

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	3 March 2021
Subject:	Financial Update – Quarter Three Performance Report
Report of:	Head of Finance and Asset Management
Corporate Lead:	Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Three

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 third quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected year end surplus of £818,822 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

Recommendation:

To consider the financial performance information for the third quarter 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.

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. 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 a 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 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 expected year end position statement for the financial year 2020/21. Finance has 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 Q3 shows a £818,822 surplus against the full year budget. The surplus stated includes government support grant expected during the year.

2.2 The projected service position is a £1.6 million deficit. This 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 during the year. This report now brings into focus the core operational activities of the Council during the period and highlights some of the savings made which generates an overall surplus to the Council.

2.3 The following table is a summary of the expenditure position for the Council, split out between the main expenditure types:

Services expenditure	Budget	Full Year Projection	Full Year Variance
	£	£	£
Employees	10,673,188	9,866,033	807,155
Premises	614,421	552,871	61,550
Transport	86,630	29,779	56,851
Supplies & Services	1,991,814	1,884,463	107,351
Payments to Third Parties	5,870,076	5,946,451	(76,375)
Transfer Payments	12,449,021	12,369,382	79,639
COVID-19 Costs	0	867,605	(867,605)
COVID-19 Recovery	0	24,958	(24,958)
Projects Funded Externally	0	559,703	(559,703)
Income	(19,968,839)	(18,695,894)	(1,272,945)
	11,716,311	13,405,351	(1,689,040)

Corporate Codes

Interest Received	(501,300)	(536,448)	35,148
Interest Costs	513,000	552,434	(39,434)
Investment Properties	(2,713,904)	(2,795,506)	81,602
Corporate Savings Targets	(57,500)	0	(57,500)
Reserve Funding	0	(584,661)	584,661
RSG and other grant funding	(36,936)	(1,737,003)	1,700,067
New Homes Bonus	(3,762,756)	(3,762,756)	0
Business rates	(2,585,070)	(2,788,389)	203,319
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
	(5,176,081)	(7,683,943)	2,507,862
Net budget to be funded from CT	6,540,230	5,721,408	818,822

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

2.3 Expenditure on providing services

2.3.1 The budget position in relation to service expenditure shows an overall budget deficit of (£1,689,040).

2.3.2 Employee Costs – surplus of £870,155

These savings are being generated through staff vacancies, across all services. Corporate Services are predicting £144,000 of savings, Development Services £114,000 and One Legal £386,000. 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 some vacant posts now recruited to. In the short term, the Council is employing agency staff to fill business as usual roles, as well as COVID specific roles.

2.3.3 Supplies & Services – surplus of £107,351

Most of the savings are linked to the change in working practices resulting from the pandemic. For example, postages have reduced, giving a saving of £30,000. Similarly, substantial savings have been made on mileage and public office utility bills shown under premises expenditure. Unfortunately, the provision of some Council services have not been possible due to national restrictions. The Tourist Information Centres and the Growth Hub have been closed since March 2020. For this reason, we have spent £45,000 less than expected on these services.

2.3.4 COVID-19 Costs – deficit of (£867,605)

The Council has separately identified where it has 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 its 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. The total cost to the Council will be £435,000. 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 March 2022 at which point it is hoped to move to a cost neutral position. The Council has been awarded £170,000 from the National Leisure Recovery Fund. This will be used to offset some of the costs.
- 2) The Council has purchased over 180 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 the cost has been paid for from the approved capital programme. The remaining purchase cost and the additional agency resource required to help build laptops for staff resulted in an additional £85,000 cost.
- 3) Ubico has been recording the additional costs it has incurred as it responds to the COVID-19 pandemic as it has continued to provide services, whilst ensuring that staff are protected. It 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 is predicting an additional £85,000 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 £79,000 at Q3. 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 additional national grant scheme resulting from the latest lockdown. In some instances, the Council has needed to use agency to backfill core services or help with the COVID response. The total in year cost is estimated to be £178,000.

2.3.5 Income – deficit of (£1,272,945)

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 £195,000, including planning fees, land charges and planning performance agreements. One major loss was the Ministry of Defence deciding not to submit a budgeted application worth £230,000. Development services has reviewed forecasts for the year, particularly in regard to large applications which are expected and generate significant fees. In total five major applications are either no longer being submitted or will be deferred. We are still expecting a further £184,000 in Q4 from three applications.
- 2) £334,000 of lost income from car parks as all charges were suspended during the initial lockdown period. Fees are unlikely to pick up in the last quarter, especially now with further closures of retail and hospitality businesses.
- 3) £42,000 of lost income from rental income as some businesses were closed during the lockdown period e.g. the Caravan Club.
- 4) £72,000 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 and the impact of the 2nd and 3rd lockdowns are less significant on trade waste collections.
- 5) £33,000 budget deficit on licencing particularly around lost renewals on vehicle and taxi licences and also premises licences.
- 6) £40,000 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 budget deficit on One Legal fees, as partner Councils and third party clients focus has been on response to the pandemic rather than day to day business requiring legal support. This deficit comprises lost income due to a significant reduction in s106 planning agreements, property transactions including licences for use of land and road closures during this financial year. In addition, One Legal anticipated significant growth during the financial year but the pandemic has not made this possible. One Legal has not been able to proactively market the service to Registered Providers and other public bodies nor has it been able to recruit staff in the current climate of uncertainty in order to resource the anticipated growth areas.
- 8) The Leisure Centre contracts allows for a management fee of £173,000 to be paid to the Council. The centre is currently operating at a loss, supported by the Council, and so the management fee will not be received for 2020/21.

