

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Executive Committee
<b>Date of Meeting:</b>	7 July 2021
<b>Subject:</b>	Financial Outturn 2020/21
<b>Report of:</b>	Head of Finance and Asset Management
<b>Corporate Lead:</b>	Head of Finance and Asset Management
<b>Lead Member:</b>	Lead Member for Finance and Assets
<b>Number of Appendices:</b>	Four

## **Executive Summary:**

The report highlights the Council's financial performance for the previous year, setting out the General Fund and capital outturn positions. To support this, a detailed statement on both positive and negative variances against budget is included.

The formation of the Council's reserves for the forthcoming year requires the approval of Executive Committee.

The performance of the Treasury Management function is also included within the report as required by the Council's Treasury Management Policy.

The report outlines a significant revenue surplus of over £13m and details the reasons for this position. It should be noted that whilst this is very satisfying outturn position and provides a welcome boost to reserves, it does not resolve any of the difficulties with the ongoing position of the Council's budget. There still remains a lack of clarity around government funding plans and the financial challenge of balancing an ongoing budget, in light of further potential reductions, remains in place and will be demanding.

## **Recommendation:**

### **That the Executive Committee:**

- 1. NOTE the General Fund outturn for 2020/21, the financing of the capital programme and the annual treasury management report and performance.**
- 2. APPROVE the transfers to and from earmarked reserves.**

## **Reasons for Recommendation:**

In line with the requirement to provide members with regular information on the Council's finances and financial performance, a report on progress against budget is produced on a quarterly basis. This report on the outturn position for the Council offers more detail on the final financial position and complements the existing reporting framework. Members are also required to approve the transfers to and from earmarked reserves and the carry forward of budgets.

The Council's Treasury Management Policy requires the Section 151 Officer to report to Members annually, by 30<sup>th</sup> September, on the treasury management activities and prudential indicators for the previous financial year.

**Resource Implications:**

As detailed within the report.

**Legal Implications:**

Nothing specific arising from the report recommendations.

**Risk Management Implications:**

A number of reserves have been set aside to deal directly with specific service risk or general financial risk to the council.

**Performance Management Follow-up:**

The performance of services against their set budget is monitored on an on-going. In addition, performance is reported to Members on a quarterly basis.

**Environmental Implications:**

The creation of a new reserve to support the carbon reduction programme is contained within the reserves proposal.

**1.0 INTRODUCTION/BACKGROUND**

- 1.1 This report sets out the final outturn position for the 2020/21 financial year. The main purpose of this report is to provide members with an overview of the performance against the General Fund revenue budget for 2020/21 and explain significant variances.
- 1.2 The report also addresses the movement on reserves and requests member approval for the creation of newly requested reserves or additions to existing reserves that fall outside of a previously approved sum.
- 1.3 In addition to the revenue budget outturn, this report also seeks to confirm the full year progress against the capital programme and the sources of finance used in delivering that programme and also to report the performance in 2020/21 of the treasury management function in line with the requirements of the code of practice.
- 1.4 All of the information within this report will be contained within the Council's Statement of Accounts which will be approved by the Audit & Governance Committee later in 2021 following the audit conducted by Grant Thornton.

**2.0 GENERAL FUND REVENUE OUTTURN 2020/21**

- 2.1 In March 2021, the quarter three outturn position was reported to Executive Committee. The report confirmed an estimated year end surplus of £818,822.

**2.2** The final General Fund revenue outturn position for the full year can now be reported as a £13,170,081 surplus. This is heavily inflated by a number of factors including:

- Business rates in year and past performance as well as government grant for reliefs
- Covid general and specific grants
- Other, non covid, related grants including the drawn down of funding to cover Ashchurch Bridge expenditure
- Covid related income loss compensation
- In year service savings
- Budgeted transfer to reserves of £1.26m

**2.3** The table below summarises the service performance which has generated the reported surplus. In addition, the table highlights the non-service related activity and other aspects of the overall budget to provide a whole view of the Council's general fund. The table concludes with the budgeted transfer to reserves of £1.263m and the actual transfer totalling £14.433m. The budget was set without the one off windfall from Business Rates and before the COVID-19 pandemic began, hence the major variations reported for 20/21.

