SELBY DISTRICT COUNCIL

Report Reference Number: E/20/14

To:	**Executive**
Date:	**3 September 2020**
Status:	**Key Decision**
Ward(s) Affected:	**Whole District**
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Lead Executive Member:	**Cllr C Lunn – Lead Member for Finance & Resources**
Lead Officer:	**Karen Iveson - Chief Finance Officer**

Title: Financial Results and Budget Exceptions Report to 30th June 2020

Summary:

Covid-19 has had a substantial impact on this financial year, and we have been reporting monthly to MHCLG and the Executive the estimated impacts of this on our income streams and cost base, affecting both the General Fund and the HRA.

At the end of Q1, taking into account Covid-19 and other issues, current estimated full year revenue outturn estimates indicate deficits of £1,164k for the GF and £374k for the HRA. The key variances are highlighted in the report with further detail in Appendix A.

General Fund planned savings are showing a forecast shortfall of £603k whilst the HRA is forecasting savings to be £195k lower. Much of this relates to staff capacity at the Council to deliver savings this year where Covid-19 has led to a requirement for additional resources to deal with backlogs where otherwise savings would have been expected to be made. There have been delays to negotiations on the environmental contract negotiations plus Covid-19. Appendix B has additional details of the programme.

The capital programme is currently forecasting an underspend of (£9,329k); (£3,641k) GF and (£5,688k) HRA. In the General Fund, the majority relates to loans to the Housing Trust and the purchase of land whilst the HRA variance is due to much lower expected spend on the housing development and property improvement programmes in this financial year. Headlines can be found in the report below with a more detailed analysis in Appendix C.

Programme for Growth projects continue, but progress in terms of financial spend has been mostly staff cost in quarter 1. Project by project progress is shown in Appendix D.

The MHCLG return submitted for July indicates an overall estimated gross impact on Council finances of £3,759k across both the General Fund and HRA.

Recommendations:

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It is recommended that:

i) The Executive endorse the actions of officers and note the contents of the report;
ii) The Executive approve re-profiled capital programmes and Programme for Growth as set out at Appendices C and D.

Reasons for recommendation

To ensure that budget exceptions are brought to the attention of the Executive in order to approve remedial action where necessary.

1. Introduction and background

1.1 The revenue budgets and capital programmes were approved by Council on 22 February 2020, this report and associated appendices present the financial performance as at 30 June 2020 against these budgets.

1.2 From late March 2020, the country entered a period of lockdown as a result of the Covid-19 pandemic. This resulted in staff immediately moving to work from home, suspension of committee and Council meetings, and resources diverted towards the Council's response.

1.3 During quarter 1, the Council has administered over £18m in emergency grants for businesses, council tax hardship funds, provided business support and assisted communities to reopen. This increase in workload has put pressure on capacity to deliver the planned expenditure programmes.

1.4 The estimated financial impacts for the year as a result of Covid-19 have been recorded in monthly returns to the Ministry for Housing, Communities and Local Government (MHCLG). Estimating the impacts has been challenging as there are many uncertainties. Looking ahead there is the risk of further lockdowns and post Covid-19 impacts on income streams, service backlogs and delays to savings plans as well as the potential for rising costs. Accordingly, 'worst' and 'best' case scenarios have also been modelled to help understand the potential breadth and depth of the issues.

1.5 The main report below contains the mid-range forecast to reflect the current estimated impacts in 2020/21. This will form the basis of a revised budget and Medium Term Financial Strategy which will go to Full Council for approval on the 22nd September.

2. Main Report

General Fund Revenue

2.1 Latest forecasts show a £1,164k deficit. For the General Fund the forecasted impacts of Covid-19 total £2,625k in 2020/21 (per July MHCLG return). Central Government grants have been received to help mitigate some of the losses, with (£1,067k) received as Covid-19 support grants and a further (£130k) new burdens funding to assist with the administration of the Covid-19 grant schemes. There are also, a small number of in year savings forecast at Q1.

