TEIGNBRIDGE DISTRICT COUNCIL

COUNCIL

30 SEPTEMBER 2020

Report Title	**BUDGET MONITORING – REVENUE & CAPITAL, REALIGNMENT OF REVENUE BUDGET 2020/21**
Purpose of Report	To update Members on the principal areas where there are likely to be departures from the 2020/21 budget and summarise those variations to the end of August 2020 and realign for 2020/21 based on assumed Government support together with assumptions on the medium term financial plan for future years. To update Members on progress with the capital programme and funding and impacts on treasury management and cash flow.
Recommendation(s)	**Council RESOLVES to:** **(1) approve the revised revenue budget summary as shown at appendix 1** **(2) approve the updated capital programme as shown at appendix 2** **(3) Note the treasury management results for 2019/20 as shown in appendix 3**

Financial Implications	The financial implications are contained throughout the report. The main implication is the adverse variance of £5.1 million for 2020/21 which has arisen due to loss of income but reduced by savings made and Government funding as at the end of August – see section 4. Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
Legal Implications	See section 8 – budget monitoring is required by the Constitution and Financial Rules. Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
Risk Assessment	Major risks are identified in section 5 and summarised in section 7. The most significant of these is the level of future funding from Central Government to support existing service provision. Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
Environmental/ Climate Change Implications	The revenue budget supports the funding of a Climate Change Officer and capital projects are highlighted which contribute towards our climate change objectives – see 10. David Eaton – Environmental Protection Manager Tel: 01626 215064 Email: david.eaton@teignbridge.gov.uk
Report Author	Martin Flitcroft – Chief Finance Officer Tel: 01626 215246 Email: martin.flitcroft@teignbridge.gov.uk
Portfolio Holder	Councillor Richard Keeling – Portfolio holder for Resources
Appendices	Appendix 1 – Revenue budget summary Appendix 2 – Capital programme Appendix 3 – Treasury management results 2019/20
Part I or II	Part I
Background Papers	Current year budget monitoring files: capital files: Latest year end files

1. PURPOSE

To identify the principal areas where there are likely to be departures from the approved 2020/21 budget and summarise the likely overall variation based on the information available to the end of August 2020. Also to inform Members of progress that has been made with achieving savings and efficiencies and agree to these savings as part of the realignment of the 2020/21 revenue budget as shown in Appendix 1. To explore the likely implications on the medium term financial plan for future years and likely funding changes.

- To update Members on progress with the capital programme and funding and bring the latest details for members' approval as shown in Appendix 2

- To note the Treasury Management results for 2019/20 as submitted to Executive on 21 July 2020 and detailed in appendix 3.

2 BACKGROUND

2.1 Management accounts reports have traditionally been produced to a detailed service level. However the Covid 19 pandemic has created variations to budget at a level never previously seen and so it is appropriate to report these variations at a higher level based on the revenue budget setting categories of Appendix 4 to the budget papers approved in February 2020.

2.2 It was apparent since lockdown on 23 March 2020 that the main area of loss to the Council would be in relation to income as the stay at home policy hit large income streams such as car parking and leisure centres – the latter were ordered to close before re-commencing a phased reopening.

2.3 Government has provided funding which was initially based upon expenditure losses – much more relevant to upper tier authorities or unitary councils in relation to social care etc. Subsequently further funding was provided having regard to the fact that there had been widespread reported losses of income and the Government has been monitoring these losses by requiring Council's to provide monthly returns to MHCLG. The latest return was completed providing information to the end of August and projections for the full financial year 2020/21. With considerable uncertainty around what level of funding might be forthcoming a list of potential savings was drawn up in relation to expenditure headings and these have been frozen within the ledger until clarity was provided from Government and they form part of the budget realignment approval required in this report to address the potential budget gap.

2.4 The first report to Members on the budget variations for 2020/21 was provided to Executive on 21 July 2020 together with an update on the capital programme and treasury management lending list. This report updates on any subsequent changes to the capital programme and the treasury management lending list. A further report to Executive was provided on 8 September 2020.