**Table 1 – General Fund outturn summary**

	<b>Full Year Budget</b>	<b>Outturn Position</b>	<b>Savings/Deficit</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Employees	10,543,453.00	9,928,123.65	615,329.35
Premises	614,421.00	598,593.29	15,827.71
Transport	86,630.00	35,069.39	51,560.61
Supplies & Services	1,991,284.00	1,997,834.93	- 6,550.93
Payments to Third Parties	5,810,076.00	5,982,995.00	- 172,919.00
Transfer Payments - Benefits Service	- 69,796.00	- 98,046.60	28,250.60
COVID-19 Costs	-	1,069,443.00	- 1,069,443.00
Projects Funded Externally	61,591.00	- 910,634.38	972,225.38
Income	- 7,321,348.00	- 8,611,995.59	1,290,647.59
<b>Services Total</b>	<b>11,716,311.00</b>	<b>9,991,382.69</b>	<b>1,724,928.31</b>
Treasury activity	11,700.00	- 251.00	11,951.00
Commercial activity	- 2,713,904.00	- 2,870,978.00	157,074.00
New Homes Bonus	- 3,762,756.00	- 3,762,756.00	-
Business Rates Income Budget	- 2,585,070.00	- 3,372,918.00	787,848.00
Business Rates COVID-19 Reliefs	-	- 4,938,381.00	4,938,381.00
Business Rates 2019/20 Surplus	-	- 3,524,341.00	3,524,341.00
Council Tax	- 82,200.00	- 369,244.00	287,044.00
COVID-19 Grants	-	- 2,177,703.00	2,177,703.00
Other adjustments	- 3,847,266.00	- 3,408,077.00	- 439,189.00
<b>Reserves</b>	<b>1,263,185.00</b>	<b>14,433,266.00</b>	<b>-13,170,081.00</b>

- 2.4** The outturn position for direct service expenditure and income shows a surplus of £1,724,928 and is mainly attributable to the major items outlined below:
- The employees full year budget is underspent largely as a result of staff turnover and vacancies in a number of service groupings.
  - Transport is underspent due to staff working from home and being unable to attend meetings or training in person.
  - Payments to third parties is showing a significant overspend because several provisions were raised, at year end, for planning appeals lodged in the financial year. It is anticipated that these appeals will need specialist legal representation.
  - It should also be noted that within payments to third parties that the outturn position for the Ubico contract, budgeted at £4.058m, reported a surplus of £160,455
  - Costs that were directly attributable to COVID-19 total £1,069,443. This includes:
    - A management fee of £442k paid to Places for People. This was to help with the unavoidable costs of closing during the pandemic.
    - Additional staff costs across various departments. Some full-time staff were redeployed fully to the COVID response, for example, administering grant schemes. Therefore, agency staff were contracted to backfill the day jobs. More staff were also needed to cope with demand, such as additional cleaners and IT support.
    - £115k of additional Ubico costs due to additional staff, vehicles, PPE and cleaning products in order to be COVID secure.
  - Projects funded externally contains the costs and income of the JCS, CIL and Garden Towns. The balances on these individual funds are moved to reserves at year end. The surplus seen is additional Government funding received, particularly relating to the Garden Town
  - Council income is showing additional income levels of £1.29m over the budgeted position. The majority of fees and charges budgets were under target due to the pandemic with the exception of planning fees which had a surplus of £115k. The large variance is therefore as a result of substantial external grant income being received during the year. The Council has received grants for a range of activities including homelessness prevention, carbon reduction and supporting the leisure centre. The Council also received a further £2.18m of grant funding for COVID-19 to relieve our spending pressures and compensate our losses. These have been included in the corporate codes and are detailed further down in the report.
- 2.5** A full explanation of all variances exceeding £40,000 at a group subjective level is contained at appendix A. The appendix also contains an explanation of the variance on the corporate codes with a more detailed explanation within paragraphs 2.6 to 2.11.
- 2.6** The treasury outturn for 2020/21 is a small gain of £12k. More detail on the performance of the treasury function is shown in section 5 of the report and appendix D.
- 2.7** With regards to commercial activity, the Council acquired two new commercial investment properties in the year at a cost of £19.7m which has resulted in a surplus of gross rental generation against budget of £157,074. This completed the acquisition phase for the Council with the portfolio investment totalling £59.3m and producing a gross rental income of £3.4m, a yield of 5.78%.

