

Report to Cabinet

Subject: Quarterly Budget Monitoring and Virement Report – Quarter 3
December 2020

Date: 28 January 2021

Author: Senior Leadership Team

Wards Affected

Borough-wide

Purpose

- To update Cabinet on the forecast outturn for Revenue and Capital Budgets for 2020/21. The budgets include all approved carried forward amounts from the 2019/20 financial year.
- To request approval from Cabinet for the changes to the budget as set out in this report.
- To request approval for the withdrawal of the Commercial Property Investment Strategy.

Key Decision

This is a key decision.

Recommendation(s)

Members are recommended to:

- 1) approve the General Fund Budget virements set out in Appendix 1;**
- 2) approve the amendments to the Capital programme set out in Appendix 3;**
- 3) note the use of reserves and funds and virements approved during quarter three as detailed in Appendix 2;**
- 4) agree the withdrawal of the Commercial Property Investment Strategy as detailed in paragraph 2.7 and recommend it to Council for approval.**

1. Background

- 1.1 The Council has made a commitment to closely align budget and performance management. This is in line with accepted good practice.
- 1.2 To deliver this commitment, systems to monitor performance against revenue and capital budgets, improvement activity and performance indicators have all been brought together and are now embedded in the way the Council works. Whilst the budget and performance information is presented in 2 separate reports, they are reported to Cabinet together and will appear on the same agenda.

2. Proposal

2.1 General Fund Revenue Budget Summary

The following table summarises the overall financial position of the General Fund Revenue Budget and the expected total spend for the year. This information has been compiled using the best information made available to Financial Services by the relevant spending officers as at 31 December 2020.

In summary the Council's General Fund outturn is projected to be in line the approved budget of £11,602,700, including an overall contribution from earmarked reserves of £2,278,300. Members will recall approving at Quarter 1, the use of £420,600 of earmarked reserves to ensure the budget was maintained at its maximum due to the forecast budgetary impact of Covid-19. The position at quarter 2 included an approved transfer back to earmarked reserves of £100,000 enabled by the receipt of a fourth tranche of emergency Covid-19 grant funding announced by the Government. The latest position for quarter 3 includes further net budget pressures due to the continued Covid-19 related restrictions of £142,400. However, this has been contained within savings identified across portfolios.

General Fund Revenue Budget 2020/21 – Change Analysis

	£
Net Council Budget for 2020-21 approved by Council on 5 March 2020 and Cabinet's Maximum Budget is:	11,602,700
Up to the end of December 2020 expenditure less income totalled	6,746,856
In the remaining 3 months of year we expect net expenditure to be	4,855,844
Total net revenue spend for the year is expected to be	11,602,700
Total Projected Revenue (Under) / Overspend 2020/21	0

Appendix 1 outlines how the General Fund Revenue budget is divided between the Portfolios of the Council and includes a detailed variance analysis

identifying the current proposed changes for quarter one against the approved budget for each Portfolio area. Cabinet is recommended to approve these changes.

The major variances detailed in Appendix 1 include:

Expenditure Variances:

- Additional Covid-19 related pressures of £14,500 as set out in paragraph 2.2;
- Deferrals of the 2020/21 efficiency programme of £44,600 not related to the Covid-19 pandemic, as listed in the efficiency table in section 2.3;
- Vacancy savings of (£63,000) across Environment and Resources and Reputation.

Income Variances:

- Net income reduction across portfolios of £561,900 due to the further Covid-19 related restrictions as set out in paragraph 2.2, partly offset by additional Income Compensation Scheme grant income of (£200,000), primarily related to the closure of leisure centres;
- Additional Government Job Retention Scheme Grant (Furlough) income (£234,000), primarily related to the closure of leisure centres;
- Additional lease income at Richard Herrod Leisure Centre for use as a national vaccination centre for Covid-19 of (£84,400);
- Rent Allowance - reduced overpayment recoveries partly due to suspension of activity due to Covid £134,000.

Details of the budget virements authorising the usage of Earmarked Reserves and Revenue Budget Funds as approved by the Chief Financial Officer and relevant Corporate Director in accordance with Financial Regulations are set out in Appendix 2. Virements approved by Portfolio Holders for amounts of £50,000 or less during quarter three are also set out in Appendix 2.

