

REVENUE BUDGET MONITORING REPORT Q1 2020/21

SUMMARY:

This report sets out the anticipated financial position for 2020/21, based on monitoring exercise carried out with budget officers during June and July.

RECOMMENDATIONS:

CABINET is recommended to:

- i. note the latest revenue forecasts and financial impact from Covid-19
- ii. approve the establishment of a reserve to support work on the Council's view on devolution proposals (paragraph 7.6)

1 INTRODUCTION

- 1.1 Covid-19 is having a widespread impact on local authority budgets nationally and has been particularly significant for district and borough councils with a significant loss of income from services being a particular pressure.
- 1.2 This report provides members with an update on the likely impact on the Council's finances and incorporates the first monitoring position statement for the financial year 2020/21. 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.
- 1.3 The forecast focuses on the immediate financial pressures as they have been identified. Further analysis will be undertaken in the coming weeks on the Medium-Term Financial Strategy and Savings Plan to inform the budget setting process for 2021/22.

- 1.4 Due to the volume of information contained in the report, it would be helpful where members have questions on matters of detail if they could be referred to the report author or the appropriate Head of Service before the meeting.

2 REVENUE BUDGET FORECAST

- 2.1 The original net General Fund Revenue budget for 2020/21 was approved by Council at their meeting in February 2020 of £11.290m.
- 2.2 Changes have been made to the budget to allocate additional revenue items to service budgets, to reflect budget carry forwards from the previous financial year, virements between service cost centres, and supplementary estimates agreed by Cabinet. Therefore, the current budget is now £11.652m. A reconciliation between the original budget and latest budget is shown in the table below.

Table 1: General Fund Revenue Budget reconciliation

General Fund Revenue Budget	(£'000)
Original Budget, Council Feb 2020	11,290
Add: Additional Reserve Transfers	347
Add: Carry Forwards from 2019/20	547
Funded from Reserves	(547)
Add: Supplementary Estimates	16
Current Budget 30 June 2020	11,652

- 2.3 An initial forecast of the financial impact of Covid-19 was provided to Cabinet in June 2020 and highlighted a net adverse variation of £0.633m. This was based on an initial review of budgets and indicated that it would be subject to revision as further data emerged.
- 2.4 As part of the Q1 budget monitoring process, a more complete review of revenue budgets has been undertaken, with forecasts provided by budget holders across all service areas. The assumptions underpinning these forecasts will have been reviewed but will be subject to some degree of uncertainty given the continuing impact from Covid-19.

- 2.5 The updated forecast for the General Fund is a net adverse variation of £0.789m (6.78% of the Net Revenue budget) – an increase of £0.156m, as shown in Table 2.
- 2.6 This report provides members with details of major variations on the revenue budget. Section 8 of the report highlights the risks and uncertainties on the forecast variation including uncertainties around Leisure and Waste & Recycling.

Table 2: General Fund Revenue Budget Forecast

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
General Fund Revenue Budget				
Corporate & Democratic Services	5,289	5,399	5,432	33
Customer Experience and Improvement	19	(12)	(55)	(43)
Major Projects and Property	(4,928)	(4,302)	(3,987)	315
Operational Services	7,847	8,057	8,885	827
Planning & Economy	2,548	2,738	3,304	565
ICE Programme	496	862	862	0
SUB TOTAL	11,272	12,743	14,440	1,697
Less: Reversal of Accounting entries	(2,519)	(2,519)	(2,519)	0
Net Service Revenue Expenditure	8,753	10,224	11,921	1,697
Corporate Income & Expenditure [Note 1]	3,227	2,318	2,656	338
C19 Expenditure pressures	0	0	232	232
Movement in Reserves	746	546	(284)	(831)
Savings Plan	(1,436)	(1,436)	(951)	485
Net General Fund Revenue Budget	11,290	11,652	13,574	1,921
Funded by:				
Council Tax	6,705	6,705	6,705	0
Business Rates	3,767	3,767	3,767	0
New Homes Bonus	1,169	1,169	1,169	0
Covid-19 Emergency Funding	0	0	1,133	1,133
Other	(3)	(3)	(3)	0
TOTAL Funding	11,637	11,637	12,770	1,133
Core Surplus / (Deficit)	347	(15)	(804)	(789)
Balanced By:				
General Fund Balance		0		0
Service Improvement Fund [Note 2]	(297)	0	0	0
Workforce Reserve [Note 2]	(50)	0	0	0
Stability & Resilience Reserve	0	15	804	789
Core (Surplus) / Deficit after Transfers	0	0	0	0

Note 1: The Original budget, as approved by Council in February 2020, included Additional Items which have now been included with Service budgets.