**2.8** The overall position on the retained business rates scheme shows a surplus of £9.1m for the full year. This surplus is constructed from several elements as follows:

- £4.9m of business rates relief funding was given to us by Government in advance of the 100% relief given to businesses impacted by the pandemic. This is grant funding to cover the loss of income from businesses not being required to pay business rates. The loss of income manifests itself into a collection fund deficit at year end which is not realised until the following financial year. Therefore, we must hold the £4.9m in a reserve to fund the future deficit that will form part of outturn next year.
- Similarly, the 2019/20 surplus of £3.5m on the business rates collection fund has been realised in the 2020/21 outturn. This derived from the release of provisions being held against the potential successful appeals by a number of businesses. This position was reported in the outturn report for 2019/20 and was earmarked to replenish the MTFS reserve after it was used to pay the levy due on the collection fund surplus.
- The remaining surplus of £705k is a genuine gain on budget. This includes additional income from growth of new businesses within the borough and the Gloucestershire Business Rates Pool reported an estimated gain of £420k.

**2.9** The Council Tax surplus reported in the table above comprises of two Government grants. Firstly, the Council was awarded £532k in Council Tax Hardship. This is a Central Government scheme administered by Local Authorities where those residents, who were most impacted by the pandemic, could have additional relief on their Council Tax of £150. At year end the remaining balance was £123k. The other grant received was specifically to compensate the Council for 75% of their losses in Council Tax, as a result of the COVID-19 impact. The Council received £127k which will be transferred to reserves in order offset any future deficits linked to COVID-19. In addition to these grants, Tewkesbury's share of the Council Tax Collection Fund surplus has been released.

**2.10** As mentioned earlier, the Council received a general grant from Central Government to relieve expenditure pressures relating to COVID-19. This was given in four tranches throughout the year totalling £1.25m. These were not ringfenced for specific services, which is why they have been included in the corporate codes. The balance of the £2.178m received relates, in the main, to new burdens funding for administering the numerous grant schemes introduced by Central Government throughout the various stages of the pandemic. In addition the Council claimed £450k of compensation from the government for losses incurred in its sales, fees and charges income streams as a result of the pandemic.

**2.11** The final row in the table picks up all of the remaining items within the base budget to reconcile back to the budgeted transfer to reserves. This row mainly contains the precepts on the tax payer for both the Borough Council and Parish Councils but also contains other items such as the Minimum Revenue Provision.

**2.12** Overall, the Council is able to transfer to reserves a gross total of £14.4m.

**2.13** The Council has gained significantly in 20/21 despite the impact of coronavirus on its expenditure patterns as compensation and grant funding from the Government and grant funding from other sources have met the majority of costs incurred. In addition, known impacts from the business rates retention scheme and the draw down of funding from the Ashchurch Bridge project have significantly boosted the Council's reserves.

**2.14** This places the Council in a good position, with significant one-offs available to meet service requirements and mitigate risk in a number of areas. However, it must be stressed that this good financial outturn does not mean that our ongoing budget pressures have eased. There remains much uncertainty around government plans for funding and our MTFs still shows a substantial ongoing deficit over the next five years. The one offs now available will help the Council to meet the financial challenge it will face but they do not resolve that challenge.

