For publication

Quarter 2 Budget Monitoring 2020/21 & Updated Medium Term Financial Forecast

Meeting:	Council
Date:	16th December 2020
Cabinet portfolio:	Deputy Leader
Directorate:	Acting Chief Finance Officer

1.0 **Purpose of report**

1.1 To provide Council with an update on the budget position at the end of the second quarter, covering:

- General Fund Revenue Account
- General Fund Capital Programme
- Housing Revenue Account

1.2 To meet the requirement in the Financial Procedure Rules to provide Council with regular updates on the Council's financial position.

2.0 Recommendations

2.1 That the financial performance of the General Fund Revenue Account for the first half of the financial year and the updated Medium-Term financial forecast as set out in Sections 5 and 7 of the report be noted.

2.2 That the General Fund reserves position as set out in Section 6 of the report be noted.

2.3 That the updated General Fund capital programme as outlined in Section 8 of the report be noted.

2.4 That the additions to the General Fund capital programme as set out in paragraph 8.3 of the report be approved.

2.5 That the financial performance of the Housing Revenue Account for the first half of the financial year as outlined in Section 9 of the report be noted.

2.6 That the proposed compensation mechanism and cost recovery model to address the income shortfall to the Operational Services Division (OSD) trading account as set out in Sections 5.3 and 9.1 of the report be approved.

2.7 That the budget preparation guidelines as set out in paragraph 10.1 of the report be approved.

3.0 Reasons for recommendations

3.1 To actively manage the Council's finances in the current financial year and forecast forward the emerging budget position to future financial years.

4.0 Background

4.1 The Council approved the original General Fund budget for 2020/21 on 26th February 2020. The Band 'D' Council Tax was set at £169.89. The original budget for 2020/21 was established forecasting a surplus of £16k.

4.2 All of the indications were that the medium-term outlook would continue to be challenging. The Medium-Term financial forecast approved by full Council on 26th February 2020 showed increasing deficits of £723k in 2021/22 rising to £827k by 2023/24.

4.3 The impact of the coronavirus pandemic and the council's response to it in the first quarter of this financial year led to a revised deficit forecast of £3.246m being reported to members as part of the 'Month 2 Budget Monitoring 2020/21 & Updated Medium Term Financial Forecast' report in July.

4.4 This report was considered at the Cabinet meeting on 10 November, 2020, where it was resolved that the recommendations at paragraphs 2.1 – 2.7 be approved by full Council.

5.0 Current Year's Budget

5.1 The Council started quarter 2 with a forecast deficit of £3.246m for the financial year 2020/21. At the end of the second quarter this position

has improved to an anticipated deficit of £192k at year end. A summary of the key variances is provided in the table below:

2020/21 UPDATED BUDGET FORECAST – TO END OF QUARTER 2		
	£000	Total £000
Surplus at the start of the year		16
Changes reported at month 2		(3,262)
Deficit forecast at the start of quarter 2		**(3,246)**
<u>Grants and Additional Income:</u>		
MHCLG Covid19 Grant (Tranche 3)	205	
MHCLG Covid19 Grant (Tranche 4)	587	
Coronavirus Job Retention Scheme Grant	197	
Coronavirus Job Retention Scheme Bonus	147	
New Burdens Grant – Business Rates & Discretionary Grants	160	
Derbyshire Business Rates Pool 2019/20	250	
Cultural Recovery Grants (Venues & Museum)	414	
MHCLG Sales, Fees & Charges Compensation	2,000	3,960
<u>Cost Pressures Identified:</u>		
Coronavirus Job Retention Scheme Grant – Contribution to HRA	(319)	
Venues	(151)	
Car Parking	(156)	
Markets & Market Hall	(89)	
Pavements Shopping Centre	(52)	
Business Rates Liability – Vacant Units	(68)	
Commercial Catering	(36)	
Golf Course	(67)	(938)
Other Movements		32
Updated Deficit Forecast		**(192)**

5.2 Quarter 2 Movements

5.2.1 During quarter 2, a third tranche of Covid19 grant was received from the Ministry for Housing, Communities and Local Government (MHCLG) in the sum of £205k (Tranche 3). On the 21st October a further allocation of £587k (Tranche 4) was announced which gives a total to date across all four tranches of funding of £1,889k.