Note 2: The Original budget, as approved by Council in February 2020, allocated the £347k surplus to Service Improvement Fund and the Workforce Reserve. These budgeted reserve transfers are now included within the Movement in Reserves line.

2.7 The key variations within Services are summarised in the tables below, with further detail shown in Appendix A.

Table 3: Key Service variations

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
Service Variations (> +/- £50k)				
Regeneration Due Diligence (RF)	0	0	150	150
Housing Advice	987	987	1,070	83
Car Parks	(576)	(576)	45	621
Parking Management (RF)	(156)	(156)	42	198
Cemeteries	68	68	16	(52)
Crematorium	(720)	(720)	(805)	(85)
Recycling	403	403	482	79
Development Control Fees	560	560	828	268
Princes Hall	448	448	735	287
ALL OTHER VARIATIONS	10,258	11,729	11,877	148
	11,272	12,743	14,440	1,697

Note: (RF) denotes Reserve Funded

2.8 The main variations on the revenue budget is due to a shortfall in income from Sales, Fees & Charges. Covid-19 has had a significant impact with material variations on both on-street and off-street car parking income, planning fees, and income from events and performances at Princes Hall. Appendix A sets out in detail the income and expenditure variations across each portfolio.

Table 4: Corporate Income & Expenditure

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
Corporate Income & Expenditure				
Minimum Revenue Provision (MRP)	2,180	2,180	2,180	0
Interest Receivable	(1,600)	(1,600)	(760)	840
Interest Payable	1,370	1,370	868	(502)
Other CI&E (incl. Additional Items)	1,277	368	368	0
TOTAL CI&E	3,227	2,318	2,656	338

Table 5: Covid-19 Expenditure and pressures

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
Covid-19 Expenditure or other pressures				
Staff Costs (Non C19 related impact of LGE pay negotiations)	0	0	90	90
IT Costs - Home working (Citrix licences, additional laptops)	0	0	100	100
Local Welfare Response	0	0	42	42
Total C19/Other	0	0	232	232

3. COMMERCIAL PROPERTY INCOME

- 3.1 Commercial income is collected for quarters in advance on what are known as 'quarter days'. The last quarter day was in June and income has continued to hold-up well with the main pressure being from occupiers looking to spread payments monthly rather than paying the quarter up front.
- 3.2 At the time of writing, approximately 82% of the gross rent demanded on the externally managed corporate property portfolio was paid within 28 days of the June quarter day. Of the remaining rent outstanding, around 8% of the uncollected rents relate to occupiers who are on a payment plan which are being adhered to.
- 3.3 The next quarter day is September which may be a more challenging period given changes to the Coronavirus Job Retention Scheme and difficult economic/trading conditions.
- 3.4 Should the financial performance of the Council's commercial property deteriorate, the in-year impact on income will be met from the Commercial Property reserve, with the budget setting process for 2021/22 considering the impact across the medium-term.