2.2 In addition, the Council has received (£18,400k) of funding for the provision of business grant schemes on behalf of the Government, as well as (£524k) of funding for council tax hardship. The majority of this funding has been paid out already and it is anticipated all of this will be paid out in the financial year.

2.3 The table below shows the summary position at the end of June 2020. The revised budget contains 2019/20 carry forwards. The supplementary estimates reflect the decisions taken under urgency rules to fund the suspension of car parking income and industrial unit rents from the business rates equalisation reserve. Full details of forecast variances against budget are set out at Appendix A.

General Fund Account Q1 2020/21	Revised Budget	Supplementary Estimates	Latest Approved Budget	Forecast	Forecast Variance
Corporate Services & Commissioning	6,147	208	6,355	6,793	438
Economic Regeneration & Place	3,603	0	3,603	4,160	557
Corporate / Finance	(958)	0	(958)	(1,537)	(579)
Legal & Democratic Services	878	0	878	1,023	145
Contingency	198	0	198	198	0
Net Service Expenditure	**9,868**	**208**	**10,076**	**10,637**	**561**
	0				
Contribution to / from reserves	9,060	(208)	8,852	8,852	0
Other Accounting Adjustments	(979)	0	(979)	(979)	0
Council Tax	(5,861)	0	(5,861)	(5,861)	0
Business Rates & Associated Grants	(2,382)	0	(2,382)	(2,382)	0
Collection fund Deficit / (Surplus)Share	(9,093)	0	(9,093)	(9,093)	0
Shortfall / (Surplus)	**614**	**0**	**614**	**1,175**	**561**
Budget Savings Left to Deliver	(614)		(614)	(11)	603
Net Revenue Budget	**0**	**0**	**0**	**1,164**	**1,164**

2.4 The main forecasted variances against the General Fund are:

- £375k on planning due to reduced applications and future economic risk impacting on application numbers for the rest of the year;
- £166k additional staffing and legal support on planning and enforcement needed to deal with service backlogs;
- £323k reduction in income from leisure facilities. This reflects a full year position, whilst the leisure centre has just reopened the Summit has the potential to remain closed for the remainder of the year;

- Free car parking facilities have been provided until mid-September, plus an assumed additional 10% reduction in footfall for the remainder of the year - £181k;
- £99k reduction in rental income from general fund properties due to Covid-19. This includes industrial units which have been provided with a rent-free period for the first three months and a shortfall in income from the office space due to no room bookings this year;
- £55k reduction in land charges due to reduced demand for services, as a result of Covid-19;
- £217k of other service income reductions as a result of Covid-19, details of which are in appendix A;
- A £603k shortfall on planned savings, predominantly due to capacity to deliver following Covid-19 as outlined in the planned savings section of this report and in more detail in Appendix B;
- There is a £262k reduction to investment returns in the general fund, with the pandemic resulting in a lowering of the Bank of England base rate to 0.1%. This is expected to reduce investment returns on cash by £162k, 0.25%. In addition, returns on property funds are expected to half from the 4% achieved last year, to 2% with an impact of £100k;
- Business Rates are expected to be impacted by covid-19. However, as the Council is below ‘safety net’ for the purposes of Business Rates Retention, it is expected that the Government will make up any further shortfall in business rates income;
- £176k of additional costs have been approved for extra spend related to the pandemic including office adaption costs, additional costs to support home working and community support;
- In addition to the Covid related impacts, the budget assumed 2% increase for the pay award. The latest offer is 2.75%. Whilst this has not yet been agreed, it would result in £53k of additional recurring cost.

2.5 Covid-19 is also impacting on Council Tax income although this initially impacts on cashflow and the Collection Fund, with deficits being distributed to the revenue account in future years. Lower council tax collection rates are expected, with latest estimates showing a £245k shortfall as a result of lower collection rates and a 20% increase in those on council tax support since the Council Tax Return was completed.