5.2.2 The council has continued to submit Coronavirus Job Retention Scheme grant claims to HMRC. The estimate at month 2 was that the council might receive £500k in grant funding through the scheme. It is now anticipated that the council will receive£697k, an increase of £197k. In addition, the council will also be eligible for Job Retention Scheme Bonus payments of £147k on the basis that no furloughed staff have been made redundant. As a proportion of the amount claimed relates to OSD employees, £319k has been transferred to the OSD trading account to offset operational costs.

5.2.3 Government has also provided new burdens grant funding of £160k for administering business rates reliefs, and payment of Small Business Grants and Discretionary Grants to local businesses.

5.2.4 The council is also set to benefit from an additional windfall payment of £250k from the Derbyshire Business Rates Pool for 2019/20. This will be finalised and paid over once all councils included in the pool have submitted their audited figures. The deadline for this is 30th November 2020.

5.2.5 During quarter 2, MHCLG launched an income compensation scheme which partially reimburses local authorities for lost income from sales, fees and charges in 2020/21as a result of the pandemic. We have recently submitted the first claim to MHCLG for the period April to July for £998k. We estimate that this will provide around £2m of income to the council by year end. MHCLG have indicated that claims will be subject to assurance testing before payment is made. A breakdown of the £998k claimed to date by service area is detailed below: -

Service Area	**Net Claim (April to July) £000's**
Car Parking	383
Sport Facilities	486
Cultural Venues	101
Commercial Catering	28
Total	**998**

5.2.6 Estimates of the initial impact of Covid19 on income generation were reflected in the month 2 budget monitoring report to members. These have been revised based on the latest position and assumptions at quarter 2. This has resulted in further reductions in income at Venues (£151k), Car Parking (£156k), Markets and Market Hall (£89k), Pavements Shopping Centre (£52k) and Commercial Catering (£36k). Some of these income losses are partially offset by MHCLG's income compensation scheme. However, the income compensation scheme excludes reimbursement for lost rental income.

5.2.7 Demand for industrial/commercial and retail units has fallen due to the Covid19 pandemic. This has resulted in an additional cost pressures of £68k as the council is liable to pay business rates on void units.

5.2.8 Sheffield International Venues have recently advised the council that the current lease arrangements for Tapton Park golf course are no longer viable and have requested financial assistance to allow them to continue to operate the facility. The impact of agreeing a rent holiday for 2020/21 has been included in the quarter 2 financial position.

5.3 <u>OSD Trading Position</u>

5.3.1 In the first three months of the financial year 2020/21, with the exception of emergency work and work on void properties, OSD staff were unable to carry out any non-emergency responsive repairs, planned maintenance or capital works. It is also the case that post the lifting of lockdown restrictions new safe working practices have had to be introduced, which have increased the time taken by OSD operatives to carry out particular work activities. As a result, OSD reported a trading deficit at the end of August of £2.6m.

5.3.2 A high proportion of OSD's work is HRA funded. If the contract for this work had been awarded to a third-party contractor, the council would have received a request for additional payments to mitigate the extra costs as a result of the impact of Covid19. This is acceptable practice in the private sector. It is therefore proposed that the council make a compensation payment from the HRA to OSD to meet the additional costs incurred during the lockdown and now being incurred post the lockdown.

5.3.3 Going forward, it is also proposed that from 1st September, OSD move to a cost recovery model where the HRA meets in full the costs of providing the service rather than payments being made in accordance with the current schedule of rates. The service is running as close to normal as

possible but there are additional costs being incurred in working in a Covid19 secure way and the current second wave is bound to bring further challenges. A cost recovery mechanism would allow OSD to focus on delivering high levels of customer service for the council's tenants whilst not having to concern itself about achieving a balanced trading position at year end.

5.4 Balancing the 2020/21 General Fund Revenue Account

5.4.1 All of the council's budget holders have been tasked with carrying out fundamental reviews of the cost centres for which they are responsible in order to identify and agree further savings as part of the in-year annual budget review and resetting process. This will be followed by a 'check and challenge' process involving Assistant Directors and the accountancy team with a curb on all non-essential spend. It is hoped that these activities will bring the General Fund Revenue Account for 2020/21 back into balance.

