

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	1 September 2021
Subject:	Financial Update – Quarter One Performance Report
Report of:	Head of Finance and Asset Management
Corporate Lead:	Head of Finance and Asset Management
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Three

Executive Summary:

The budget for 2021/22 was approved by Council in February 2021 with the reserves being approved at Executive Committee in July 2021. This report is the first quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected outturn surplus, based on the quarter one position, of £22,382 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 first quarter 2021/22.

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 but significant earmarked reserves.

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.

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 July 2022.

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 2021/22. 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.
- 1.2** There continues to be significant disruption to the base budget of the Council as a result of the pandemic. COVID expenditure, income reductions and grant funding are reflected in the general fund position and supplemented by the increased level of expenditure going through reserves, much of which is COVID related. These added factors to financial position continue to be shown and highlighted within this report.

2.0 REVENUE BUDGET POSITION

- 2.1** The financial budget summary for Q1 shows a projected surplus of £22,382 for the full year against the approved budget. Whilst there are numerous moving parts within the base budget reflecting both service delivery and COVID response, the net forecast position is in line with budget estimates for the year.

Whilst there are early indications that income streams are improving and there is potential for increased government support, given the report is based on performance in only the first three months of the year, a prudent position is taken with regards to full year estimates.

The following table highlights the forecast outturn position for service provision, the net position on corporate income and expenditure and the resulting surplus.

	Budget	Full Year Projection	Full Year Variance
<u>Services expenditure</u>			
Employees	£11,009,171	£10,631,663	£377,508
Premises	£590,411	£592,495	-£2,084
Transport	£55,270	£49,617	£5,653
Supplies & Services	£2,083,206	£2,088,946	-£5,740
Payments to Third Parties	£6,524,630	£6,599,635	-£75,005
Transfer Payments - Benefits Service	£13,544,132	£13,544,132	£0
Central Recharges	£29,929	£29,929	£0
COVID-19 Costs	£0	£415,094	-£415,094
Income	-£21,419,831	-£20,685,417	-£734,414
Services Sub Total	£12,416,918	£13,266,095	-£849,177
<u>Corporate expenditure</u>			
Treasury – Interest Received	-£345,000	-£345,000	£0
Treasury – Borrowing Costs	£480,000	£465,000	£15,000
Investment Properties	-£3,176,343	-£3,124,587	-£51,756
Corporate Savings Targets	-£155,000	£0	-£155,000
Core Government funding	-£1,013,409	-£1,608,336	£594,927
New Homes Bonus	-£2,508,861	-£2,508,861	£0
Business rates	£2,672,870	£2,418,711	£254,159
Council Tax Surplus	-£24,833	-£24,833	£0
Council Tax precept	-£4,579,735	-£4,579,735	£0
Use of reserves & MRP	-£3,766,607	-£3,980,836	£214,229
Corporate Sub Total	-£12,416,918	-£13,236,720	£871,559
Surplus / (deficit)			£22,382

2.2 Service Expenditure

The quarter one full year projection highlights a full year cost of service provision totalling £13.266 million, resulting in a deficit against the approved budget of £849,177. The following paragraphs highlight the main reasons for this projected deficit. In addition, Appendix A provides detail at a service level with notes on variances over £10,000.

2.3 The full year projection for employees highlights a potential gross surplus of £377,508. It should however be noted that within the Council's corporate expenditure is a target to save £155,000 from employment costs across the Council. The net position is therefore a surplus against target of £222,508. Savings have accrued across a number of service areas including Corporate, Development and One Legal but also with senior management following the decision in June to delete the post of Deputy Chief Executive. This saving is offset to some degree this year by the cost of recruitment to a new Head of One Legal.

2.4 Payments to third parties highlights a small projected overspend of £75,005. This includes additional costs relating to an increased amount of burials at our cemeteries, the cost of a Domestic Homicide Review and a forecast overspend on the Ubico contract sum in relation to extra payment being made in order to attract and retain drivers for our services. A national shortage of drivers, estimated to be around 70,000, has resulted in an impact on many forms of business with local authority waste collection services not immune to this impact. There have been a growing number of examples where authorities have had to suspend collections as a result of driver shortage. To help mitigate the problem on the Tewkesbury contract, an increased market supplement has been agreed, whilst driver training for loaders continues. The rest of the contract sum is on target.