2.5 The 2019/20 draft accounts and closing reserve position were also reported to Executive on 21 July 2020. These are published on the Council website and the external audit is being carried out and any final adjustments will be reported to Full Council on 23 November 2020 for approval.

3 EMERGENCY FUNDING TO DATE

3.1 The Government provided its first tranche of funding to support the revenue losses in March 2020. This amounted to £59,771. The second tranche of funding was calculated taking account of the awareness of income losses/cash flow issues and amounted to £1,342,148 being received in May 2020.

3.2 This still left a considerable gap in funding. We had previously reported a gap of around £6.9 million even after taking account earlier tranches of these grants and the savings identified in 2.3 above.

3.3 Representations to Government resulted in two further offers of funding from Government. Firstly was a tranche of funding to support expenditure losses. This package was £500 million in total and our share was £202,938. In addition the Government identified an income funding package. This would help with losses from sales and fees and charges losses. The initial summary guidance was issued and eventually a second more detailed guidance paper was received. A lot of work is required to determine what is covered under the scheme with significant discretion left with the Chief Finance Officer to interpret the wording, scope and definitions. The income funding package ignores income from rents and also there is no support for council tax or business rates losses other than to allow these losses to be recovered over the subsequent 3 years rather than the normal one year. Any income mitigations such as furlough income or expenditure savings has to be offset against the income claim. The support is for one year only (2020/21) and does not cover future years where income is still likely to be down compared to pre Covid 19 levels or the losses we incurred in March 2020. The basis of the offer is such that where income from sales, fees and charges is down by more than 5% of the original budget set in February 2020 the Council will suffer the first 5% of loss and the Government will fund 75% of the remaining 95% - hence 71.25% overall. A final set of guidance was eventually received in the latter part of August to determine which income streams would be covered and this will continue to be worked through as the reclaims are made.

3.4 Other funding provided by Government has included £940,055 being a Hardship Fund for which the expectation is for this to be used to offset impacts on Council tax income and new burden grant funding to cover costs incurred in relation to the business grant funding scheme administration etc.

4 REVENUE BUDGET VARIATIONS 2020/21

The most significant variations and points to note are as follows:

- Prior to calculating the income support package in 3.3 above it is estimated that the overall budget deficit is in the region of £5.1 million. This includes losses from Council tax and business rates in the region of £2.0 million. Monitoring of income from council tax and business rates will continue and it is anticipated this may improve. Fees and charges account for the biggest proportion of losses and this is calculated to be in the region of £4.8 million – the biggest losses relating to car parking and leisure centres. We still need to monitor these sources of income to determine what the regular pattern of occupancy/visits are with the latter service only having commenced operations from 25 July.

- The income support package above should provide further grant from Government of just over £3 million after offset of any other support such as furlough income and expenditure savings which would reduce the net claim.

- Further monitoring of bad debts will be required throughout the year and subject to any further provision on these debts it is anticipated that any remaining shortfall that may arise can be managed through reserves to the general fund this year as the losses from the Collection Fund for council tax and business rates can be funded over the next 3 years rather than the normal one year. We await the guidance as to how this will work. It may be possible to meet any general fund deficit from existing earmarked reserves and/or a temporary reduction in the general reserve balance. Government have hinted that they may consider a funding package for council tax and business rate losses if significant but this will be considered as part of the settlement package in December. Appendix 1 shows the revised revenue budget to take account of the changes and funding from reserves. This will be refined further in December as likely income from the Government sales,fees and charges scheme is recalculated and claims submitted and likely income for the year from all sources is slightly clearer. At present the prediction in Appendix 1 is that we can balance the general fund this year from the funding received/receivable and the savings identified.