### **3.0 COUNCIL RESERVES**

**3.1** A breakdown of the reserves of the council as at the 31<sup>st</sup> March 2021 is shown at appendix B. Also included is a breakdown of the previous year's reserves, under the same strategic headings, to inform members about the movement on those reserves in the last two years.

**3.2** Total revenue reserves of the Council stand at £31.61m as at the end of March 2021 and include earmarked reserves, planning obligations and the general fund working balance. The increase in overall revenue reserves totals £14.4m and is as a result of a number of factors:

- In year surplus within the general fund of £3.9m, including external grant funding as highlighted in section 2 but excluding business rates.
- The movement back to reserves of £1.3m added to balance the 2020/21 budget, but unnecessary considering the many favourable variances on budget.
- The Business Rates surplus of £9.1m, in part for funding the 2021/22 Business Rates deficit totalling £4.9m – mentioned in section 2.8.

**3.3** Members will recall from the previous outturn, the accounting treatment required for the surplus on the business rates collection fund where it was necessary to pay a levy to government before receiving the benefit of the surplus in the following year. As a result, the MTFs reserve of £1m and circa £260k of the vehicle replacement reserve were withdrawn to meet the levy cost in 2019/20. The surplus of £3.52m is now available to the Council and has been used to replenish those reserves and also fund the £500,000 in-year covid recovery reserve.

**3.4** The remaining balance of the collection fund surplus has been set aside in the MTFs reserve which, together with an allocation of other surpluses, results in a reserve balance of £2.78m. This is a significant sum compared to previous years and leaves the Council well placed to meet the future financial challenges it will face as further government funding reforms loom.

**3.5** Also contained within the reserves list are the balances of funding attracted for specific covid actions and recovery activities. Around £1.75m is held for this purpose and covers a range of activities including outbreak management, community grants and leisure support as well as our own service recovery.

**3.6** The attraction of external grants was not limited solely to covid related activities and the reserves reflect further allocations for the Garden Town, Housing, carbon reduction and a review of the Community infrastructure Levy.

**3.7** The surpluses generated within the general fund have allowed Corporate Leadership Team (CLT) to consider the best use of those one-off funds to support the Council. In making a recommendation for the allocation of surpluses, CLT have considered further covid recovery actions that may be necessary, immediate risks facing the Council, supporting service transformation and the funding of new priority areas. The surplus allocated by CLT is shown below and contained within the reserve appendix.

Covid recovery reserve	£200,000
Pay award reserve	£200,000
Vehicle replacement reserve	£200,000
Digital team	£200,000
Climate change reserve	£100,000
Service review reserve	£130,000
IT replacement fund	£100,000
Immediate support to Development Management	£120,000
Garden Town communications officer	£35,000

**3.8** Of the net increase in reserves of £14.4m, £645,913 can be attributed to an increase in the Planning Obligations Reserve which is funded by developer contributions. Large sums have been received for commitments such as affordable housing, community centres and sports facilities.

**3.9** Where significant movements in other reserves have occurred during the year, a note in appendix B has been included, to explain the reason for the movement. Members are asked to approve the balances on the reserves for the new financial year.

#### **4.0 CAPITAL PROGRAMME**

**4.1** The council has committed to a substantial capital programme in the last few years and this is highlighted in the level of planned capital expenditure for 2020/21, totalling £26m. The bulk of the planned expenditure was the expected purchase of a further two investment properties (£21.6m), Infrastructure Projects such as Ashchurch Bridge (£2.9m), replacement vehicles and equipment (£0.75m) and disabled facilities grants (£0.5m).

**4.2** The actual delivery of the capital programme saw the acquisition of two new investment properties in 2020, totalling £19.7m. This was £1.9m less than the budgeted amount of £21.6m.

**4.3** In addition within Council Land and Buildings, a total of £792,334 was spent on the new infrastructure project, Ashchurch Bridge, all of which is funded by Homes England. Again this was significantly less than the original budget expectations. This means that despite spending £20.5m on land and buildings, the capital programme reports an underspend of £4m against this heading.

