

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	26 August 2020
Subject:	Financial Update – Quarter One Performance Report
Report of:	Head of Finance and Asset Management
Corporate Lead:	Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Four

Executive Summary:

The budget for 2020/21 was approved by Council in February 2020 with the reserves being approved at Executive Committee in July 2020. This report is the first quarterly monitoring report of the Council's financial performance for the year.

The report highlights a quarter one deficit of (£444,218) on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

Recommendation:

The Executive Committee is asked to consider the financial performance information for the first quarter of 2020/21.

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 then 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.

The COVID-19 pandemic is having a significant impact on the Council's financial position, which has been recognised by the government. Support packages have been put in place to provide Councils with additional funding and emergency support in the short term, with further support being proposed. The level of funding and terms of the support available will have a significant impact on the ability of the Council to recover from the financial impact of the pandemic.

Legal Implications:

None associated with the report.

Risk Management Implications:

A financial deficit will result in the utilisation of the limited financial reserves held by 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.

As a result of the COVID-19 pandemic the Council is producing a revised budget for the 2020/21 financial year. The aim is to facilitate the management of the budget deficit position over the short and medium term. This will enable Members to make informed decisions based on the most up-to-date information on whether action is required. The revised budget will have regard to the COVID-19 Corporate Recovery Plan approved by the Executive Committee at its meeting on 5 August 2020.

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 2021.

Environmental Implications:

None arising from this report.

1.0 INTRODUCTION/BACKGROUND

1.1 This report provides the quarter one (Q1) monitoring position statement for the financial year 2020/21. 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 Q1 shows a (£444,218) deficit against the profiled budget. The deficit stated is prior to any government support grant being applied.

This position is very much in line with expectations of financial performance during the coronavirus lockdown. The Council is very much aware of the additional costs and reduced income caused by coronavirus in the first quarter, but this report now brings into focus the core operational activities of the Council during the period and highlights some of the savings made which reduces the overall deficit to the Council.

The largest area of saving in the first quarter is within employees and sees a saving of £229,034 against budget. This is very significant against a single quarter budget and highlights the number of staff vacancies that the Council has needed to manage during the period of responding to coronavirus as well as trying to provide a normal level of activity in core services.

Below is a summary of the expenditure position for the Council, split out between the main expenditure types:

Services expenditure	Total Budget	Budget	Actual	Variance
	£	£	£	£
Employees	10,673,188	2,293,542	2,064,508	229,034
Premises	614,421	301,848	293,552	8,296
Transport	86,630	17,294	8,848	8,446
Supplies & Services	1,991,814	406,815	399,686	7,129
Payments to Third Parties	5,870,076	291,649	317,107	(25,458)
Transfer Payments	12,449,021	0	(22,000)	22,000
COVID-19 Costs	0	0	284,925	(284,925)
Income	(19,968,839)	(2,378,455)	(1,972,563)	(405,892)
	11,716,311	932,693	1,374,062	(441,369)

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

	Total Budget	Budget	Actual	Variance
	£	£	£	£
Services expenditure	11,716,311	932,693	1,374,062	(441,369)
Corporate Codes				
Interest Received	(501,300)	(125,325)	(179,172)	53,847
Interest Costs	513,000	128,250	182,742	(54,492)
Investment Properties	(2,713,904)	(860,854)	(858,650)	(2,204)
Corporate Savings Targets	(57,500)	0	0	0
RSG and other grant funding	(36,936)	0	0	0
New Homes Bonus	(3,762,756)	(818,350)	(818,350)	0
Business rates	(2,585,070)	0	0	0
	2,571,845	(743,586)	(299,367)	(444,218)

COVID-19 support received from government	Allocation
Funding to support spending pressures	£1,119,175

2.2 Expenditure on providing services

2.2.1 The budget position in relation to service expenditure shows an overall budget deficit of (£441,369).

Employee Costs – surplus of £229,034

These savings are being generated through staff vacancies, across all services. Corporate Services are generating £59,000 of savings, Development Services £58,000 and One Legal £38,000. An impact of COVID-19 was to delay recruitment from the end of March, which may have left a greater number of posts open than normal, however recruitment processes are operating again with 3 Development Services posts filled in July and successful recruitment to some of the vacant One Legal posts.

Payments to Third Parties – deficit of (£25,458)

Most of this deficit against budget falls within Community Services.

There has been an ongoing issue regarding the reprocessing of paper and the amount of residual waste from glass at the MRF depot operated by Suez. This has resulted in an increased cost to the Council. We are working with the contractor to ensure that the financial impact is controlled but it is recognised that we are going to see higher costs for the year than budgeted.

Ubico is in a cost neutral position at the end of the first quarter. Savings have arisen against the budgeted cost of pensions as a result of the revaluation of the Gloucestershire Local Government Pension Scheme. These savings are being offset by additional expenditure on the corporate core of Ubico, an issue first raised in the quarter three report last year, and an expected increase in vehicle repair costs against budget.