2.5 Tewkesbury services continue to see a financial impact from the COVID pandemic with a full year cost estimated at £415,094. The costs include the continued work of the business cell, additional costs for the provision of our waste and recycling services and the continued support to Tewkesbury Leisure Centre. These costs will be met from the additional COVID grant funding provided by the Government and new burdens funding for the business cell work – see Paragraphs 2.9 and 2.11.

2.6 Income in many areas of Council activity has recovered well from the impact of coronavirus with a number of income streams either back on budget or delivering a small surplus. Some areas however continue to be affected by the COVID pandemic with reductions in income levels in our car parks during the first quarter, an expectation that the Tewkesbury Leisure Centre contract fee will not be provided during the year and current vacancies for our office units within the Council Offices. In addition, One Legal income remains below target although this is offset to an extent by the savings on employee costs.

2.7 Corporate Expenditure

The expenditure associated with corporate activities as well as the financing of the Council is shown in the second section and highlights an estimated surplus of £871,559 for the financial year.

2.8 Treasury activities are largely expected to be in line with budget predictions although a small saving on borrowing costs could be achieved. Our commercial property portfolio is currently predicting a small deficit on the year as a result of the expected temporary void at one office unit and the inducements offered to secure leases at our Clevedon units. This deficit could be offset by rental income for Unit 5 at our Tipton site where interested parties are currently agreeing heads of terms for a long term lease. Should the commercial property account remain in deficit for the full year, the Council will utilise the commercial property reserve to cover the void and lease costs resulting in no impact on the base budget position - see Paragraph 2.11.

2.9 Core government funding is showing a significant surplus as a result of the additional COVID general fund grant of £424,927. In addition to this, the Council will also receive additional new burdens funding for its continuing administration of business grants and it will also be able to claim compensation for losses on its sales, fee and charges as a result of COVID for the first quarter of the year. The level of new burdens funding is not yet known and the calculation of the compensation claim has yet to take place. A prudent estimate of £100,000 for new burdens and £70,000 for the compensation claim has been included within the projection. It is hoped that by the second quarter report, exact figures will be known for both elements.

2.10 Our anticipated retention of business rates income shows a gain of approximately £¼ million from the original budget, compiled in December 2020. At the time of compilation, the outlook for the economy and businesses was very uncertain as a result of the impact of COVID and we adopted a prudent view, following national guidelines, for likely levels of business rates in 2021/22. The first quarter has highlighted businesses in Tewkesbury Borough to be doing significantly better than these estimates with, for example, the level of empty properties being considerably lower than forecast.

2.11 The income line 'Use of Reserves & MRP' highlights the intended level of reserves being brought into the general fund during the year less the cost of the repayment of borrowing – the Minimum Revenue Provision. Outside of the budgeted transfer from reserves, expenditure being financed by reserves is usually allocated directly to reserves and shown separately in section 4 of the report. However, some expenditure is recorded in the general fund and so additional funding is brought in to match off that expenditure. In this case, the additional reserve use relates to new burdens funding already received for business grant administration and the use of the commercial property reserve to cover any deficit on that account.

2.12 Overall, the first quarter projection for the full financial year shows an anticipated surplus of £22,382. As the country continues to recover from the pandemic, we hope that income streams continue the upward trend, the business environment remains positive and we gain clarity on the additional funding due from central government.

3.0 CAPITAL BUDGET POSITION

3.1 Appendix B shows the capital budget position as at Q1. This is currently showing an underspend of £78,233 against the profiled budget of £286,658.

3.2 The capital programme estimates total expenditure for the year to be circa £3.9 million. This is much reduced on previous years as a result of the end of the acquisition phase of the commercial investment property strategy. The main elements of this year's forecast include:

- Ashchurch bridge.
- Vehicle replacement.
- The replacement of the heating system at the Council offices.
- Disabled Facilities Grants (DFG).

3.3 As can be seen from Appendix B, the first three capital projects have yet to incur any expenditure, or in the case of vehicle acquisition only minor expenditure, but the DFG scheme is ahead of the profiled budget and has incurred an overspend. All expenditure on DFG's is covered by grant funding provided by the County Council and so no cost of this scheme is borne by the Borough Council.

4.0 RESERVES POSITION

4.1 Appendix C provides a summary of the current usage of available reserves. Supporting notes are provided for reserves where expenditure is high, or the expenditure is of note.

4.2 Reserves have been set aside from previous years to fund known future costs and the strategic planning of the authority's operation. This year's reserves have been boosted by both grant funding related to COVID and also the release of provisions from the retained business rates scheme. 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 2021/22 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.