5.4.2 A review of current reserves and provisions is also underway to identify any earmarked monies that could be repurposed to finance any shortfall that the afore mentioned activities fail to address.

5.4.3 The outcome will be reported to Cabinet with the first draft of the 2021/22 budget in December.

6.0 Reserves

6.1 In addition to the General Working Balance, which is maintained at £1.5m, the Council operates a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements.

6.2 As is referenced at paragraph 5.4.2, a review of planned commitments against these finite financial resources is currently underway to ensure that they are used in the most effective way and to identify any capacity for reassignment if needed.

6.3 There are two major reserves where the Council has wider discretion on how they are used. These are the Budget Risk Reserve and the Service Improvement Reserve. The uncommitted balances in these two reserves currently stand at £1.116m.

7.0 Medium Term Outlook

7.1 The medium-term financial plan approved at Council on 26th February 2020 evidenced a more challenging outlook from 2021/22 onwards with annual forecast deficits of at least £700k.

7.2 In response to this position, Council approved an action plan to eliminate the forecast deficits over the life of the medium-term financial plan. These were to be developed by officers and approved by members during 2020/21 so that savings could be realised for the start of 2021/22, placing the medium-term financial plan on a path to a balanced position through 2024/25.

7.3 However, the impact of Covid19 has meant that in the first six months of the financial year, officer time has understandably been diverted to managing the council's response to the pandemic and to supporting our residents, businesses and communities through the response and recovery stages.

7.4 Immediate steps are now being taken to determine how much of the action plan can be delivered between now and the end of the financial year to avoid the need for more difficult decisions to be made as part of the 2021/22 budget setting process.

7.5 The table below compares the latest medium-term financial plan with that approved on 26th February 2020:

	Budget Forecasts				
	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
February 2020 budget Deficit / (Surplus)	**(16)**	**723**	**767**	**827**	**742**
Increase / (Decrease) Month 2	3,262	349	242	288	141
Increase / (Decrease) Quarter 2	(3,054)	272	95	99	104
Latest Forecasted Deficit / (Surplus) Quarter 2	**192**	**1,344**	**1,104**	**1,214**	**987**

7.6 Due to the accounting arrangements for council tax and business rates income, the consequences of any reduction in collection rates in the current financial year will not be felt until the following financial year. The current forecasts in the table above do not include any provision for this.

7.7 For council tax, the collection rate at the end of September was 56.7% compared to 57.6% at the same time last year. For business rates, the collection rate was 58.0% compared to 58.4% at the same time last year.

7.8 The Government has indicated that any deficits on the collection fund can be spread over 3 financial years rather than the normal one-year period. An analysis of the impact of this on future years' budgets will be included in the final budget reports to Cabinet and Council in February 2021.

7.9 The Medium-Term financial forecast is based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and pressures are outlined below:

- **Delivering budget savings** at the required level and at the right time continues to be a challenge. The Council has a good track record of tackling budget deficits and delivering savings although it has become more difficult to achieve as easier options are exhausted. Future budget savings proposals are now focused on several larger savings programmes rather than those delivering smaller savings. Significant savings from the ICT Improvement Programme have been included within the Medium-Term financial forecast and timely delivery of this element of the savings plan is fundamental to achieving a balanced budget in future years.

- **Fees and charges** income may be affected by further closures imposed by local lockdowns in response to Covid-19 and the state of the economy due to continuing uncertainty around Covid-19/Brexit. This may have a significant impact on the substantial annual income that the council generates from car parks, leisure, cultural events and planning fees.

- **Property rents** from our industrial, commercial and retail units are also affected by the state of the economy. Current occupancy levels remain high and the Council continues to invest in its rental properties. However, income from the council's interests in the Pavements and Vicar Lane Shopping Centres continues to decline, placing an additional adverse pressure on the Medium-Term financial forecast.

- **Pay award** uplifts of 2.5% for 2021/22 and future financial years are included in the Medium-Term financial forecast. The pay

award for 2021/22 has not yet been agreed. Each 1% increases the costs to the General Fund by £204k per annum.