COVID-19 Costs – deficit of (£284,925)

The Council has separately identified where we have incurred costs as a direct response to the COVID-19 pandemic (this does not include commitments made in the first quarter which have yet to be paid). The aim of identifying these costs is to demonstrate to central government the impact on our revenue position and that, without additional financial support, these costs would have a significant impact on the reserves held by the Council.

The areas that have been identified are:

- 1) The Council has a contractual requirement with Places Leisure to provide revenue support to cover the costs of operating the leisure centre as a result of the change in law which brought about operating restrictions. The contract requires that on a month by month basis the council will pay the difference between unavoidable costs and revenue, so that a break-even position is maintained for the operator. Within the first quarter this has resulted in a cost to the Council of £127,000. This is an ongoing support agreement until the leisure centre is able to return to normal operating capacity. It is anticipated that the Council will be required to cover the funding shortfall until April 2021 at which point it is hoped to move to a cost neutral position.
- 2) The Council has purchased 115 laptops to ensure that staff have been able to work from home. As there was a plan to move some staff onto laptops during the year, £40,000 of cost have been paid for from capital reserves. The remaining purchase cost and the additional agency resource required to help build laptops for staff resulted in an additional £60,000 cost.
- 3) Ubico have been recording the additional costs they have incurred as they respond to the COVID-19 pandemic as they have continued to provide services, whilst ensuring that staff are protected. They incurred additional costs of agency workers, seconded staff and hire of vehicles to deliver additional rounds as the service could not be delivered safely as per normal operating conditions. The purchase of personal protective equipment was a priority to ensure teams could work together on rounds. At the end of Q1 Ubico had reported an additional £35,000 of expenditure.
- 4) Across all areas of the Council there has been a significant increase in demand on services particularly supporting vulnerable people in the borough whether that is residents who were shielding, those finding themselves homeless and those that are facing unemployment and requiring financial support. There was also a significant effort required to support businesses particularly delivering central government's business grants schemes. The Council has had additional costs from providing staff with unsociable hours payments and paying overtime claims in the region of £25,000.

Income – deficit of (£405,892)

The deficit on income has currently been attributed to the COVID-19 pandemic, and has resulted in:

- 1) £153,000 down on the forecast for planning income in Q1, covering planning fees, land charges and preplanning application fees. It is not clear what impact that COVID-19 has had on the level of planning applications expected in 2020/21. Development services are reviewing forecasts for the year, particularly in regard to large applications which are expected and generate significant fees.
- 2) £148,000 of lost income from car parks as all charges were suspended during the lock down period.

- 3) £24,000 of lost income from rental income as some businesses were closed during the lock down period.
- 4) £41,000 lost income on trade waste during the first quarter of the year as a significant number of our customers businesses were closed and their accounts were suspended during the lockdown period.
- 5) £31,000 budget deficit on licencing particularly around lost renewals on vehicle & taxi licences and also premises licences.
- 6) £14,000 fall in revenue on garden waste renewals, although this is attributed to people deciding not to renew at the end of March when the service was suspended for a short period. It is expected that the revenue income will recover as the service is resumed. As Ubico collected all backlog of materials from customers the Council has not provided a refund for the suspended service.
- 7) £12,000 budget deficit on the recovery of housing benefit overpayments and as the Courts have been closed there has been no revenue from Council Tax Summons.
- 8) £14,000 budget deficit on One Legal fees, as third party clients focus has been on response to the pandemic rather than day to day business requiring legal support.

There is a revised budget being produced during Q2 which will review all income streams and the impact that lockdown and subsequent easing has had on them. This will provide a projection to the year end of the income the Council believes it will be able to recover.

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.

2.3 CORPORATE CODES

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

Our commercial investment portfolio is currently showing as being on budget. We have negotiated two income deferral schemes where clients are managing cash flows by deferring the payment of the rental income due to a later date. However, we still account for the income in the period that it is due.

Treasury Management is showing a significant increase in interest received, due to the large amount of cash that the government has provided to support Councils liquidity and also whilst we hold balances of grants due to businesses. These monies are invested before they are required to be spent and the large increase in balances available for investment has led to increased interest income despite the fall in market rates.

Interest costs on borrowing are over budget at the end of the first quarter as a result of the decision to undertake liquidity borrowing of £15million in late March. This decision was taken prior to the announcement of government business grants and the deferral of business rates payments to the government and was made to ensure we could meet our creditor requirements during the early days of the pandemic. The additional borrowing undertaken has now been repaid but the Council will keep under review its liquidity and will look to take out further borrowing if it is deemed necessary.