4. TREASURY MANAGEMENT – INVESTMENT INCOME AND BORROWING

- 4.1 As reported to members in the Covid-19 Impact report (FIN2017), Treasury management income likely to be reduced in 2020/21 reflecting the uncertainty in global financial markets. As outlined in the Treasury Management Strategy, the Council invests its surplus balances generating an income return of over £1m per annum. The Strategy sets out that the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 4.2 The Council has two broad classes of investments – Money Market Funds (where balances are held for short periods until required) and Pooled Funds.
- 4.3 The Bank of England cut the base rate on 11 March 2020 from 0.75% to 0.25%, and again on 19 March 2020 from 0.25% to 0.10%. Whilst the base rate cut will reduce investment income from Money Market Funds, it is not considered to have a material impact on the Council's investment income.
- 4.4 The Council holds a more significant element of its surplus balances in Pooled Funds. Over the 6 months since the onset of the COVID-19 pandemic, the global economic fallout has been sharp and large. Market reaction has been extreme with the large falls in equities, corporate bond markets and, to some extent, property markets reflecting the lockdown restrictions.
- 4.5 Against a very uncertain economic outlook, the Council should be prepared for lower income from bond, equity income, multi-asset and property funds. Initial forecasts from the Council's Treasury Management advisors in April 2020 suggested a prudent forecast position was to recognise downward adjustments of:
- Bond funds and property funds: 20% lower income
 - Multi-asset funds: 25% lower
 - Equity income funds: 50% lower
- 4.6 Members will recall that the Council, along with the other funding consortium partners (Barclays, Hampshire County Council, Enterprise M3 LEP) agreed to defer interest payments on loans to provide cashflow support to by Farnborough International Limited (FIL) following the cancellation of the 2020 Airshow.
- 4.7 The due diligence on FIL's financial projections was completed and shared with the funding consortium partners.

- 4.8 The Q1 budget monitoring outturn forecast includes a revised forecast on the Council's Treasury Management income with a shortfall in income of £840k projected.
- 4.9 The fall in income is partially offset by a fall in interest payable on external borrowing that supports the capital programme, which has a forecast slippage of £21.8m to 2021/22. An underspend of £502k on borrowing costs is forecast for the year.

5. SAVINGS PLAN

- 5.1 The outturn forecast has assumed there will be a delay in the achievement of the Savings Plan, with an adverse variation of £0.485m assumed. This is largely due to the impact of Covid-19 on the Council's Commercial Property Investment Strategy.
- 5.2 At the time of writing, it is assumed that further property acquisitions can be made in the second half of the financial year. It should be noted that the national political view on local authority activity in commercial property and the wider and property market may have an impact on activity.

Table 6: Savings Plan Forecast

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
Savings Plan				
2019/20 Savings	(81)	(81)	(81)	0
Reversal of 2019/20 Additional Items	(130)	(130)	(130)	0
ICE Programme (Workstreams 1-3)	(150)	(150)	(150)	0
ICE Programme (Workstream 4)	(50)	(50)	(50)	0
Commercial Property	(887)	(887)	(400)	487
Service Loans to Housing Company	(88)	(88)	(66)	22
Salaries monitoring	(50)	(50)	(74)	(24)
TOTAL Savings Plan	(1,436)	(1,436)	(951)	485

- 5.8. The Savings Plan will continue to be reviewed in the light of Covid-19 and is likely to result in a rephasing of savings. Any reduction in the level of savings planned for 2020/21 will increase the adverse variance currently forecast.

6. GOVERNMENT FUNDING, COUNCIL TAX AND BUSINESS RATES

6.1 The Government has provided £3.7bn of emergency funding in three tranches to Local Government recognising the cost and income pressures facing councils. The first tranche of funding (£1.6bn) was announced on 19 March 2020, with the second tranche (£1.594bn) announced on 18 April 2020 and the third tranche (£0.494bn) announced on 02 July 2020.

6.2 Rushmoor has received £1.133m of funding, with the table below providing further detail on the split of funding across local government.

Table 7: Covid-19 Emergency Funding to local authorities

Local Authority Type	First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Third Tranche of Covid-19 Funding	Total Covid-19 Funding	% of Total
Shire Districts	£9,742,549	£214,031,274	£34,045,197	£257,819,020	6.99%
Shire Counties	£542,183,542	£385,168,828	£129,489,651	£1,056,842,021	28.66%
Unitary Authorities	£382,824,870	£379,566,167	£118,382,262	£880,773,299	23.88%
Metropolitan Districts	£395,191,207	£332,519,830	£124,679,151	£852,390,188	23.11%
Outer London Boroughs	£144,049,448	£154,462,258	£50,832,571	£349,344,277	9.47%
Inner London Boroughs	£110,166,778	£90,502,560	£36,571,168	£237,240,506	6.43%
Greater London Authority	£9,302,766	£9,249,974	£0	£18,552,740	0.50%
Combined Authorities	£564,220	£2,107,898	£0	£2,672,118	0.07%
Fire Authorities	£5,974,620	£26,391,211	£0	£32,365,831	0.88%
	£1,600,000,000	£1,594,000,000	£494,000,000	£3,688,000,000	

