

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Executive Committee
<b>Date of Meeting:</b>	18 November 2020
<b>Subject:</b>	Financial Update – Quarter Two 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>	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 second quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected year end deficit of £329,720 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 second 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 £800,000 General Fund balance. In the current year, the Council is also benefitting from a significant Business Rate Collection Fund Surplus which it is able to utilise to meet the forecast deficit.

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 a deficit whilst maintaining delivery of services.

As a result of the COVID-19 pandemic, the Council is producing a projected position 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 projected position will have regard to the COVID-19 Corporate Recovery Plan approved by the Executive Committee at the 5 August 2020 meeting.

**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 expected year end position statement for the financial year 2020/21. Finance have worked alongside budget holders to calculate reasonable projections, taking into consideration the impact of COVID-19. These projections are based on current knowledge and information, therefore could potentially change between now and March 2021. 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 at Q2 shows a (329,720) deficit against the full year budget. The deficit stated includes government support grant expected during the year.

This position is 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 two quarters. 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.

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

<b>Services expenditure</b>	<b>Budget</b>	<b>Full Year Projection</b>	<b>Full Year Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Employees	10,629,414	9,987,013	642,401
Premises	614,421	586,968	27,453
Transport	86,630	19,118	67,512
Supplies & Services	1,991,814	1,970,903	20,911

Payments to Third Parties	5,913,850	6,010,498	(96,648)
Transfer Payments	12,449,021	12,449,021	0
COVID-19 Costs	0	1,543,054	(1,543,054)
Projects Funded Externally	0	950,766	(950,766)
Income	(19,968,839)	(18,651,731)	(1,317,108)
	<b>11,716,311</b>	<b>14,865,611</b>	<b>(3,149,300)</b>

### Corporate Codes

Interest Received	(501,300)	(481,470)	(19,830)
Interest Costs	513,000	537,132	(24,132)
Investment Properties	(2,713,904)	(2,714,098)	194
Corporate Savings Targets	(57,500)	70,170	(127,670)
Reserve Funding	0	(950,766)	950,766
RSG and other grant funding	(36,936)	(1,841,596)	1,804,660
New Homes Bonus	(3,762,756)	(3,762,756)	0
Business rates	(2,585,070)	(2,820,662)	235,592
Council Tax Surplus	(82,200)	(82,200)	0
Parish Precepts	2,145,238	2,145,238	(0)
Use of reserves, MRP	1,905,347	1,905,347	0
	<b>-5,176,081</b>	<b>(7,995,661)</b>	<b>2,819,580</b>

Net budget to be funded from CT	6,540,230.00	6,869,950	(329,720)
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**Note: With regards to savings and deficits, items in brackets are overspends/deficit**

## 2.2 Expenditure on providing services

The budget position in relation to service expenditure shows an overall budget deficit of (£3,149,300).

### Employee Costs – surplus of £642,401

These savings are being generated through staff vacancies, across all services. Corporate Services are predicting £72,000 of savings, Development Services £98,000 and One Legal £367,000. 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 all remaining vacant posts in Development and Corporate out for recruitment.

### Payments to Third Parties – deficit of (£96,648)

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 Materials Recycling Facility depot operated by Suez. Additional costs have been agreed to be paid through the contract to the end of the year in relation to the quality of our paper recycling. There is also an emerging issue where the contractor is rejecting any loads which contain contaminated material. This has been occurring since the beginning of October and on the basis of rejecting two loads per week this could cost the Council an additional £100,000 during the second half of the financial year.

Whilst there has been overspends reported on the Ubico contract of nearly £100,000, including corporate costs and vehicle repair costs, these have been offset by a gain as a result of the revaluation of the Gloucestershire Local Government Pension Scheme.

### COVID-19 Costs – deficit of (£1,543,054)

The Council has separately identified where we have incurred costs as a direct response to the COVID-19 pandemic. 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. At Q2 the cost to the Council is £281,000. 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. The full expected contribution is expected to be £473,000.
- 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 costs 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. Ubico are predicting an additional £100,000 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 governments business grants schemes. The Council has had additional costs from providing staff with unsociable hours payments and paying overtime claims in the region of £42,000 at Q2. Overtime claims are expected to continue in some services as more central government schemes relating to COVID-19 are introduced. For example, self-isolation payments and audit assurance of the initial business grants. In some instances we have needed to use agency to backfill core services or help with the COVID response. The total in year cost is estimated to be £280,000.

### Income – deficit of (£1,317,108)

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

- 1) Planning income is expected to be under budget by £276,000, including planning fees, land charges and street name and numbering. It is not clear what impact COVID-19 has had on the level of planning applications expected in 2020/21. The Ministry of Defence has decided not to submit a budgeted application worth £230,000. Development services are reviewing forecasts for the year, particularly in regard to large applications which are expected and generate significant fees.
- 2) £248,000 of lost income from car parks as all charges were suspended during the lock down period. Fees are unlikely to pick up as we enter the winter months.

- 3) £69,000 of lost income from rental income as some businesses were closed during the lock down period.
- 4) £42,000 lost income on trade waste during the first half of the year, as a significant number of our customers businesses were closed and their accounts were suspended during the lockdown period. The full service has now resumed but this could change if businesses are forced to close again.
- 5) £33,000 budget deficit on licencing particularly around lost renewals on vehicle and taxi licences and also premises licences.
- 6) £47,000 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. This amounts to a £100,000 loss.
- 7) A potential £214,000 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. One Legal anticipated significant growth during the financial year but the pandemic has not made this possible.

