee Costs – surplus of £148,351**

These savings are being generated mainly through staff vacancies, across most services, with Corporate Services generating the most savings at £56,000. Services have managed vacancies during the period by utilising current staff to cover work in the short term and limiting, where possible, use of agency staff. In addition, savings are arising on the Chief Executive post following a decision to grant flexible retirement.

## **2.4 Supplies and Services – deficit of (£73,232)**

There is a deficit being reported on Supplies and Services which is in relation to European and Parliamentary elections (which is also affecting the deficit position on payments to third parties). The Council receives grant income to cover the cost of the elections and therefore an income surplus within Democratic Services matches off this expenditure. The Borough election expenditure is also contained within Democratic Services and this is matched off through one off funding from reserves and New Homes Bonus. Overall, Democratic Services is in a cost neutral position.

## **2.5 Payments to Third Parties – deficit of (£214,973)**

Community Services is reporting a deficit of (£200,929), which mainly relates to the delivery of the contract sum with Ubico. At the end of quarter 2, we reported a half year deficit position on the contract sum of (£99,536), with a projected year end overspend of (£199,072). As at quarter 3, this has now increased to a deficit of (£204,643) and a projected year end overspend of (£272,857).

We have previously reported the increased resources being deployed in the grounds maintenance service and the increased cost of depot rental at Swindon Road, Cheltenham. The additional spend in these areas will be covered by contribution from reserves for the year. There have also been additional costs of hire vehicles and repairs to vehicles, as reported in quarter 2.

The Council has now received notification that previous finance reports presented had focussed on the contract specific costs, overlooking the corporate costs of the business and the potential cost of these to shareholder Councils. This issue has now been reviewed and a significant overspend identified. This can be broken down into four key categories:-

1. Insufficient recovery rate at budget setting for 2019/20, previously agreed at 5.8% of contract sums.
2. 2019/20 budget deficiencies for items such as ICT support and absence management systems.
3. Shareholder agreed increased costs such as the appointment costs of Non-Executive Directors and the Financial Director.
4. Cost movements during year such as support costs from Publica.

As a result of this review, an additional £77,000 of costs relating to the corporate core of Ubico has been added to the Tewkesbury contract. All Ubico contracts have been affected by this issue.

Senior management at Ubico have frozen all non-essential spending across the organisation in order to reduce costs. This may have some small beneficial effect at year end to the contract sum. In addition, a value for money review of all elements of expenditure throughout the organisation has been started, which may lead to reduced cost in future years.

Ubico has given assurance that the budget for 2020/21 will not be increased as a result of the additional corporate costs, and it will present cost reduction proposals to cover the additional expenditure.

S151 officers of all shareholding Councils have agreed to support Ubico, and in particular the newly appointed Financial Director, in a review of the corporate costs of the organisation. This will include the allocation basis, which is currently based on turnover.

## **2.6 Transfer Payments – deficit of (£30,000)**

The deficit on transfer payments relates to expenditure on Housing Benefit and recovery of subsidy from the government.

During the year several significant overpayments relating to claimant error, which go back over several years, have been identified. This has reduced the subsidy that can be recovered from government, leading to the deficit position. The forecast full year deficit being reported as at this quarter end is a significant improvement on the previously reported position of a forecast overspend of £130,000 and reflects the positive direction of travel over the last three or four months.

The Council aims to recover 100% of the debt from the claimant and therefore in the long run the deficit on the Housing Benefit claim could be eradicated. Unfortunately recovering significant overpayments can take time.

## **2.7 Income – net surplus of £354,763**

Current year income is showing a surplus position of £354,763. This surplus includes the following:

- £194,000 of grant funding for European Elections as discussed above.
- £55,000 of grant funding for the revenues and benefits service.
- £41,000 gain from the garden waste service.
- £22,000 gain on car parking income.
- £26,000 of various other government grant funding.
- £19,000 surplus on building regulations.

This positive position is being offset by a deficit (£105,000) on planning income at the end of December 2019. The expectation is that by the year end, planning applications received may reduce the deficit to (£77,000). Planning expect applications not submitted in the current financial year to be submitted in 2020/21 instead. The budgeted income target for 2020/21 has been set and reduced for next financial year and, should larger applications be delayed until 2020/21, we would expect surpluses to be generated within this service area.