- **A programme of capital receipts** from the sale of surplus assets has been a significant source of funding for the capital programme. The pipeline of assets sales is reducing which will mean that future capital projects will have to be funded from borrowing. The costs of servicing this borrowing will create further pressure on the Medium-Term financial forecast; though the council will always look to mitigate this through investing in income-generating assets and schemes.

- **The Council tax referendum limit** for 2021/22 may be capped at 1.99%. This contrasts with the position in 2020/21 where district councils were able to increase council tax by up to 2% or £5. A 1% reduction in council tax equates to £50k per annum.

8.0 General Fund Capital Programme

8.1 **Capital Receipts** - To date, £1.1m of capital receipts have been generated during 2020/21. The original forecast for the year was £2.3m and included the first tranche of capital receipts from disposal of the council's interest in land at Linacre. The current forecast of capital receipts for the year is £1.2m due to rephasing of the Linacre receipt. If further large capital receipts cannot be identified by the Council beyond 2021/22 when the 'pipeline' declines, then the capital programme will have to be financed by borrowing. As referenced above, this will place more pressure on the General Fund revenue budget.

8.2 A review of under-performing assets is therefore underway to identify any further opportunities for generation of capital receipts.

8.3 **General Fund Capital Spend** – the council's original capital programme for 2020/21 was projected to be £20m. The revised position now stands at £16.5m (see appendix A for details). Recent adjustments to the capital programme include:

- Changes to the timing of delivery of the Waterside Basin Square development, Revitalising the Heart of Chesterfield project and Calow Lane Industrial Units scheme;
- Addition of a new Green Homes Grants programme (£500k), to be fully funded from government grant.
- Addition of works to Princess Street Play Area (£50k), to be fully funded from external grants;
- Reprofiling of spend on Disabled Facilities Grants.

8.4 **Net Capital Financing** – The 2020/21 month 2 revised capital programme assumed a break even position. The latest review shows borrowing of £10.9m is required in 2020/21 and £4.2m in 2021/22 to fund the capital programme. Repayment of prudential borrowing in respect of the Town Hall Restack has been deferred in order to utilise the Government's capital receipts flexibility scheme to support delivery of the Council's ICT Improvement Programme to fund the increased capital programme. An updated capital programme will be reported to members at full Council in February 2021.

9.0 Housing Revenue Account (HRA)

9.1 **Housing Revenue -** Rent arrears have increased in the first five months of the financial year due to the impact of Covid-19. By the year-end it is forecast that rent arrears could be as high as £4.6m, compared with £1.8m at the end of 2019/20. As a result, the bad debts provision has been increased by £605k in the revised budget for 2020/21, to give a total bad debts provision of just under £2.2m (48% of the estimated arrears).

The main areas of spend such as employees, premises and supplies and services are on target, but not expenditure on Housing Repairs, where the impact of Covid-19 resulted in repair work being reduced to just jobs of an urgent nature for the first three months of the financial year. With the introduction of safe methods of working post the lockdown and the consequential impact on the time taken to carry out repairs, housing repair work is still only around 90% of normal activity levels. This had led to a significant underspend in the housing repairs budget.

The additional amount payable to OSD as a contractor's Covid19 compensation payment, as referred to in paragraph 5.3.2 above, will be met from this underspend.

9.2 **Housing Capital Programme –** At the end of month five there was an underspend of £2.6m on the HRA Capital Programme. It is, however, currently forecast that most of the £30.2m capital budget will be spent by year end, as work on the major schemes has now recommenced.

9.3 **HRA Business Plan** - The 30 Year HRA Business Plan is currently being reviewed to take account of capital underspends in previous financial years, approved revenue carry forward requests, level of right to buy sales, updates to the capital programme and assumptions made in

respect of bad debts, voids, inflation rates etc. The revised Business Plan will be presented to Cabinet at a future date.