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**

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 reduction of expected interest received, this is due to fall in interest rates. The uncertainty caused by the pandemic has made investing money increasingly challenging. We have received large amounts of government grants that we have been able to invest in the short term but the returns are not substantial.

Interest costs on borrowing are also forecasted to be over budget at the end of the financial year. One reason being 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. Borrowing was also required for the purchase of our new investment property in Tipton. This coincided with others wanting to increase their own liquidity, and therefore increased borrowing prices. 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 Q2 we are showing a small gain on business rates, based on current information. There is no doubt that COVID-19 has impacted on businesses, and we will continue to monitor business rates on a monthly basis. A large part of this is business intelligence and knowing if businesses are likely to cease trading. This would 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. We are yet to hear whether this support will continue to next financial year.

## 2.4 Government Support

The government has allocated £1,247,602 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 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. The first claim was submitted in September with estimated compensation of £176,000. The full impact on income streams is still unknown, particularly with the uncertainty over the winter months. The estimate for compensation for the year is currently £550,000, which will cover some of the budget deficits identified on income above.

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

## 2.5 COVID-19 Business Grants

<b>COVID-19 Business Grants Scheme</b>	<b>Allocation</b>	<b>Spent</b>	<b>Balance remaining</b>
COVID-19 Business Grants	17,660,000	17,065,000	595,000
Discretionary Business Grants	883,000	882,980	20
COVID-19 Community Grants	100,000	67,586	32,414
	<b>18,643,000</b>	<b>18,015,566</b>	<b>627,434</b>

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 £18,543,000 to distribute to businesses, of which we have now paid a total of £17,947,980. The scheme was closed on 28 August 2020. There was a significant amount of effort from the grants team and communications to distribute the full amount and to make businesses aware. Whilst the aim was to distribute as much of the allocated funds as possible, within the parameters of the scheme defined by government, there was a balance remaining at the closure of the scheme. The balances need to be returned to central government.

The Council is now into the next phase of the schemes which will involve the post payment assurance checks required by government. Whilst Tewkesbury 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.

From 12 October the Council is also administering the Test and Trace Support payments. Tewkesbury has been given £32,000 from central government in order to grant £500 to low income individuals who are asked to self-isolate.

Further schemes are likely to be announced if Tewkesbury Borough is moved into a higher COVID Tier level. The Council will continue to inform and update Members on the COVID response, including the financial implications, on a quarterly basis.

## **2.6 Full year forecast**

The full year forecast, for all aspects of the Council's activities during 2020/21, shows an estimated deficit of £329,720. A number of assumptions have been made in calculating this forecast and are clearly subject to change, particularly if the Council is placed in higher COVID restriction tiers or another national lockdown occurs. In addition, other events such as the exit from the European Union and severe weather events could further change the forecast.

However, based on the Q2 forecast, the Council stands in a good position with only a relatively modest deficit forecast. The Council will benefit from a significant Business Rates collection fund surplus in the current year, not shown in the above figures, which can be used to meet this deficit. Balances remaining from this collection fund surplus will be allocated to reserves to meet the significant financial costs of balancing future year budgets.

## **3.0 CAPITAL BUDGET POSITION**

**3.1** Appendix B shows the capital budget position as at Q2. This is currently showing an underspend against the profiled budget of £69,094.

**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 to occur in December 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 Q2 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 MID YEAR TREASURY MANAGEMENT REPORT**

**5.1** At the half year point of the financial year, treasury investment activities have resulted in an average return of 1.85% on its investments which, at the end of September, totalled £29,270,000. This performance and level of return has generated interest of £342,689 in the first half of the year against the budget estimate of £250,650 resulting in a surplus of £92,039. This is considered to be an excellent return given the impact of the pandemic, although it is thought likely that performance will deteriorate in the second half of the year as the market continues to struggle and the returns from pooled investments decrease.

**5.2** The Council's investment performance has been boosted by its investment in a number of pooled funds. The funds, which hold investments in equity, multi-asset and property classes, total nearly £9m of the Council's investments and continue to return income of 4.37%. However, the pandemic has affected the capital value of these pools and they are currently reflecting 10.33% of unrealised capital losses.

**5.3** Borrowing costs in the first half of the year stand at £302,389 which is £45,889 in excess of the budget. This additional cost is mainly in relation to the additional borrowing taken out at the beginning of the pandemic to ensure liquidity of the authority. The position is improving as the authority is able to extend its internal borrowing given the balances held and thus avoid planned borrowing cost in the second half of the year.

**5.4** Overall, the Council's treasury management activities in the first half of the year have been efficiently managed given the extreme circumstances and have resulted in a surplus of £46,150 on budget. Full details of the Mid Year Treasury Management position are contained in Appendix D.

## **6.0 CONSULTATION**

**6.1** 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.

## **7.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

**7.1** 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.

## **8.0 RELEVANT GOVERNMENT POLICIES**

**8.1** None.

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

**9.1** None.

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

**10.1** None.

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

**11.1** None.

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

**12.1** None.

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**Background Papers:** None.

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**Appendices:** A – Revenue position by service.  
B – Capital position.  
C – Earmarked reserves update.  
D – Mid year treasury management report.