There is also a deficit (£81,000) on the amount of recycling credits received. This is due to the actual level of recyclate being collected being less than was included in the budget. It has also been identified that the budget did not include a sufficient allowance for non-recyclable material in the system, and therefore overestimated the recycling credits due. This means that we are receiving less income than predicted. The Community Services team is working with the contractor, Suez, to manage the level of rejected materials to maximise the income received from recycling credits.

## **2.8 Attached at Appendix A is a summary of the position for each Head of Service, which shows the current variance against their budget. Where the main types of expenditure headings within the Head of Service's responsibility have a variance over £10,000, a short explanation for the reason for the variance has been provided.**

## **2.9 Corporate Codes**

The corporate codes include the other sources of financing which are needed to balance the budget.

There is a significant budget deficit being shown on investment properties, which is due to the inability to secure another commercial property during the year as expected.

Paragraphs 3.2 and 3.3 provide more information on this. This has meant that the income expected to be received in rent has not been achieved. However, this loss has been mitigated to a large extent by treasury management costs having been reduced through reduced borrowing and no minimum revenue provision being made.

Business rates is showing a surplus at December 2019 of £161,129. In addition, the Council is a member of the Gloucestershire Business Rates pool. The pool's latest position shows a positive return and it is expected that a windfall surplus of approximately £250,000 can be delivered by the year end.

- 2.10** Management Team is pleased with the reported surplus at the end of the third quarter, particularly considering the deficits reported in the two previous quarters. It is expected that the position will remain positive over the final quarter. Despite the likelihood of a surplus at outturn, there are still significant deficits as far as ongoing budgets are concerned. The Medium Term Financial Strategy currently projects a five year deficit of £5million. It would be prudent to set aside reserves for future financial sustainability.

## **3.0 CAPITAL BUDGET POSITION**

- 3.1** Appendix B shows the capital budget position as at quarter 3. This is currently showing a surplus against the profiled budget of £12,027. The saving is being generated from a slippage in spend on the community grants scheme. The Executive Committee reviewed the position on the two outstanding schemes at the meeting on 8 January 2020 and allowed an extension of time to complete the schemes. This is being offset by incurring a higher than predicted expenditure on Disabled Facilities Grants. However, as we have a large grant allocation from central government to pay for these it is not depleting the Council's capital allocation.
- 3.2** The capital programme still includes a budget of £6.6million to secure a commercial investment acquisition which is now profiled to happen in the final quarter of the financial year. The Council has reviewed a number of opportunities in the current year and made a decision to bid on two specific properties. Unfortunately, it has failed to secure either of these properties as the first one was withdrawn from sale by the vendor and the Council was outbid on the second property. Other properties have also passed the Council's due diligence processes but again have failed to come to market due to vendors withdrawing the properties from the market.
- 3.3** The market for investment properties, specifically in the industrial or alternative sector which the Council requires for a balanced portfolio, has become increasingly competitive with less high quality investments coming to the market. The Council continues to work with its advisors to source and secure new property and hopes to conclude a suitable investment within the calendar year. An opportunity within the industrial sector has recently been identified and due diligence is currently taking place.
- 3.4** Other capital schemes are progressing in line with budgets.

## **4.0 RESERVES POSITION**

- 4.1** Appendix C provides a summary of the current usage of available reserves.
- 4.2** Reserves have been set aside from previous years to fund known future costs and the strategic planning of the authority's operation. The information in the appendix does not take account of reserves which have been committed, but not yet paid.
- 4.3** Whilst the quarter 3 position shows that there remains a significant balance on the reserves, the expectation is that the balances will be spent in the future. Finance has asked for updates from all departments about their plans to ensure that earmarked reserves are, either used for their intended purpose, or released back to the general fund.

## **5.0 CONSULTATION**

- 5.1** Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

## **6.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

- 6.1** Budget monitoring is on the approved budget for 2019/20 which has been prepared in line with the Medium Term Financial Strategy.

## **7.0 RELEVANT GOVERNMENT POLICIES**

- 7.1** None.

## **8.0 RESOURCE IMPLICATIONS (Human/Property)**

- 8.1** None.

## **9.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**

- 9.1** None.

## **10.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

- 10.1** None.

## **11.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS**

- 11.1** None.

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**Background Papers:** None.

**Contact Officer:** Head of Finance and Asset Management Tel: 01684 272005  
Email: [simon.dix@tewkesbury.gov.uk](mailto:simon.dix@tewkesbury.gov.uk)

**Appendices:** Appendix A – Quarter 3 revenue position by service.  
Appendix B – Quarter 3 capital position.  
Appendix C – Quarter 3 earmarked reserves update.