Local Authority	First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Third Tranche of Covid-19 Funding ²	Total Covid-19 Additional Funding
Basingstoke And Deane	£53,754	£1,744,410	£257,207	£2,055,371
East Hampshire	£33,387	£1,210,873	£156,356	£1,400,616
Eastleigh	£45,502	£1,326,468	£169,610	£1,541,580
Fareham	£33,966	£1,156,628	£143,768	£1,334,362
Gosport	£44,116	£841,471	£144,232	£1,029,819
Guildford	£51,577	£1,471,476	£198,457	£1,721,510
Hampshire	£29,654,341	£24,313,635	£7,642,297	£61,610,273
Hampshire Fire	£256,552	£1,379,361	£0	£1,635,913
Hart	£24,340	£963,234	£101,548	£1,089,122
Havant	£58,961	£1,262,535	£236,884	£1,558,380
New Forest	£70,401	£1,783,127	£250,578	£2,104,106
Rushmoor	£41,933	£934,902	£155,773	£1,132,608
Surrey Heath	£27,622	£879,135	£103,693	£1,010,450
Test Valley	£41,939	£1,258,912	£170,004	£1,470,855
Waverley	£35,270	£1,246,227	£145,711	£1,427,208
Winchester	£39,275	£1,242,881	£157,579	£1,439,735

- 6.3 Allocation of each tranche of funding differed, with the second tranche of funding being more favourable to Districts and Boroughs. The most recent allocation was based on a complex methodology taking into account data from the financial monitoring returns of Covid-19 pressures made by all authorities to MHCLG.
- 6.4 In addition to the Emergency funding, the government have committed to reimburse councils for lost income. Where losses are more than 5% of a Council's planned income from sales, fees and charges, the Government will cover 75% of these losses. At the time of writing, it is difficult to assess the value of the support to Rushmoor as the detailed guidance on the scheme has yet to be provided but is expected to be available in the coming weeks.
- 6.5 Covid-19 has a number of implications for the Council's Council Tax and Business Rate income.
- 6.6 The Government has provided funding to support individuals who may struggle to meet council tax payments due to fluctuations in household incomes. Through the Covid-19 Hardship Fund allocation (£0.542m), the Council has provided additional support to recipients of working age local council tax support by way of a credit to their council tax account.
- 6.7 Further applications for council tax support are expected during the year, which will reduce the amount of Council Tax income.
- 6.8 At the time of writing this report, the Council Tax collection rate to the end of July is 94.01%, with the equivalent figure from 2019/20 being 97.35%. This is broadly equivalent to £0.768m in cash terms. This position is likely to improve during the course of the year as part of the reduced collection rate is due to council taxpayers re-profiling their payments. However, it can be expected that the level of arrears and bad debt is likely to increase as collection may be more difficult than in previous years.
- 6.9 Any reduced level of Council Tax collection is dealt with through the Collection Fund. If the level of Council Tax collected in the year is lower than budgeted, this gives rise to a deficit on the collection fund and will impact on the following year's budget. Any deficit is shared between Rushmoor and the precepting authorities (Hampshire County Council, Police and Crime Commissioner for Hampshire, and Hampshire Fire and Rescue Authority).

- 6.10 Additional business rates reliefs were announced by the Government in the Budget in March, which were extended in response to Covid-19. The Retail and Hospitality and Leisure reliefs awarded to local businesses total £23.5m, with the Government fully funding the reduction in business rates income through section 31 grant. It has been more difficult to predict the likely impact on business rates income due to the relief changes, with the collection rate to the end of July being 91.59% (102.97% in 2019/20 due the effect of advance payments at the start of the year). The level of business rates forecast for 2020/21 already assumed a reduction in the business rates base in part due to the regeneration of Aldershot and Farnborough town centres.
- 6.11 The Government have indicated as part of their support to local authorities that Council Tax and Business Rates deficits could be spread over 3 years instead of one.