5. OUTLOOK FOR 2020/21 AND BEYOND FOR THE MEDIUM TERM FINANCIAL PLAN

5.1 As identified in section 4 – further monitoring of the bad debt situation will need to be carried out. In addition changes to the economy and in particular the impacts on businesses as the furlough scheme comes to an end and any subsequent changes to levels of unemployment. This could impact further on income levels going forward together with any local lockdowns etc.

5.2 The support offered is only for the current financial year and discussions will continue via the LGA or through direct meetings with the MHCLG to determine what support may be considered in future years and whether this will be considered as part of any funding changes as part of the budget setting process over the Winter and the provisional settlement. We will continue to look at how we may make savings for future years and utilisation of reserves to help reduce any deficits in conjunction with the clarity around what further funding may be received from Government to help support local services and how the local economic recovery plan will impact on our finances.

5.3 The savings identified in 2.3 above amounted to £2.0 million to reduce the deficit to £5.1 million. These will continue to be monitored as they will be impacted by services opening back up to full operation or any subsequent closures due to local lockdowns. Consideration will also be given as to whether these savings can be made on a permanent basis for future years to meet likely variances in 2021/22 and beyond. Making accurate predictions of future receipts is difficult and dependent upon lock down release measures and reaction to this by the general public. There is also concern about our other income streams – in particular rents receivable if there are significant closures and potential loss of business rates. Higher levels of unemployment will reduce the income we receive from Council tax and a rise in council tax support. The slowdown in house building will have an impact on estimated council tax growth and any potential future receipts we may get from New homes bonus or its equivalent.

5.4 It is not clear how Government will support us in the future. At the start of the pandemic the Government had asked us to ‘do whatever it takes’ to react to the situation. We had frozen the £2.0 million savings from the current year budgets until we had more clarity and these are now incorporated into the revised revenue budget summary – appendix 1. The savings include a freeze on recruitment for this year in relation to vacant posts unless externally funded or business critical increasing the target saving to £0.4 million, elimination of any contribution from revenue to capital to support the capital programme saving £0.6 million, savings in travel and fuel (£0.1 million), partly due to changed working patterns and a reduction in the predicted price of fuel. Other savings include reductions in repairs and maintenance (£0.1 million), savings which naturally occur as a result of services not operating e.g. leisure centres, energy and consumables, temporary staff,training etc (£0.5 million) and numerous other ledger spends. These include a reduction in rural aid of £25,000 this year.

In addition we have taken advantage of the Coronavirus Job Retention Scheme and furloughed a significant number of posts in order to enable us to receive funding for staffing costs whilst services cannot operate or are disrupted due to Covid 19 – these are mainly in leisure as a result of the closure of the leisure centres. In May the value of the claim amounted to £206,000 for that month however we now understand that furlough income used to mitigate income losses will have to be offset against any claim we make.

5.5 We will continue to work through all BEST2020 savings suggestions to deliver further savings where possible and re-visit those that may have their progress delayed by Covid 19.

6. CAPITAL & TREASURY MANAGEMENT 2020/21 (TREASURY MANAGEMENT RESULTS FOR 2019/20)

Treasury Management

- The treasury management results for 2019/20 are in appendix 3 and are to be noted. They were presented to Executive on 21 July 2020 and identify average funds available for investment increasing by £1.3 million to £15.9 million from £14.6 million in 2018/19. Net interest earned increased from £102,999 in 2018/19 to £120,632 in 2019/20. The average rate achieved has increased from 0.71% in 2018/19 to 0.75% in 2019/20. For 2020/21 net interest payable is currently forecast to be £68,729 compared to the base net interest receivable budget of £15,030. This is based on external borrowing from October, over a range of maturity dates in accordance with the Council’s treasury management strategy. The cash-flow planner currently assumes large capital projects gradually resuming. It is assumed remaining business grant funding will be repaid. Estimates around income are cautious and based on projections in appendix 1 and reduced levels going forward. No further central government assistance is factored in apart from income from the income support scheme for sales, fees and charges. Cash-flow is reviewed regularly.