2.2 Budget Implications arising from the Covid-19 Pandemic

- 2.2.1 The financial impact of the Covid-19 pandemic is significant, as highlighted in the report to Cabinet on 18 June detailing the Council's response work and the subsequent on-going impacts of two further lockdowns.

In addition to the amounts reported to Cabinet in the Quarter 2 Budget Monitoring Report, estimated additional expenditure pressures of £14,500 are expected bringing the total estimated Covid-19 related additional expenditure to £541,600 for the full financial year.

Quarter 2 reported estimated income losses for the full year of £2,750,400. The table below shows a further reduction in income from that previously reported totalling (£561,900) mainly relating to Leisure Centres, Waste Services and Planning resulting in a total expected income reduction for 2020/21 of £3,312,300.

The total estimated budget impact for 2020/21 is £3,853,900. These pressures are presented net of any related savings.

Covid-19 related expenditure at Quarter 3	
	£
Covid-19 related expenditure reported at Quarter 2	527,100
Quarter 3 Expenditure	
Street Care - Additional Staff	3,000
Parks - Additional Staff toilet cleaning	17,000
Increased External Audit Fees for additional COVID19 requirements	4,500
Savings on Postage costs due to less reminders and demand notices	(10,000)
Additional Expenditure at Quarter 3	14,500
Total Additional Covid-19 Related Expenditure	541,600

Note: Key budget pressures included in quarter 1 and 2: agency staffing and IT costs to maintain service delivery; protective equipment; homeless accommodation; deferred efficiencies.

Covid-19 related Income losses at Quarter 3	
	£
Covid-19 Related Income Losses reported at Quarter 3	2,750,400
Quarter 3 Position	
Additional Net Income Reductions:	
Leisure Centre Closures	474,400
Community Centres Closures	20,400
Car Park permits and pay and display	35,000
Land Charges	21,500
Taxi Driver Training	5,000
Civic Centre room hire	3,600
Arnold Market Stalls (income recovered)	(8,000)
Income losses on Deferred Efficiencies	
Details set out in efficiency table	10,000
Quarter 3 Covid-19 impact on Income	561,900
Total Covid-19 Impact on Income for 2020/21	3,312,300

2.2.2 Central Government Funding Covid Related Pressures

During the course of the pandemic, the Government has announced various sources of grant funding to support local authorities in responding to the pandemic and cover the Council's expenditure pressures, income shortfalls and employee expenses relating to enforced closures. The table below sets out these funding streams:

	£
Emergency Funding (4 Tranches)	1,570,000
Income Compensation Scheme	1,600,000
Job Retention (Furlough) Scheme	268,000
Total Estimated Grant Funding 2020/21	3,438,000

The income compensation scheme, recognises the impact the pandemic has had on income from sales, fees and charges. This scheme provides compensation for unforeseen losses that are irrecoverable during 2020/21, and is to be extended to include the first three months of 2021/22. The scheme operates on a principles-based approach and includes a 5% deductible rate based on the 2020/21 approved budget, with the government providing compensation for 75p in every pound of relevant loss of eligible income thereafter. The scheme is restricted to compensating irrecoverable net losses, specifically from those customer and client receipts, which are charged in return for a service, where demand has been reduced due to Covid, but excludes commercial revenues, including property rents.

The grant is accessed by completing three financial returns each covering a four-month period. Two claims have been submitted covering income lost from April through to November totalling £1,200k. The Government have paid £683,000 to date, from the first claim for the period of April – July. Whilst we have not yet had confirmation of the amount of grant that will be paid for the period August – November it is anticipated that for the full year we should receive c**£1,600k** (which has been adjusted to include the impact of the latest lockdown).

The MCHLG have confirmed that any grant awards from the income compensation scheme will be in addition to the **£1,570k** emergency grant detailed in the table above, for which there is no scope for clawback in the grant conditions, and so can be used for all other pressures.

The Council have also made a claim for funding under the Government's Job Retention Scheme (Furlough), to cover for the cost of furloughing casual staff at the Leisure Centres and Community Centres, currently estimated at **£268k** for the year.