7. RESERVES AND BALANCES

- 7.1 As highlighted in Table 7, the emergency funding provided by Government does not cover all the income and expenditure pressures forecast. The Council will need to consider an appropriate range of options to ensure any shortfall is managed. It is assumed that for the purposes of this report, the net variation of £0.789m would be funded from the Stability and Resilience Reserve
- 7.2 A significant element of the adverse variation is due to changes in income that are either ring-fenced for use outside of the general fund or have been received in advance for future years' funding and reduction in expenditure due to delays in projects. These amounts are not available for spending on general activities and will be transferred to various reserves as follows:
- £150k expenditure related to due diligence supported by transfer from Due Diligence Reserve
 - £171k reduction in expenditure as there will not be an on-street parking surplus generated in 2020/21 to pay to Hampshire County Council. The on-street Parking variance are being offset by a transfer from the CPE Earmarked Reserve
 - £209k reduction in on-street Pay and Display machine income for 2020/21 from car parking. The on-street Parking variance are being offset by a transfer from the CPE Earmarked Reserve
 - £160k reduction in Penalty Charge Notice income for 2020/21. The on-street Parking variance are being offset by a transfer from the CPE Earmarked Reserve

7.3 The table below shows the forecast of the impact on the key reserves supporting the General Fund revenue budget from Covid-19 and the Q1 budget monitoring position.

Table 8: Reserves and Balances Forecast

Reserves and Balances	Balance 01 April 2020 (£'000)	Transfers to / (from) Reserves (£'000)	Additional Transfers to / (from) Reserves (£'000)	Est. Balance 31 March 2021 (£'000)
General Fund Balance	2,000	0	0	2,000
Earmarked Reserves				
Stability & Resilience Reserve	4,869	(580)	(804)	3,485
Service Improvement Fund	129	0		129
Commercial Property Reserve	2,000	50		2,050
Pension Reserve	0	669		669
ICE Reserve	297	(297)		0
Regeneration Reserve	450	(170)		280
Climate Emergency Reserve	0	250		250
Deprivation Reserve	0	100		100
Regeneration Due Diligence Reserve	250	(150)		100
Workforce Reserve	200	0		200
Treasury Reserve	0	290		290
Other Earmarked Reserves	7,700	(446)		7,254
TOTAL Reserves and Balances	17,895	(284)	(804)	16,807

Note: Balance at 01 April 2020 subject to confirmation of the 2019/20 outturn position.

7.4 The Government is to issue its Devolution and Growth White Paper shortly. The paper will deal with elected mayors, combined authorities and in some cases (if not all) local government reorganisation and unitary councils. Discussions have started in Hampshire but at this stage it isn't clear what the Council may be required to do or wish to do. A number of areas are some way down the growth deal and devolution path so it is likely that they would be looked at first. There is no indication as yet whether this is to be mandated or not.

7.5 It is surprising that the government should wish to push forward with such a divisive issue in the middle of a pandemic and with another wave predicted thus taking the collective eye off the ball as it were. It is also surprising that the issue is to be raised during such a recession with all of the pressures on local councils as drivers of growth.

- 7.6 The Council will need to respond in some way, and it is highly likely that the Council will wish to commission either on its own or with others pieces of work to support or refute a range of proposals and options. Members are therefore requested to make available a reserve of up to £100k to be allocated to work of this nature with delegated authority to the Chief Executive in consultation with the Leader of the Council to commission said work.
- 7.7 Members will in due course need to develop a policy position on the issues within the white paper once issued.