At the end of Q1 we are showing a cost neutral position on business rates. There is no doubt that COVID-19 has impacted on businesses and we would expect a number of businesses to cease trading in the coming months which will impact on future years estimates of retained business income rather than an impact in the current year. The Government has also provided over £10million in business rates relief to the retail, hospitality and leisure sectors meaning that the Council is insulated from business failings in these sectors this year.

2.4 GOVERNMENT SUPPORT

2.4.1 The government has allocated £1,119,175 of un-ringfenced additional funding in 2020/21 to support the Council's spending pressures. This has not been directly allocated to individual service areas but will be kept as additional general funding to support the overall budget of the Council.

The government is also providing revenue contributions to cover lost income, which will also help improve the revenue position. The announcement was that the government will reimburse authorities for 75% of income losses relating to sales, fees and charges occurring in 2020/21 as a result of COVID-19. Authorities will be responsible for losses up to a 5% threshold. Whilst we are working through the implications of this announcement, it should cover some of the budget deficits identified on income above.

The Council is producing a revised budget, taking into account government support provided, and will monitor the budget impact over the remainder of the year and report back to Members through the quarterly monitoring reports.

2.5 COVID-19 BUSINESS GRANTS

2.5.1

COVID-19 Business Grants Scheme	Allocation	Spent	Balance remaining
COVID-19 Business Grants	17,670,000	16,960,000	710,00
Discretionary Business Grants	883,000	882,980	20
	18,553,000	17,842,980	710,020

As part of the government's response to the COVID-19 pandemic, a number of grants were made available for business to claim. The government asked Local Government bodies to administer the distribution of grants.

Tewkesbury Borough Council has been allocated a total of £18,553,000 to distribute to businesses, of which we have now paid a total of £17,842,980. Whilst the Council aims to distribute as much of the allocated funds to businesses as possible within the parameters of the scheme defined by government, it is likely that there will be a balance remaining at the closure of the scheme. Confirmation has recently been received from the government informing us that all schemes are to close on 28 August and any balances need to be returned to central government. On their closing, the Council will need to move into the next phase of the schemes which will involve the post payment assurance checks required by government. Whilst Tewkesbury Borough Council put in place many checks pre-payment there still remains a significant workload to meet all of the requirements. Government has paid a new burdens grant of £130,000 to the Council to cover the costs of the administration of the business grants schemes.

2.6 UPDATED CORONAVIRUS IMPACT FORECAST

- 2.6.1** The previous paragraphs in this section have dealt with the actual position of the Council in the first quarter of the year, but it is important to recognise the ongoing full year cost of coronavirus. To support this, a statement of estimated additional cost and lost income as a result of the pandemic is attached at Appendix D. Its format is the same as an earlier statement presented to Executive Committee in June. It is important to note that it is not, at this stage, a full budget forecast merely a focus on the areas that will be distorted by the impact of coronavirus.

The forecast presented in June highlighted a likely full year cost of £2.8million including £0.5million allocated towards recovery. Since that point, the forecast has increased to £3.1million in early July as more cost pressure was highlighted but has since fallen back to a latest estimate of £3.047million as some income streams are recovering faster than anticipated. It is hoped that as the year progresses some of the expenditure forecasts can be reduced and the income streams continue to see increased speed of recovery.

As previously highlighted, the government has to date provided £1.119million of financial support to us plus an additional £130,000 of new burdens support to the business grants scheme. This currently leaves a balance to be met by the Council of £1.797million. The income support scheme, once final scheme details have been announced, will then provide additional benefit and reduce the burden on the Council.

As yet, there is still no confirmation of any further support to help deal with the impact of taxation losses in future years other than the ability to now spread the deficits over three years. In addition, the Spending Review has only just begun with the outputs not likely to be known until the Autumn. It is therefore unclear what level of deficit the Council is likely to face in future years although work has begun on the Medium Term Financial Strategy to try to forecast this.

3.0 CAPITAL BUDGET POSITION

- 3.1** Appendix B shows the capital budget position as at Q1. This is currently showing an underspend against the profiled budget of £4,615.
- 3.2** The capital programme for the year has an approved budget of £16.7million to secure commercial investment properties. The acquisition of one property has been completed in quarter one and the deposit on a second acquisition has been paid, with the expected completion of the sale to occur in October 2020. The purchases have passed the Council's due diligence processes and are in line with the budget allocated.
- 3.3** The capital replacement programme assumed that we would purchase a number of laptops in the current year, to replace older equipment. The impact of COVID-19 has meant laptops were purchased for all staff to enable them to work from home. We have allocated some of those laptop purchases against the available capital budget.

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 Q1 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 annual revenue and capital budget for 2020/21 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.

Background Papers: None

Appendices:

- A – Revenue position by service.
- B – Capital position.
- C – Earmarked reserves update.
- D – Estimate financial impact of COVID-19.