Housing Revenue Account (HRA)

2.6 Latest forecasts show a £374k deficit which will result in a reduction in the transfer to the major repairs reserve from £3,716k to £3,342k. For the Housing Revenue Account the forecasted impacts of Covid-19 (per July MHCLG return) total £1,134k, £600k of which reflects increased costs of the capital programme. Due to delays in the capital programme, £240k of this is expected to impact on 21/22.

2.6 The table below shows the summary position at the end of June 2020. Full details of forecast variances against budget are set out at Appendix A.

Housing Revenue Account – Q1 2020/21	Budget £000's	Forecast £000's	Variance £000's
Net Revenue Budget	8,441	8,649	208
Dwelling Rents	(12,157)	(11,991)	166
Net (Surplus) / Deficit transferred to Major Repairs Reserve	**(3,716)**	**(3,342)**	**374**

2.6 The main forecasted variances against the HRA surplus are:

- Housing rents are expected to fall short by £166k overall, due to Covid-19. Collection rates for the first quarter extrapolated across the year suggest a possible £138k reduction to rent collected. Covid-19 restrictions are making turnaround of voids more challenging, and this is estimated currently to reduce rents also. The forecast is set to worsen from quarter 1 to cater for future risk of increasing economic impacts due to covid-19. This will be continue to be monitored as further data is collected as the year progresses.
- £195k shortfall in planned savings are expected to be delayed due to additional staffing demands as a result of the pandemic.
- The lowering of the Bank of England base rate to 0.1% resulting in potentially £63k lower returns.
- An additional £70k has been forecast for staffing costs to help with backlogs of work caused by the pandemic and lockdown.
- The above negative impacts are partly offset by lower borrowing costs due to delays in the capital programme and in particular the housing development programme which are expected to produce an in year saving of £136k.

Planned savings

2.7 The General Fund budgeted savings target for the year was (£758k). The pandemic has resulted in considerable pressure on resources, and this has had an impact on the Council's ability to deliver further savings in the current year. Forecasts for 2020/21 indicate a shortfall against the in-year target of £603k with further risk in some additional areas. The key areas to note are as follows:

- There is a savings target for (£324k) related to negotiation of new contracts but these have been delayed until later in the year with the exception of the public conveniences contract which will return a saving of (£6k) per annum. In addition, the purchase of a new fleet of vehicles is expected to happen in the autumn now, which will generate a saving

but this will be offset by the higher costs being incurred for leasing in the first half of the year. Some of the parts for the vehicles are produced in Europe, so there is a risk of further delays should the pandemic worsen. Currently it is not expected that this saving will be achieved this year, but there is considerable uncertainty on this until things become clearer later in the autumn.

- Planning savings of (£67k) were set from the planning review. However, demands on the planning service and enforcement mean that any savings are unlikely to be delivered this financial year.
- (£100k) of the asset rationalisation target is dependent on the move of the contact centre from Market Cross. Whilst the move is still planned, it is not expected that the saving will be achieved in the current year. The saving is dependent upon the ongoing negotiations with the landlord and capacity to consider alternative uses for the premises which have been hampered by capacity in the team due to Covid-19.
- The digital programme is a fundamental part of the process improvements/online transactions saving. Covid-19 has reduced capacity to deliver projects and where delivered the savings are unlikely to be recognised immediately due to the additional capacity required to deliver covid-19 priorities resulting in a (£112k) shortfall this year.

2.8 The HRA has a budgeted savings target for 2020/21 of (£218k), (£23K) of which has been delivered and allocated to budgets. The remainder of the saving relates to efficiency savings following implementation of new Housing and Asset Management System. The system has gone live in July 2020, but the (£195k) saving is likely to be delayed due to the capacity required in the Council to deliver Covid-19 priorities.

Details of all planned savings can be found in Appendix B.