2.2.3 The current estimate of the total net budget impact of the Covid-19 pandemic compared to that previously reported at quarter 3 is:

Budget Implications Covid-19	Quarter 2 £	Quarter 3 £	Movement £
Expenditure Pressures 2020/21	527,100	541,600	14,500
Income Losses 2020/21	2,750,400	3,312,300	561,900
Total Budget Pressure 2020/21	3,277,500	3,853,900	342,400
Total Grant Funding 2020/21	(3,004,000)	(3,438,000)	(434,000)
Net Total 2020/21 Budget Impact	273,500	415,900	142,400
<i>Note For Information: see note below Collection Fund</i>			
<i>2020/21 Collection Fund Losses with budget impact in 2021/22</i>	<i>280,000</i>	<i>230,000</i>	<i>(50,000)</i>
<i>Local Tax Income Guarantee Grant (75%) receivable 2021/22</i>	<i>0</i>	<i>(172,500)</i>	<i>(172,500)</i>
Estimated Net Collection Fund Losses	280,000	57,500	(222,500)
Total Covid-19 2020/21 Related Net Budget Impact	553,500	473,400	(80,100)

In summary, the 2020/21 net budget impact of Covid-19 now reported at quarter 3 is £415,900, an increase in net costs of £142,400 compared to that previously reported due to the impact of further restrictions and now included in Appendix 1. (Note: This does not include expenditure incurred during 2019/20 of £34,500 funded by the Council).

In addition to the above Covid-19 related budget pressures the Council has also received further grant funding during 2020/21 to recognise the additional workload being faced by the Council. This includes: Business Grants, Business Rates and Council Tax Relief Administration, and Test & Trace Support Administration Grant totalling £238,000; Compliance and Enforcement Grant £48,500; Contain/Outbreak Management Grant of £248,800; and Winter Assistance Grant of £40,800; which are all currently expected to be fully offset by expenditure.

Note: Estimated 2020/21 Collection Fund Losses

In addition to the 2020/21 immediate income losses, an increased deficit on the Council's Collection Fund is expected due to irrecoverable council tax and business rates. Gedling's share of the increased deficits is currently forecast at £230,000 but due to the technical accounting treatment of the Collection Fund deficit, this does not need to be funded until next year, 2021/22. The government announced that it will extend the period over which these 2020/21 shortfalls in local taxation are accounted for, from 1 to 3 years and regulations came into force on 1 December 2020 to enable this. This is intended to ease immediate pressures when budget setting for 2021/22. The actual deficit amounts will not be fully understood until the Collection Fund outturn position and likely bad debts have been assessed.

In December 2020, the Government announced a Local Government Covid Support Package for 2021/22 to complement the Provisional Local Government Finance Settlement. The package is currently subject to consultation and the full details will be reported to Cabinet in February as part of the General Fund 2021/22 Budget report. A Local Tax Income Guarantee was included as part of the Covid Support Package which intends to compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21. An indicative estimate of the grant amount is included in the table above but this is subject to confirmation of the final methodology for the scheme.

2.2.4 There remains a significant amount of uncertainty around the full impact of the Covid-19 pandemic in 2020/21 with key risks including:

- the resurgence of the virus requiring further response activity. A second national lockdown commenced on 5 November, and a third lockdown announced for 5 January 2020/21 requiring service closures, with expenditure/income impacts and funding not yet fully clear;
- uncertainties surrounding the capacity of, and the future demand for, our chargeable services. The key risk issue is leisure centre income.
- the continuing impact of the economic downturn on the tax collection and demand for our services for those most directly affected e.g. by predicted job losses.

2.3 **Efficiency programme – Progress Update**

Since 2014/15 the Council has approved four separate budget reduction programmes totalling £6.5m net of risk provision. Previous progress has been positive and budget reductions achieved have been in line with the profiled estimate. Of the total programme, £1.705m net of risk provision remains to be delivered over the period 2020/21 to 2022/23.

