

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	2 March 2022
Subject:	Financial Update – Quarter Three 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 third quarterly monitoring report of the Council's financial performance for the year.

The report highlights a projected outturn surplus, based on the quarter three position, of £3,609,348 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

It should be noted that a large percentage of this surplus is funded from grant income which is to be used for specific purposes in the coming financial year. In addition, some of the business rates surplus is already earmarked to support the business rates collection fund deficit in the 2022/23 budget. However, overall, the Council is on track to enjoy a healthy surplus at year-end and careful consideration will need to be made on the best use of this one-off money to support our ambitions as well as deal with risk.

Recommendation:

To consider the financial performance information for the third 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 three (Q3) 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. In addition, the range of business rate reliefs currently being administered significantly distort and change the projected retention position. These added factors to the financial position continue to be shown and are highlighted within this report.

2.0 REVENUE BUDGET POSITION

- 2.1** The financial budget summary for Q3 shows a projected surplus of £3,609,348 for the full year against the approved budget. 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	£11,032,559	£10,369,368	£663,191
Premises	£590,411	£602,240	-£11,829
Transport	£75,270	£36,515	£38,755
Supplies & Services	£2,131,818	£2,085,036	£46,782
Payments to Third Parties	£6,542,630	£6,257,898	£284,732
Transfer Payments - Benefits Service	£13,544,132	£13,529,942	£14,190
Central Recharges	£29,929	£29,929	£0
COMF Funding	£0	-£110,520	£110,520
COVID-19 Costs	£0	£442,917	-£442,917
Projects Funded Externally	£0	-£188,767	£188,767
Income	-£21,529,831	-£22,705,927	£1,176,096
Services Sub Total	£12,416,918	£10,348,633	£2,068,285
<u>Corporate expenditure</u>			
Treasury – Interest Received	-£345,000	-£418,000	£73,000
Treasury – Borrowing Costs	£480,000	£463,000	£17,000
Investment Properties	-£3,176,343	-£3,106,584	-£69,759
Corporate Savings Targets	-£155,000	£0	-£155,000
Core Government funding	-£1,013,409	-£1,561,163	£547,754
New Homes Bonus	-£2,508,861	-£2,508,861	£0
Business Rates	-£1,976,280	-£2,795,678	£819,398
Business Rates – deficit from 20/21	£4,649,150	£4,650,446	-£1,296
Council Tax Surplus	-£24,833	-£24,833	£0
Council Tax precept	£2,241,902	£2,241,902	£0
Use of reserves & MRP	-£3,766,607	-£4,076,573	£283,679
Corporate Sub Total	-£5,595,281	-£7,136,344	£1,541,063
Surplus / (deficit)			£3,609,348

2.2 Service Expenditure

The quarter three full year projection highlights a full year cost of service provision totalling £10.349m, resulting in a surplus against the approved budget of £2.068m. Of this surplus, over £1.5m will be carried over at year end (see 2.7 and 2.10 for further details) for specific purposes either as a result of a grant determination or previous decisions of the Council. Whilst this additional income and underspend is still seen as a surplus against the budget, its future use is already determined.

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 £663,191. 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 £508,191. Savings have accrued across the majority of service areas including One Legal, Development, Democratic and Corporate Services but also within 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.

2.4 Premises costs highlight a projected overspend of £11,829. 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 There is a projected saving of £38,755 for transport costs, the main reason for this is due to the reduction of business travel across the Council.

2.6 The projected outturn for supplies and services highlights a potential saving of £46,782. There is a 30% reduction in card terminal bank charges against budget, this is a combination of changing the merchant provider and a prudent budget. Annual computer licences are expected to be £29,840 under budget. This saving is reduced by certain overspends, the election fees from the May 2021 Police Crime Commissioner election, which are fully reclaimable and the appointment cost for Director of Law which is payable by Tewkesbury.

2.7 Payments to third parties highlights a projected underspend of £284,732. The large majority of this surplus is due to certain growth items that have been postponed until next year; In-cab technology (£150,000), Digital Growth within the Business Transformation Team (£40,000) and additional JCS support (£60,000). These sums will be carried over at year-end to fund future expenditure within these areas.

£112,000 was budgeted for an additional food crew which has been postponed until next year due to delays in acquiring a new food vehicle. Overtime in the year has provided interim additional capacity to meet the requirements. We have also seen a significant saving in our MRF gate contract since changing provider which we expect to continue for the foreseeable.

These savings have been reduced slightly by additional expenditure in the following areas:

- Domestic Abuse Review, which is fully funded by the Domestic Abuse grant.
- Increase in demand for emergency accommodation. Any outturn overspends in this area will be funded from the homelessness prevention grant.
- There is a projected overspend on the Ubico contract sum in relation to an increased market supplement to attract and retain drivers for our services. The rest of the contract sum is on target.

2.8 Tewkesbury was awarded £410,000 of funding for Contain Outbreak Management (COMF), which was due to the impact of COVID-19. It is expected that £300,000 will be spent by the end of this financial year with the remaining £110,000 to be carried over at year-end to fund continued activities in the first part of the new financial year.

