TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	17 November 2021
Subject:	Financial Update – Quarter Two 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:	Four

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

The report highlights a projected outturn surplus, based on the quarter two position, of £3,611,060 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

It should be noted that the reported £3.6m surplus includes £3.6m of s31 business rates grants that are required to be set aside to meet a business rates collection fund deficit in 2022/23. Therefore, the balance of the budget forecast at the end of the second quarter is cost neutral and on target to deliver an outturn in line with the original estimates for 2021/22.

Recommendation:

To consider the financial performance information for the first half 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 two (Q2) 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-19 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-19 related. These added factors to financial position continue to be shown and are highlighted within this report.

2.0 REVENUE BUDGET POSITION

2.1 The financial budget summary for Q2 shows a projected surplus of £3,611,060 for the full year against the approved budget. This includes a £3.62m government grant for business rate reliefs which must be set aside to meet future deficits – see Paragraph 2.12. The net forecast position of the rest of the budget is therefore in line with 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 half 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
Services expenditure			
Employees	£11,032,559	£10,599,947	£432,612
Premises	£590,411	£622,196	-£31,785
Transport	£55,270	£38,163	£17,107
Supplies & Services	£2,131,818	£2,175,149	-£43,331
Payments to Third Parties	£6,462,630	£6,559,306	-£96,676
Transfer Payments - Benefits Service	£13,544,132	£13,529,942	£14,190
Central Recharges	£29,929	£29,929	£0
COVID-19 Costs	£0	£350,983	-£350,983
COVID-19 Recovery	£0	£100,000	-£100,000
Projects Funded Externally	30	-£247,252	£247,252
Income	-£21,429,831	-£21,424,688	-£5,143
Services Sub Total	**£12,416,918**	**£12,333,674**	**£83,244**
Corporate expenditure			
Treasury – Interest Received	-£345,000	-£400,000	£55,000
Treasury – Borrowing Costs	£480,000	£460,000	£20,000
Investment Properties	-£3,176,343	-£3,046,104	-£130,239
Corporate Savings Targets	-£155,000	£0	-£155,000
Core Government funding	-£1,013,409	-£1,618,563	£605,154
New Homes Bonus	-£2,508,861	-£2,508,861	£0
Business Rates	-£1,976,280	-£1,243,714	-£732,566
Business Rates – deficit from 20/21	£4,649,150	£4,639,263	£9,887
Business Rates – new s31 grants set aside for 22/23	£0	-£3,619,320	£3,619,320
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	-£4,002,867	£236,260
Corporate Sub Total	**-£5,595,281**	**-£9,123,097**	**£3,527,816**
Surplus / (deficit)			**£3,611,060**

2.2 Service Expenditure

The quarter two full year projection highlights a full year cost of service provision totalling £12.334m, resulting in a surplus against the approved budget of £83,244. The following paragraphs highlight the main reasons for this projected surplus. 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 £432,612. 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 £277,612. Savings have accrued across a number of service areas including One Legal, Development, Democratic and Community 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 Director of One Legal. The figures do not include a pay award which is still being negotiated between Unions and Employers. A reserve of £200,000 is set aside to meet an agreed pay award which would equate to a 2% increase. Any agreed pay award in excess of this would need to be met by current employee savings.

2.4 Premises costs highlights a projected overspend of £31,785. This includes the rental charges that relate to the May 2021 Police Crime Commissioner election, which are fully reclaimable. Due to the vacant office space within the public service centre the business rates due have been charged to the Council and therefore are showing an overspend against budget.

2.5 The projected outturn for Supplies and Services highlights a potential overspend of £43,331. This includes the election fees from the May 2021 Police Crime Commissioner election, which are fully reclaimable. Card terminal bank charges are 30% lower than budget which is a combination of changing the merchant provider and a prudent budget.

2.6 Payments to third parties highlights a projected overspend of £96,676. This includes additional costs relating to the cost of a Domestic Abuse Review which is fully funded by the Domestic Abuse grant. There has been an increase in demand for emergency accommodation in the first half of this year. We have been prudent with our forecast by forward projecting at the same rate as Q1 and Q2; any overspends will be funded from the homelessness grant.

There is a projected 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 shortages. 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.

We have seen a significant saving in our MRF gate contract since changing provider, we expect this to continue for the foreseeable.

2.7 Tewkesbury services continue to see a financial impact from the COVD-19 pandemic with a full-year cost estimated at £450,983. 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-19 grant funding provided by the government and new burdens funding for the business cell work – see Paragraph 2.11.

2.8 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-19 pandemic with reductions in income levels in our car parks during the first quarter, an expectation that the Tewkesbury Leisure Centre contract fee would 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.

2.9 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 £3,527,816 for the financial year.