2.3.6 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 responsibility have a variance over £10,000, a short explanation for the reason for the variance has been provided.

2.4 Corporate Codes

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

- 2.4.2** Our commercial investment portfolio is currently showing a surplus on budget. Two new commercial properties were purchased during the year, resulting in a small windfall of rental income. 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.
- 2.4.3** Treasury Management is showing a small gain. 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. The Council's investments in Pooled Funds continue to produce good income returns which balances out the reductions in short term investments.
- 2.4.4** Interest costs on borrowing are forecasted to be over budget at the end of the financial year. One reason being the decision to undertake liquidity borrowing of £15 million 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. The Council will keep under review its liquidity and will look to take out further borrowing if it is deemed necessary.
- 2.4.5** At the end of Q3 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 £10 million 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. The Chancellor is expected to make an announcement on the extension of retail relief on 3 March 2021. We will not know the financial impact of this to the Council until we know the details of the scheme.

2.5 Government Support

- 2.5.1** The government has allocated £1,423,140 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.
- 2.5.2** 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. The first claim was submitted in September and the Council received £176,000. The second claim was submitted in December and we expect to receive a further £79,000. There will be final reconciliation of losses in April 2021. The estimate for the final compensation is approximately £50,000, bringing the total compensation to just over £300,000. This will cover some of the budget deficits identified on income above.
- 2.5.3** The level of support, if any, for next financial year is unknown beyond the fifth tranche of funding totalling £425,000. Income losses and additional expenditure are likely to continue as the economy recovers, and the Council supports businesses and residents.

2.6 COVID-19 Business Grants

2.6.1 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.

2.6.2 As a result of the first national lockdown, Tewkesbury Borough Council was initially allocated a total of £18,059,000 to distribute to businesses, of which a total of £17,947,980 was paid to businesses. The first 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 small balance remaining at the closure of the scheme. The balances have now been returned to government.

2.6.3 Through the Autumn and Winter, the Council has been responsible for administering a series of different business grant schemes. These are summarised in the table below:

Period	Title	Amount
5/11 - 31/3	Additional Restrictions Grants	£1,900,380
5/11 - 2/12	Local Restrictions Support Grants (LRSB) (Closed) Addendum	£1,107,360
2/12 - 19/12	LRSB Open	£213,930
2/12 - 19/12	LRSB Closed	£9,390
2/12 - 31/12	Christmas support package	£32,000
19/12 - 4/1	LRSB Open	£93,480
19/12 - 4/1	LRSB Closed	£286,740
5/1 - 15/2	Additional Restrictions Grants (top up)	£844,050
5/1 - 15/2	Closed Business Lockdown Payment	£3,321,000
5/1 - 15/2	Closed Addendum Payment	£1,661,040
		£9,469,390

2.6.4 All of these schemes are still 'live' and the Council continues to make payments against them.

2.6.5 The next phase of the scheme will involve the grants team returning to 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. The local and additional restrictions grant scheme might also resume after the current lockdown. Government has paid a new burdens grant of £188,500 to the Council to cover the costs of the administration of the business grants schemes.

2.6.6 From 12 October the Council is also administering the Test and Trace Support payments. Tewkesbury has been given £93,262 from central government in order to grant £500 to low income individuals who are asked to self-isolate. At the time of writing the Council had paid £61,000 out to those self-isolating.

2.6.7 There is currently uncertainty about the future schemes because the government is yet to announce the road map out of the current lockdown. The Council will continue to inform and update Members on the COVID response, including the financial implications, on a quarterly basis.

2.7 Full year forecast

- 2.7.1** The full year forecast, for all aspects of the Council's activities during 2020/21, shows an estimated surplus of £818,822. A number of assumptions have been made in calculating this forecast and are subject to change, particularly as there is uncertainty over when the current national lockdown will end and whether the tier system will be reintroduced.
- 2.7.2** It should also be noted that it is expected that a large amount of carryovers will be likely at year end in respect of current year commitments that have not progressed as a result of coronavirus or from funding awards related to coronavirus that stretch beyond the end of the financial year.
- 2.7.3** At the end of the financial year a significant surplus, gained in the 2019/20 financial year, will be released from the business rates collection fund account. This is a one-off benefit, resulting from a release in provision for appeals. This figure has not been shown above, as most of it has already been earmarked for specific purposes, namely the future financial challenges facing the Council.

3.0 CAPITAL BUDGET POSITION

- 3.1** Appendix B shows the capital budget position as at Q3. This is currently showing an underspend against the profiled budget of £2,275,507.
- 3.2** The capital programme for the year has an approved budget of £21.6 million to secure commercial investment properties. The acquisition of one property was completed in quarter one and the second acquisition has completed in quarter three. The purchases have passed the Council's due diligence processes and have come in under budget by £1.9 million.
- 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 quarter three 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.

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Appendices: A – Revenue Position by Service.
B – Capital Position.
C – Earmarked Reserves Update.