2.9 Tewkesbury services continue to see a financial impact from the COVID-19 pandemic with a full year cost estimated at £442,917. 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 2.13.

2.10 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. In particular, Development Management is generating 19% more income in planning fees than expected due to receiving a greater number of planning applications. In addition, a number of other income streams are projected to deliver income in excess of budget including bulky waste, trade waste and licensing.

Some areas however continue to be affected by the COVID-19 pandemic with reductions in income levels in our car parks, Tewkesbury Leisure Centre contract fee won't be provided during the year and the two of the three units on the top floor of the Council offices have been vacant all year, although rent was paid on one unit until September. In addition, One Legal income remains below target although this is offset savings on employee costs.

The income position is significantly boosted by the receipt of a number of external grants. The main contributor is the £1m grant from the Gloucestershire Economic Growth Joint Committee for transport modelling required for the Joint Core Strategy. In addition, grants have been received in areas such as homeless prevention, delivery of elections and new areas of activity within Revenues and Benefits.

2.11 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 £1,541,063 for the financial year.

2.12 Treasury activities are expected to deliver small savings in borrowing costs and an increase in interest received from investments, in particular as a result of our pooled funds investments but also as a result of recent increases to the base rate. Our commercial property portfolio is currently predicting a deficit on the year as a result of the expected temporary void at one office unit and a tenant exercising a mid year break clause at an industrial unit. 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 2.15.

2.13 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 received new burdens funding for its continuing administration of business grants of £91,600. The Council was also able to claim compensation for losses on its sales, fees and charges (SFC) as a result of COVID-19 for the first quarter of the year.

2.14 The overall projected position on retained business rates has changed significantly from that reported at quarter two as a result of a multitude of changes and movements within the calculation which highlights the volatility of this funding stream, particularly during the pandemic. Some of the points to note resulting in the movement include the award of further business rate reliefs, additional s31 government grants, clarification of accounting treatment for reliefs and grants, review of empty property provisions, bad debts and appeals and the impact of significant reductions to Virgin Media assessments.

As a result of the above, the anticipated retention of business rates income now shows a net surplus of approximately £0.8m from the original budget, compiled in December 2020. The underlying 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.

Given the positive impact of these changes in year, the size of the collection fund deficit that would normally exist given the generous package of business rates relief that has been applied is much reduced. As a result, grant funding that would normally be set aside to meet the collection fund deficit is not required to the full level of grant and can be released in year. This is offset to an extent by the need to increase the levy payment on this excess level of retention. Combining all of these factors results in additional retention of just over £800k in the current year. It should be noted however, that the impact of Virgin Media, as noted in the recent Budget papers, has resulted in an increased collection fund deficit forecast which will necessitate the use in part of this £800,000 surplus.

In addition to the net internal business rates retention position, the Council is a member of the Gloucestershire Business Rates Pool which, through its composition, is able to retain additional business rates within the county. The amount attributable to Tewkesbury varies depending on the performance of all parties but the latest estimate suggests a windfall of circa £500,000 for Tewkesbury. This sum, if confirmed, will be in addition to the surplus discussed in this paper.

2.15 The income line 'Use of Reserves and 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.

2.16 Bringing together both the surplus on net service expenditure and that on net corporate expenditure results in an overall budget surplus projection of £3.61m. As noted earlier, a large proportion of this relates to external grants for which there is a defined purpose and can only be used for that purpose. In addition, a number of projects have been delayed during the course of the year and will require the funding to be carried forward. However, even when allowing for both of these, there is still likely to be a significant useable surplus from which to boost our reserves. Careful consideration will be made at year end as to the best use of these resources and a recommendation made to Executive Committee in early summer.

3.0 CAPITAL BUDGET POSITION

3.1 Appendix B shows the capital budget position as at Q3. This is currently showing an underspend of £2.2m against the profiled budget of £2.9m.

3.2 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).

3.3 As can be seen in Appendix B, Disabled Facilities Grants is showing a surplus as fewer grants have been paid out. There is also an underspend being reported on the award of community capital grants at the Q3 point although these are expected to be drawn down in the final quarter.

A surplus is being reported for vehicle replacement for both grounds maintenance and food waste as a result of extending the useful life of some vehicles and equipment whilst supply side delays have been experienced in the acquisition of some vehicles. We do however expect a new sweeper to be delivered in Q4.

3.4 The expected replacement of the Council offices heating system will no longer take place in this financial year, as the quotation was far greater than grant funding. However, the 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 begin in the final quarter.

3.5 We are expecting to incur some costs for Ashchurch bridge in Q4, however the original profiled expenditure projection will not be met for 2021/22. The timetable has been lengthened to allow for the delays experienced and the works required.

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 Q3 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.

Contact Officer: Head of Finance and Asset Management Tel: 01684 272005
Email: simon.dix@teWKesbury.gov.uk

Appendices: Appendix A – revenue position by service.
Appendix B – capital position.
Appendix C – earmarked reserves update.