8. RISKS AND UNCERTAINTIES

- 8.1 There is a degree of uncertainty in the outturn forecasts provided by budget holders particularly due to the impact of Covid-19. There are a number of risks and uncertainties in the outturn forecasts, which are set out below.
- 8.2 There are two significant uncertainties that have not been included in the outturn forecast which could have a material impact on the Council's finances.
- 8.3 Firstly, members will be aware that the Council's Leisure facilities in Farnborough and Aldershot remain closed. The Council has been approached by the operator, Places Leisure, for a financial support package to reopen the leisure facilities and recognising the impact on income and expenditure across the financial year from Covid-19.
- 8.4 Negotiations have taken place with Places Leisure and remain ongoing, with legal advice sought on the contractual obligations of the provider and the Council. It is likely that the Council will need to provide some degree of financial support to the operator, but this must be considered carefully in light of the wider budget position.
- 8.5 It is also worth noting that the Government have not provided any funding to Rushmoor in respect of additional costs associated with Leisure facilities. Officers will continue to liaise with the Local Government Association, MHCLG and DCMS to ensure this pressure is recognised and funded nationally.
- 8.6 Secondly, changes were made to the Council's Waste and Recycling services due to Covid-19. These were agreed at short notice in March 2020 and remain in place due to the risk of a second spike. The outturn forecast has assumed that the changes are cost neutral in revenue terms, although a reconciliation of income and expenditure of the changes on the contract will need to be undertaken in the near future.
- 8.7 As highlighted in this report, the forecasts are based on assumptions which will be subject to change and revision over the coming months. For clarity, the key assumptions are listed below:

- Lockdown/Restrictions remained largely in place until the end of July with slight easing thereafter. No second spike has been assumed.
- Commercial Property – any shortfall in 2020/21 funded from Commercial Reserve. Any longer-term impact dealt with through budget setting process
- Council Tax & Business Rates collection shortfalls contained within the collection fund but will need to be incorporated into the 2021/22 budget
- Cost of additional council tax support cases managed within the remaining balance of Hardship allocation (around £0.200m)
- Recovery of income for the remainder of the year are in line with budget (with exception of Car Parking income and Planning fees where the forecast is for a slower recovery)

8.3 The over-riding risk is that Rushmoor (as a Borough and/or as a Council) does not recover from the impact of Covid-19. This would lead to a weakening of the local economy longer-term impact on the financial sustainability of the Council reduce the ability for the Council to meet the needs of residents and businesses, and to fulfil the Council's statutory obligations.

8.4 A Recovery Plan has been agreed with a number of objectives around supporting the local economy and housing market in achieving restoration and growth, improving capacity in the voluntary sector, and restoring public services. These objectives are consistent with those of the Local Resilience Forum (LRF) but recognises the local nature of recovery within the Borough. The plan has a number of workstreams and are led by a senior officer.

9. LEGAL IMPLICATIONS

9.1 No additional legal implications arise from this report.

10. FINANCE AND RESOURCE IMPLICATIONS

10.1 The finance and resource implications from the Q1 budget monitoring exercise and impact of Covid-19 are set out within this report

10.2 Any additional financial implications will be addressed through normal Council procedures and processes. The Budget Strategy report to Cabinet in October 2020 and will set out any further resource implications.

- 10.3 The Council will also need to carefully consider the financial impact of spending decisions and ensure that any unnecessary expenditure is avoided where possible.

11. CONCLUSIONS

- 11.1 There will always be variances reported in-year against budgets due to the Council adapting its priorities to manage inevitable changes in demand pressures and having a flexible approach to changing circumstances.
- 11.2 The forecast variation of £0.789m can be funded from reserves in the short term. It is important that the Council considers an appropriate range of options to ensure any shortfall is managed. Any utilisation of reserves in 2020/21 will need to be addressed in the budget strategy to ensure balances and reserves remain adequate.
- 11.3 Over the MTFS period, declines in Council Tax and Business Rates income may put additional pressure on the Council's financial position. The achievement of the Savings Plan is integral to the MTFS forecast and will need to be reviewed in terms of savings profile and whether the savings can be delivered in the current economic climate. It is likely that further savings will be required over the MTFS period in order to balance the budget.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

Report Author/Head of Service: David Stanley – Executive Head of Finance
david.stanley@rushmoor.gov.uk 01252 398440