Capital Programme

2.9 The capital programme shows a forecast underspend of (£9,329k).

2.10 In the General Fund the variance of (£3,641k) is made up of:

- loans to the Housing Trust are expected to be £400k in year compared to the original £2,400k budget as covid-19 has led to delays in negotiations on identified sites;
- a budget of £995k to purchase land to facilitate affordable housing development has also been delayed and will not be spent this year.
- work on industrial units and car parks has been delayed due to Covid-19 and is proposed to be rephased, with £360k now expected to be spent next year;

- The adoption of the industrial road is not expected to go ahead this year, saving (£325k). The current condition of the road does not justify the significant investment required to bring the road up to adoptable standard. It is proposed to delay this project until such time as the condition of the road makes this work appropriate and necessary.

2.11 The HRA variance of (£5,688k) is due to delays caused by Covid-19. Much lower spend is expected on the housing development programme in this financial year with a forecast of £400k spend against a budget of £3,427k. Work is continuing towards readying a number of sites, but it is expected that Covid-19 will result in further delays. The property improvement programmes are also expected to be delayed due to Covid-19 restrictions on the work that can be carried out, with a further £2,660k of spend now expected in 2021/22 leaving a £4m budget to spend this year. This is partly offset by a risk of increased spend across the capital programme due to Covid related project delays and supplier pressures, which has been estimated at an additional £600k.

Programme for Growth (PfG)

2.12 The current multi-year programme has £5,862k remaining to spend at the start of the financial year, with £283k spent in the first quarter, which is predominantly staff costs. Some of this spend has been profiled over a number of years as match funding for Transforming Cities Fund and Heritage Access Zones programmes which run to 2023 and 2024 respectively.

2.13 The Covid-19 pandemic has resulted in some staff resources that would normally deliver P4G projects being redirected during quarter 1 to support Covid response and recovery work, including work with businesses and applications for grant money to help towards post covid changes to the high street.

2.14 Project by project detail can be found in appendix D.

3. Alternative Options Considered

3.1 ‘Best’ and ‘worst’ case scenarios have been modelled (see section 4 below) although these are indicative only and subject to the ultimate trajectory of the virus, the success of easing lockdown measures and the pace of economic recovery.

4. Implications

4.1 Legal Implications

4.1.1 There is a legal requirement to balance the budget. In addition, any actions to tackle the deficit position need to avoid any potential for contractual or legal dispute as well as following appropriate governance.

4.2 Financial Implications

4.2.1 The forecast deficit requires in-year action to address. The latest MHCLG returns shows that Covid will result in a potential £3,759k cost/loss in year. Scenario modelling shows these costs/losses could increase to £5,161k (with £3,216k GF and £1,945k HRA) at the more pessimistic end of the assumptions (which assumes a second wave of the virus later in the year and an associated period of lockdown). Whilst the Government funding received to date is welcome it still leaves a £2,691k gap. We continue to support lobbying for additional Government funding but if this is not forthcoming then any residual shortfall would have to be met by diverting funds from reserves. The revised estimates proposes the use of New Homes Bonus that was originally intended for the Special Projects Reserve.

4.2.2 The Business Rates Equalisation Reserve holds £4.5m after approved supplementary estimates which is the reserve that would be used should General Fund revenue support be required. Any funding gap within the HRA would reduce the amount available to fund planned major repairs and improvements to the housing stock.

4.2.3 The rapidly changing picture means that close monitoring of the estimated impacts of Covid needs to continue to ensure any changes are incorporated so the latest deficit position is fully understood.

4.2.4 The numbers in the forecast reflect a mid-case scenario for the year. Optimistic and pessimistic scenarios have also been drawn up for the key areas impacted and the indicative deficits for the General Fund and Housing Revenue Account are illustrated below. The pessimistic view incorporates the potential for a future lockdown period, and therefore shows a much higher potential figure should this happen within this financial year.

4.2.5 The largest movements in the general fund are those that reflect the greatest uncertainty. Key movements include:

- Council tax – potentially we have not yet seen the full impacts of the economic fallout of covid-19 and knock on effect to collection of Council Tax. In addition, there is also risk of a second lockdown period. The estimates included below indicate the potential for council tax collection to improve by a further £104k or worsen by £160k based on collection percentage estimates;
- Included in the pessimistic forecast is a £151k cost of additional resources to assist with test and trace if financial support for delivery of this is not forthcoming;
- There is a lot of uncertainty currently in predicting planning fees, which can be impacted by economic factors. Therefore the analysis below includes a range of income between £472k and £707k against a budget of £952k.