In addition to a higher borrowing requirement than forecast at the February budget, the bank of England base rate was cut twice in March – first from 0.75% to 0.25%, then to the historic low of 0.1%. No increase in this rate is anticipated in the 2020-21 financial year. The treasury management team has also focused on keeping investments in the very short term due to the uncertainty over income and funding and in order to manage cash-flow in relation to the payment of business grants. This has resulted in interest rates below the bank of England base rate.

Capital - Economy & Assets

- Council of 6 June 2016 resolved to commit funding to the Superfast Broadband Connecting Devon and Somerset phase 2 programme. An investment of £250,000 financed from capital receipts was confirmed and the collaboration agreement signed. Following further scrutiny, it is anticipated to be paid in 2022/23.

- Following Council on 25 April 2018, the Minerva Building on the Brunel Industrial Estate was purchased for £2 million plus £125,000 costs. Further works were undertaken at a cost of £1.6 million to prepare the building for the new tenant. The new tenants are now occupying the building, with the project completed within budget.

- Council on 28 February 2019 resolved to progress plans to develop a hotel, including car park re-provisioning as part of the town centre regeneration outlined in the Newton Abbot master plan. This project is funded mainly from prudential borrowing. A planning application has been submitted in line with agreed contractual milestones.

- Council of 29 July 2019 (as updated at Council on 24 September) resolved to grant the necessary authority to advance the Sherborne House regeneration and Social Housing project in Newton Abbot. This project will be funded from prudential borrowing and grant from Homes England and is anticipated to provide accommodation for Health services in addition to Social Housing units. The acquisition was completed in March 2020, with conversion works to follow in early 2021.

- Newton Abbot is the subject of a bid to Ministry of Housing, Communities and Local Government's Future High Streets Fund for town centre regeneration. Teignbridge successfully submitted an expression of interest and was shortlisted along with 100 other towns. Following consultation with residents and presentation to Executive on 21 July 2020, the final business plan was submitted at the end of July. Details of this opportunity to fund and invest in

Newton Abbot will be brought to members for consideration in due course, once the results of the bid are known.

- Council of 29 July 2019 also resolved to grant authority to enable progression of the regeneration in the Brunswick Street area of Teignmouth town centre. This project will be funded mainly from prudential borrowing. It is anticipated construction will commence in November, subject to planning permission and satisfactory tender results.

Capital - coastal & drainage

The current year's programme is fully funded by budgeted grants of £1.9 million from the Environment Agency for regional coastal monitoring, and flood alleviation and prevention. Of this £1.8 million was received in the previous and current year, with the remainder anticipated in the current financial year.

Capital - Housing

- Teignbridge were allocated £1.329 million of the government Better Care capital funding for 2020/21 towards statutory disabled facilities and other discretionary grants. Devon County Council administer the local Better Care Fund and following the local allocation formula, the final grant figure for Teignbridge is £1.333 million. We also have £0.922 million carried over from last year giving an estimated £2.254 million for 2020/21. Of this, £0.390 million will be used to support Warm Homes Fund grants, with the remainder allocated to Disabled Facilities and other energy and renovation grants.

- We have been successful in bidding for £1.190 million from the Warm Homes Fund (Affordable Warmth Solutions) to provide central heating for vulnerable residents.

- £1.426 million is budgeted in 2020/21 for additional social housing at East Street and Drake Road in Newton Abbot, (funded from a combination of government grant, Section 106 contributions, capital receipts and prudential borrowing). Planning permission was granted in February 2020 and contractors appointed in May. It is anticipated this project will start during autumn 2020, subject to the resolution of site issues. The £667,000 shared equity scheme in Chudleigh is being progressed.

- £300,000 is budgeted in 2020/21 for right to buy receipts towards the affordable housing programme. We received £601,000 for last year in April 2020, however do not anticipate the same level of income in the current year due to Covid-19 restrictions. This income will cease in January 2024. No previously paid renovation grants have so far been recovered by Teignbridge this year.