In terms of 2020/21, the net programme due for delivery was £808,000. Quarterly monitoring indicates the following:

Movements on Efficiencies 2020/21	
	£
Approved Efficiency Programme 2020/21	(808,000)
Quarter 1 Deferrals	256,500
Quarter 2 Deferrals	88,800
Application of Risk Provision	(100,000)
Revised programme for 2020/21	(562,700)
Removal of Efficiencies at Qtr. 3	
Digital efficiency unallocated	20,000
Customer Services staffing delivered in 19/20	13,900
Deferred Efficiencies to 2021/22 at Qtr. 3	
Econ Dev - staffing (part delivery in year)	10,700
Total	44,600
Deferred efficiencies due to Covid-19	
Land Charges income	10,000
Total	10,000
Quarter 3 Deferrals	54,600

Revised 2020/21 Efficiency Programme	(508,100)
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The £54,600 quarter 3 budget impact of these projects is included in Appendix 1. £10,000 of this due to Covid-19 and has been included in the Covid impact table above for completeness. The budget impact is only accounted for once in Appendix 1.

The cumulative deferred and removed projects at quarter 3 are £399,900 which have been partially offset by the use of the Budget Reduction Risk Provision for 2020/21 of £100,000 in quarter 1.

Delivery of the 2020/21 programme will continue to be monitored and updated. The whole programme is being reviewed as part of budget process for 2021/22 to identify any risk issues and ensure new efficiency proposals are developed to replace any projects that are considered high risk of non-delivery e.g. commercial property income is proposed for deletion after the results of the PWLB consultation imposing restrictions on project requiring debt for yield (see paragraph 2.7).

2.4 Capital Programme

Appendix 3 details the current projected position on the Capital Programme and its financing for 2020/21, analysed by Portfolio, and this is summarised in the table below. Cabinet is recommended to approve these changes.

Quarter 3 amendments to the current Capital programme of (£6,286,700) are presented in the table below.

Capital Budget 2020/21 - Change Analysis	
	£
Original 2020/21 budget approved by Council on 5 March 2020	11,225,600
Approved Carry Forwards from 2019/20	1,507,100
Amendments Approved in Quarter 1	(86,000)
Amendments Approved in Quarter 2	(2,523,300)
Approved budget for 2020/21 at Quarter 2	10,123,400
Schemes Approved in Quarter 3 by Report to the Leader	134,200
Current Approved budget for 2020/21	10,257,600
Proposed Amendments to the Programme at Quarter 3	
Additions to existing schemes:	
Disabled Facilities Funded by Additional Grants	194,000
Removals from the Programme	
Commercial Investment Programme	(5,000,000)
Savings on Existing Schemes:	
Play Area Development - Onchan Park	(25,000)
Civic Centre Toilets	(8,000)
Schemes proposed for Deferral:	
Arnold Leisure Centre - Replacement Theatre System	(35,000)
Vehicle Replacement Programme	(98,000)
Gedling Country Park	(16,600)
Provision of Public Toilets	(90,000)
Play Area Development – Onchan Park	(74,500)
Arnold Market Development	(783,600)
Lambley Lane Pitch & Changing Rooms	(160,000)
Carlton Square Development	(125,000)
Hazleford Way Drainage	(65,000)
Total Proposed Amendments	(6,286,700)
Proposed Revised Capital Programme 2020/21	3,970,900
Actual Expenditure to Quarter 3 2020/21	1,676,495
Estimated Expenditure Quarter 4 2020/21	2,254,605
Projected Outturn	3,970,900

Total schemes proposed for deferral are (£1,480,700), and (£5,000,000) for removal, details of major schemes are as follows:

- Commercial Property Investment remove (£5,000,000) – see paragraph 2.7 below;
- Arnold Market Development (£784,600) – the scheme is to commence in January 2021 with spend during 2020/21 of £200,000 expected. The remainder of the budget is proposed for deferral into 2021/22.
- Lambley Lane Pitch and Changing Room development (£160,000) – the expected start date of the pitch renovations is Feb 2021 to be completed