10.0 2021/22 Budget Preparation Process

10.1 The budget preparation process started in September when budget working papers and guidelines were issued to budget holders. The budgets are prepared on an 'incremental' basis i.e. taking last year's budget as the base and making adjustments for the following:

- Variances that have been reported to and approved by Cabinet.
- Pay inflation – an allowance of 2.5% per annum each year.
- Energy and property maintenance inflation based on estimates prepared by the Facilities Maintenance Manager.
- Contract inflation as specified within contracts – assuming
  - RPI of 1.0% in 2021/22 and 2.5% in future years; and
  - CPI of 0.6% in 2021/22 and 2% in future years.
- Business rates inflation based on the CPI in the previous September – a rate of 0.6% (tbc) for 2021/22 and 2% in subsequent years is assumed.
- No inflation on other general items of expenditure including grants to voluntary organisations.
- Fees and charges increases – to be considered on an individual basis taking account of what the market will bear for each activity but with the objective of achieving the total level of income included in the MTFP.

These budget assumptions will be revised on a continual basis as the Council moves through the budget setting process and as more up-to-date information becomes available. Cabinet is asked to approve the budget setting guidelines.

10.2 In terms of future Member reporting processes, the following stages are proposed:

a) Quarter 2 budget monitoring and updated Medium Term financial forecast report for Cabinet (October) and full Council (December) [this report].

b) Approval of the Localised Council Tax Support Scheme for 2021/22 at full Council in December.

c) Cabinet to consider the first draft of the General Fund budget for 2021/22 in mid-December and the final budget report in February 2021.

d) Full Council to approve the final budget and council tax for 2021/22 at the end of February 2021.

Updates will also be provided to the Overview and Performance Scrutiny Forum to coincide with the above stages.

10.3 Consultation with the public is usually done by holding a one-off community assembly in January. However, this may not be possible due to ongoing restrictions around public gatherings.

11.0 Conclusions

11.1 The Covid19 pandemic has had a seriously detrimental effect on the budget position for 2020/21 and future financial years. The current forecast deficit for the year is £192k. Councils have a legal duty to balance their budgets and we must therefore identify appropriate courses of action to eliminate the current deficit.

11.2 Officers are continuing to review their respective budgets in light of the post-lockdown restoration of council facilities and services, and work will continue to identify and agree further savings in 2020/21as part of the budget setting process to reduce the in-year deficit to a position which will require no or only minimal recourse to the use of reserves.

11.3 The one-off use of reserves to cover any residual deficit forecasts will have an adverse impact on our financial standing going forward and our ability to fund service developments in future years; and is therefore an option of last resort.

11.4 The outlook for future years is also impacted. The ability to deliver the agreed in-year action plan to achieve savings to address predicted deficit forecasts in future financial years is at risk as officers prioritise the council's continuing response to the pandemic. Further revenue pressures are also expected as a result of the pandemic undermining the council's ability to deliver a balanced medium-term financial plan. Work is ongoing to identify those elements of the in-year action plan that are deliverable between now and the end of the financial year.

11.5 At the same time there are several risks that could add further pressure to the forecast deficits in future years e.g. Business Rates income, Universal

Credit, the long-awaited Fair Funding review, retail rents, inflation and the state of the economy (post Covid-19 and Brexit).

12.0 Implications for consideration – Council Plan

12.1 The first value for money milestone in the Council Plan is to deliver the councils medium term financial plan and actions for 2020/21. This report monitors progress against that milestone.

13.0 Implications for consideration – Legal

13.1 There is a legal requirement for the Council to set a balanced budget before the start of each financial year and for the Chief Finance Officer to report on the robustness of the estimates and the adequacy of the reserves. Clearly, there is still work to be done over the coming months to be able to set a balanced budget for 2021/22 in February 2021.

14.0 Implications for consideration – Human resources

14.1 There are no human resource implications to consider in this report.

15.0 Implications for consideration – Risk management

15.1 Budget forecasting, particularly over the medium term is not an exact science. Assumptions have to be made at the time of writing, but the final outcome could be very different e.g. reduction or increases in government grants, further Covid19 spikes and lockdowns, pay awards, investment returns, etc. A full risks and uncertainties scenario analysis will be included in the final budget setting reports.

16.0 Implications for consideration – Climate Change / Equality and Diversity

16.1 Individual equality, climate change and environmental impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

Decision information

Key decision number	**974**
Wards affected	**All**

Document information

Report author	**Contact number/email**
Helen Fox	**Helen.fox@chesterfield.gov.uk** **01246 936273**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Appendices to the report	
Appendix A	Revised Capital Programme 2020/21