2.10 Treasury activities are expected to deliver small savings in borrowing costs and an increase in interest received from investing. Our commercial property portfolio is currently predicting a deficit on the year as a result of the expected temporary void at one office unit, a tenant exercising a mid-year break clause at an industrial unit and the inducements offered to secure leases at our Clevedon units. 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 2.13.

2.11 Core government funding is showing a significant surplus as a result of the additional COVID-19 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 is also able to claim compensation for losses on its sales, fee and charges (SFC) as a result of COVID-19 for the first quarter of the year. The level of new burdens funding is not yet known although clarity is likely to be provided in November. A prudent estimate of £100,000 for new burdens has been included within the projection. The loss on SFC for the first quarter has been calculated at £49,000 and is included within the estimate, although it is yet to be certified by DLUHC.

2.12 Our anticipated retention of business rates income shows a net surplus of approximately £2.9m from the original budget, compiled in December 2020. The major component of this surplus is the £3.62m s31 grant paid by the government to provide further relief from business rates for businesses in certain sectors. These businesses will receive the relief in the current year and therefore pay reduced business rates. For the Council, the impact of this reduced business rates is a deficit on the collection fund which impacts in 2022/23. The government compensates the local authority by paying the s31 grant and, as they have made payment upfront, the sum needs to be set aside at year-end to meet the deficit in 2022/23. This element of the surplus is therefore not a usable surplus and is only as a result of timings within the business rates system.

The underling position of business rates in the current year shows a small amount of growth and an improving position against the prudent estimates made in the budget. The level of empty business premises across the Borough continues to be much lower than forecast and bad debts are not materialising to the levels originally envisaged. In addition to this, the government announced that Material Change in Circumstance (MCC) business rate appeals will not be dealt with as appeals but will be subject to a separate grants system. With this announcement, the Council is able to remove the provision for these type of appeals from within its retention calculation. As a result of these factors the levels of retention for 21/22 are likely to be much higher for Tewkesbury with a net gain of over £1.4m currently being forecast. However, this gain will only be released at the end of 2022/23 and therefore is not available to the Council until April 2023.

In contrast to the £1.4m gain, the additional levy now payable by Tewkesbury – all gain is subject to a 50% levy – is due in the current year. As a result, the net position for the in-year business rates retention is a deficit of £732,566.

2.13 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.

2.14 Overall, the first half projection for the full financial year shows an anticipated surplus of £3.6m. This surplus is effectively the s31 business rates grant mentioned in 2.12 and means that the remainder of the base budget is on target to be delivered in line with original estimates.

3.0 CAPITAL BUDGET POSITION

3.1 Appendix B shows the capital budget position as at Q2. This is currently showing an underspend of £325,309 against the profiled budget of £695,000.

The capital programme estimates total expenditure for the year to be circa £3.9m. 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).

3.2 As can be seen in Appendix B, the previously reported deficit on Disabled Facilities Grants has now been reversed into a surplus whilst an underspend on vehicles for both grounds maintenance and food waste is currently being reported.

3.3 The expected replacement of the Council Offices heating system will not now take place in the second half of the year as a result of a significant increase in prices. However, grant funding will now be used to support the delivery of a solar canopy above a number of car parking spaces in the rear car park of the offices. This work is expected to be completed in the final quarter.

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-19 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 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 SEMI ANNUAL TREASURY REPORT

5.1 At the half year point of the financial year, treasury investment activities have resulted in an average return of 1.60% on its investments which, at the end of September, totalled £30,200,000. This performance and level of return has generated interest of £225,000 in the first half of the year against the budget estimate of £172,500 resulting in a surplus of £52,500. This is considered to be an excellent return given the continued low interest rates and represents a return of 1.52% in excess of the benchmark rate. It is also more than double the average return of 129 other local authorities who are members of our benchmarking club.

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 £9.2m of the Council's investments and continue to return income of 4.71%. In addition, there has been a gain of 9.14% on the capital value of these investments in the first six months which moves the Council close to pre-pandemic capital values.

The Council further diversified its investment portfolio in the first half of the year with £1/2m being invested in a social housing real estate investment trust (REIT). The Fundamentum social housing REIT provides accommodation across the country for vulnerable adults with specialist needs. The investment provides a good level of return at around 2.25% whilst boosting our environmental, social and governance investment objectives.

5.3 Borrowing costs in the first half of the year stand at £236,000 which is £4,000 below the budget forecast. This is as a result of the lower borrowing costs and the repayment of £5m of previous borrowing.

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 £56,500 on budget with a full year forecast of a £75,000 surplus. 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 2021/22 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.

Background Papers: None.

Contact Officer: Head of Finance and Asset Management

Appendices:
A – Revenue position by service.
B – Capital position.
C – Earmarked reserves update.
D – Semi-annual treasury report.