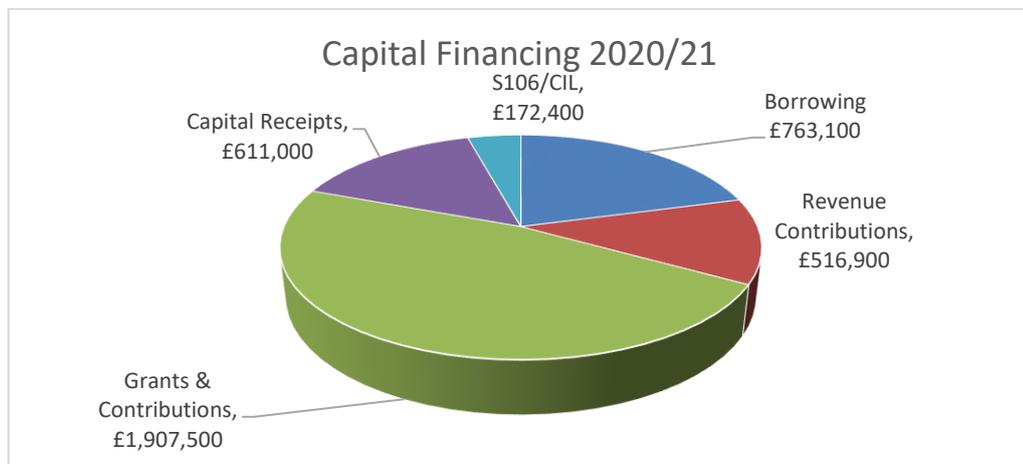
by early spring. The changing room renovation is currently being tendered with the project expecting to commence in the spring of 2021;

- Provision of Public Toilets (£90,000) – option appraisal underway. The scheme is expected to commence early in the 2021/22.
- Carlton Square Development (£100,000) – the project will commence early in 2021 with completion expected in 2021/22;
- Carlton Square Service Yard (£25,000) – scheme will commence early in the 2021/22;
- Vehicle Replacement Programme (£98,000) – due to COVID19 there are significant delays in the supply chain for new vehicles resulting in a number of replacements being deferred until 2021/22. The maintenance cost associated with the retained vehicles will be accommodated in current budgets;
- Play Area Development (£74,500) – construction for Onchan Park will commence in March 2021 and will be completed in May 2021;
- Hazleford Way Drainage (£65,000) – project design solution being finalised;
- Arnold Centre Leisure Centre Replacement Theatre System (£35,000) – a number of different options are being considered for a replacement system, which can be specifically tailored to the Theatre. The project is now expected to commence in 2021/22.
- Gedling Country Park (£16,600) – proposed for allocation to Sand martin Bank project in 2021/22

Capital schemes are monitored on a quarterly basis, meetings are currently held between finance officers and service/project officers.

2.5 Capital Programme Financing

The projected method of financing the current capital programme requirement of £3,970,900 is detailed in Appendix 3 and summarised in the chart below.



2.6 **Capital Receipts Monitoring**

When the Council sells General Fund assets it is permitted to use this income to fund capital expenditure. The initial capital receipts estimate for 2020/21 projects that £611,000 will be generated and used to finance the capital programme in 2020/21. There is no change to the capital receipts estimate projected at quarter 3 monitoring.

2.7 **Commercial Property Investment Strategy**

As detailed in paragraph 2.4 it is proposed that the Commercial Property Investment Scheme of £5,000,000 be removed from the capital programme.

The scheme was approved under the scope of the Commercial Property Investment Strategy (CPIS) which was approved by Council on 24 April 2019, of which key objectives included:

- Acquire properties that provide a net income return to GBC;
- Maximise returns whilst minimising risk;
- Prioritise properties that yield optimal net income and long-term capital growth.

The £5,000,000 investment was introduced as part of the Council's efficiency programme which as intended to generate a net return of £100,000 of revenue income per annum which will not now be achievable.

The capital financing of the scheme was planned through borrowing from the Public Works Loan Board (PWLB).

The Government offers low-cost loans through PWLB to support Local Authorities to enable capital investment in their communities. Over recent years there has been a significant rise in commercial property investment by local authorities, generally financed by huge amounts of PWLB borrowing. The level of this indebtedness for commercial reasons had become a major concern for HMT and accordingly it undertook a consultation with local authorities with a view to tightening the rules. The outcome of this consultation was published in November 2020.