General Fund	Deficit £k
Best case	732
Mid case	1,164
Worst case	1,755

4.2.6 The largest movements in the housing revenue account are:

- Housing rents are again vulnerable to economic factors, the current collection rate at the end of quarter 1 indicates £138k shortfall and is considered as the optimistic forecast, with the pessimistic forecast showing a potential reduction in rent collections of £316k. This includes both payment failure and voids;
- The additional financial risk in the capital programme created by delays and supplier risk is estimated at 5% of the programme value which is £600k. This could increase to £1,200k (10% of programme cost) if we were to suffer further lockdown periods as a result of the pandemic.

Housing Revenue Account	Deficit £k
Best case	916
Mid case	974
Worst case	1,785

4.2.7 The reconciliation between the MHCLG return mid-case submission and the quarter 1 forecasted outturn can be found below.

General Fund

MHCLG Return July	**£2,626k**	
Council Tax	-245	Impact in 22/23 – two year delay in collection fund.
Grant support	-1,067	Covid-19 support grants received.
Reserves	-208	Decision notices on car parking and industrial units funded from reserves.
Other non-covid savings	-98	Additional in year savings not related to covid-19.
Pay award	53	Pay award assumption increased from 2% to 2.75%.
Change in interest assumption	-63	Assumptions on interest improved based on to date actuals since MHCLG return was completed.
Planning and Enforcement	166	Staff and legal support to deal with service backlogs
Quarter 1 Forecast Deficit	**£1,164k**	

Housing Revenue Account

MHCLG Return July	**£1,134k**	
Capital programme	-600	Covid impact in the return which is for the capital programme.
External borrowing costs	-136	Reduced external borrowing requirement - non-covid
Change in interest assumption	-27	Assumptions on interest improved based on to date actuals since MHCLG return was completed.
Other in year variances	3	Small variances not related to covid.
Quarter 1 Forecast Deficit	**£374k**	

4.3 Policy and Risk Implications

There are no specific policy or risk implications beyond those highlighted in the report.

4.4 Corporate Plan Implications

The financial position and performance against budget is fundamental to delivery of the Council's Corporate Plan, achieving value for money and ensuring financial stability.

4.5 Resource Implications

The pandemic has put considerable pressure on the Council to deliver all of its priorities from the Council plan in addition to the new requirements as a result of covid-19.

4.6 Other Implications

None.

4.7 Equalities Impact Assessment

There are no equalities impacts as a direct result of this report.

5. Conclusion

5.1 The covid-19 pandemic has had significant impact on the Council's finances with substantial deficits forecast in both the General Fund and Housing Revenue Account.

5.2 The latest forecast revenue position, taking into account Covid and other issues, indicates a potential deficit of £1,164k in the General Fund and £374k in the HRA. This includes the £1m funding received to date from Government. Whilst the LGA continue to lobby for further support for Local Government,

should this not be forthcoming then a drawdown from the Business Rates Equalisation Reserve would be needed to balance the General Fund and the planned transfer to Major Repairs Reserve would need to be reduced. There is also additional risk of increased deficits should there be any future periods of lockdown in the District.

5.3 There is also increased pressure on resources and capacity to deliver the Council's priorities that made up the previous budget in a more restricted timeframe as well as the new requirements resulting from the pandemic. Delays in the capital programme have been forecast to reflect this. A revised budget for the year will be presented for approval at the Full Council on the 22nd September.

6. Background Documents

None.

7. Appendices

Appendix A – General Fund and Housing Revenue Account Revenue budget exceptions.

Appendix B – General Fund and Housing Revenue Account Savings.

Appendix C – General Fund and Housing Revenue Account Capital Programme.

Appendix D – Programme for Growth.

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