**4.4** A total of £233,276 was spent during the year on vehicles and equipment. This included the purchase of a couple of new mowers for our grounds maintenance operation, the purchase of waste and recycling bins and the purchase of IT hardware. This is a significant underspend against budgeted expectations (70.8%) as a result of the expected replacement of the grounds maintenance fleet being delayed until the new financial year.

**4.5** An underspend of 100% is reported against the remaining capital balances from the community grants programme as no further drawn downs on existing balances took place. The balance of £57,700 from Wormington Village Hall was formally reallocated during the year and new community bids for the pot of money are currently being assessed.

- 4.6** A small underspend against forecast levels was delivered from the Council's Disabled Facilities Grants (DFG) programme. All expenditure is covered by capital grant funding from the Government which is administered by the County Council. Tewkesbury's allocation for the year was £500k and so the total expenditure incurred of £424,928 was met from this.
- 4.7** As well as the grant income received for DFG's, capital receipts were received for Right-to-Buy sales on the housing stock previously owned by TBC and for the sale of the former garage site in Winchcombe. The capital grant monies drawn down for Ashchurch Bridge is also shown within the capital statement before its transfer to revenue.
- 4.8** The summarised capital programme is shown in appendix C together with the sources of finance used. In summary, the council expended £21.2m on capital projects in 2020/21 utilising £233,276 of capital reserves, £1,219,526 of capital grants and £19,740,309 of borrowing. Following the allocation of capital receipts, the balance on capital reserves, both receipts and grants, has increased to £1.195m as at 31<sup>st</sup> March 2021.

## **5.0 TREASURY MANAGEMENT**

- 5.1** Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This council has adopted the code and complies with its requirements, one of which is the receipt by Members of an Annual Review Report after the financial year end.
- 5.2** The detailed treasury report is attached at appendix D. The report details the economic environment, local performance and a number of prudential indicators.
- 5.3** The prudential indicators have been monitored regularly and there were no deviations from these indicators arising during the year. The in-year performance of treasury investments resulted in an average return of 2.46% and total income of £552,712. In addition, the Council had an in year gain from the capital growth of its pooled funds totalling £574k, recovering much of the loss experienced at the outset of the covid pandemic.
- 5.4** Given the lack of available investment opportunities the Council temporarily invested in short-dated, liquid instruments such as call accounts and money market funds. Total short-term investments at 31<sup>st</sup> March 2020 was £33.2m reducing to £10m at the end of this financial year. The average income return, across all investments, has increased by 1.02% to 2.46%. Whilst capital values of these investments have deteriorated as a result of the impact of Coronavirus, the Council holds these investments for the long term and expects capital levels to return to normal levels in the medium term.
- 5.5** The Council began the financial year holding £44.84m of loans, in order to part-fund the investment in commercial property and ensure liquidity during the early months of the covid pandemic. The Council has adopted a balanced borrowing strategy between the financial benefit of short-term borrowing and the cost certainty over the long term. This has resulted in the total borrowing cost being kept to a minimum with actual cost totalling £552,461 and representing an average cost of 1.54%. At 31<sup>st</sup> March 2021 the Authority held £39.4m of loans, a decrease of £5.44m since 31<sup>st</sup> March 2020.

## **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** Treasury Management strategy approved at Council on 8 January 2020 and the Medium-Term Financial Strategy approved at Council on 8 January 2020.

## **8.0 RELEVANT GOVERNMENT POLICIES**

**8.1** None.

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

**9.1** As detailed within the report and appendices.

## **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** Approval of Treasury Management Strategy 2020/21 – Council 8 January 2020.  
Approval of Budget 2020/21 – Council 5 February 2020.

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**Background Papers:** As per section 12.1

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**Appendices:** Appendix A – Revenue outturn by Group  
Appendix B – Earmarked reserves and carry forwards  
Appendix C – Capital Outturn 2020/21  
Appendix D – Annual Treasury Management report