Put simply, HMT will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is primarily to generate an income stream (i.e. debt for yield).

- To access PWLB funds the Council must provide a high level description of its capital spending plans for the next 3 years including expected use of PWLB;
- As part of this the CFO must confirm there is no intention to buy investments assets primarily for yield at any point in the next 3 years;

- This restriction is on a whole plan basis – ie even if the Council intends to buy investments assets primarily for yield at any point in the plan and to finance them other than by borrowing or alternative funding sources, the PWLB will not lend to it;
- When applying for a new loan the Council will have to confirm that the plans they have submitted remain current and that the assurance on investments assets primarily for yield remains valid;
- HMT do not intend to routinely review individual loans but if it has concerns it may contact the Council to gain a fuller understanding. Access to PWLB could be suspended if deliberate misuse is found. In extreme cases full repayment of loans made may be imposed, although this is thought unlikely.

The Council's current Commercial Property Investment Strategy (CPIS) makes clear that its key objectives are to acquire property that provides a "net income return", to "maximise returns whilst minimising risk" and to "prioritise properties that yield optimal net income return". It is also clear that the Council could only undertake commercial property investment if PWLB (or other) borrowing was used. It is therefore impossible to conclude that anything other than "debt for yield" would be undertaken, and that in the light of the HMT review this would preclude the Council from accessing any PWLB borrowing.

In addition to the above issues, the Covid-19 pandemic has emphasised the risks of property investment, and the ease with which Councils can expose themselves to unacceptable levels of risk. The current economic conditions simply do not make commercial property investment a prudent option.

Accordingly, it is proposed that Cabinet recommend to Council that the Commercial Property Investment Strategy (CPIS) be withdrawn.

On a more positive note, PWLB interest rates are linked to gilt yields, and on 9 October 2019, HM Treasury (HMT) imposed an additional margin of 1% over gilts to all PWLB rates across the board with no prior warning. Following the HMT consultation with local authorities and the imposition of a curb on lending for commercial debt-for yield projects, this increase was reversed, and the certainty rate for which the Council qualifies, fell by 1% from 9am on 26 November 2020. This should allow access to cheaper borrowing for service investment where necessary.

4. **Alternative Options**

Option – Not to amend the original Council approved budgets during the year to reflect the latest projected outturn position.

Advantages:

- The final outturn position of the Council can be easily compared to its

original intentions when the budget was set and areas of budget risk identified.

Disadvantages:

- Budgets not aligned to current budget pressures resulting in increased likelihood of budget overspend and emerging Council priorities not being addressed;
- Restrict the effectiveness of medium term planning process and preparation of the forward budget if pressures and areas of efficiency are not readily identifiable during budget preparation;
- Budget not reflective of latest performance information.

Reason for rejection – the option is not likely to result in the best outcomes in financial management or support delivery of priorities.

5 Financial Implications

- 5.1 The nature of the report is such that it has significant resource implications across the Council. The report itself demonstrates how resources are being managed.

6 Legal Implications

- 6.1 None arising directly from this report.

7 Equalities Implications

- 7.1 None arising directly from this report.

8 Carbon Reduction/Environmental Sustainability Implications

- 8.1 None arising directly from this report.

9 Appendices

Appendix 1 - General Fund Revenue Budget 2020/21 – Budgetary Control Report

Appendix 2 - Use of Reserves and Revenue Fund Budgets and Portfolio Holder Virements Approved During Quarter 3

Appendix 3 - Capital Programme 2020/21 – Budgetary Control Report

10 Background Papers

- 10.1 Detailed Quarterly Budgetary Control Exception Reports
- 10.2 The Commercial Property Investment Strategy

10.3 Public Works Loan Board: future lending terms – Response to the consultation

11 Reasons for Recommendations

11.1 To align the budgets to the current pressures and priorities and ensure the delivery of Council objectives is supported.

Statutory Officer Approval

Approved by: Chief Financial Officer

Date: 20 January 2021

Approved by: Monitoring Officer

Date: 20 January 2021