Capital – spatial planning

- £4.305 million of CIL (Community Infrastructure Levy) and temporary internal borrowing is budgeted in 2020/21 towards infrastructure projects. This includes £535,000 towards cycle paths, £1.300 million towards Marsh Barton Station, £810,000 in forward funding for the Houghton Barton link road, £1.000 million towards the A382 improvements and £219,000 toward the play area refurbishment at Decoy countryside park. A provision for £2.000 million for District Heating has been noted; this payment is anticipated in 2025, subject to member approval. Available CIL as at the end of 2019/20 was £4.097 million, with £2.352 million forecast to be received in 2020/21, using a more cautious model than previously to reflect reduced house-building activity.

- At Council on 25 September 2017, the acquisition of approximately 38 hectares of land at South West Exeter for the creation of SANGS was approved. This is occurring in phases, with parcels K, 1 and 1A purchased to date in 2019/20. Instatement works will take place in line with the acquisition phasing.

- Teignbridge has been successful in bidding for £150,000 of capacity funding to support the delivery of Newton Abbot as a garden town from the Garden Communities Programme. The Programme is to transform local communities focused on sustainability and supported by the right infrastructure.

- The Capital Review Group are keeping all projects under review to identify increased risks due to the economic consequences of Covid-19. This includes the potential for delays, associated cost increases and changes to ongoing revenue assumptions and how this might affect the viability of projects.

7. RISKS

The major risks in examining and projecting financial forecasts are predicting future trends and variances. This is mitigated through monthly monitoring and discussions with service managers. The most significant concerns are detailed in sections 4 and 5 above in relation to the revenue budget and Government funding to bridge the likely revenue gap. There is no clarity on funding for future years or how any further funding reviews will take shape. There is no clarity on predicted changes to business rates retention and the abolition of New Homes Bonus and what it may be replaced with and how our funding from these sources will change as a result. The long term impacts of leaving the European Union and the economic changes are difficult to determine and any impacts on business rates, council tax support, debt recovery etc. Covid 19 represents a very serious threat to delivery of services moving forward and the ability to generate income in the same way. Next steps will involve establishing a plan in conjunction with any Central Government support to stimulate the economy and deliver on key objectives and priorities. This will require a reset of the budget for the current financial year taking account available support and advice from the Government.

8. MAIN IMPLICATIONS

The implications members need to be aware of are as follows:

8.1 Legal

Budget monitoring is required by the Constitution and Financial Rules.

The Financial Accounts for 2019/20 need to be produced and audited in accordance with the Accounts & Audit Regulations 2015.

Monitoring and reporting of the treasury management results is required by the CIPFA Treasury Management Code.

8.2 Resources

The report notes a revenue gap for 2020/21 of £5.1 million which will reduce by just over £3 million from Government funding for losses from sales/fees & charges income (less furlough income and other expenditure savings). £2.0 losses from council tax and business rates will be part of the funding exercise for 2021/22 to 2023/24 and will require further clarification from Government and CIPFA as to how this will be applied. Any remaining budget gap can be currently funded by reserves as shown in appendix 1 but exploration of further savings will continue and to support future years. Cash flow is forecast to require external borrowing during the second half of 2020/21. This is likely to be a mixture of short and long term loans in line with the treasury management strategy and prudential indicators. Capital is funded over the three year plan period 2020/21 to 2022/23 with the use of prudential borrowing where necessary as detailed in appendix 2.

9. GROUPS CONSULTED

As described in paragraph 2.5 the external auditors have been auditing the financial records and accounts during August and September with the intention of bringing the final audited accounts to Full Council on 23 November for approval.

10. ENVIRONMENTAL/CLIMATE CHANGE IMPACT

The revenue budget supports the appointment of a climate change officer and the capital programme identifies projects which have an impact on climate change denoted with a green leaf in appendix 2.

11. DATE OF IMPLEMENTATION (CONFIRMATION OF DECISION SUBJECT TO CALL-IN)

10.00 a.m. on 7 October 2020