

Cheltenham Borough Council

Cabinet – 28th July 2020

Council – 29th July 2020

Financial outturn 2019/20 and budget monitoring to June 2020

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|---------------------------------------|---|
| Accountable member | Councillor Rowena Hay, Cabinet Member for Finance |
| Accountable officer | Paul Jones, Executive Director Finance and Assets (Section 151 Officer) |
| Accountable scrutiny committee | All |
| Ward(s) affected | All |
| Key Decision | No |
| Executive summary | <p>Whilst this annual report's primary function is to update Members on the previous year's financial performance, it would be negligent to ignore the significant financial impact that COVID-19 has had on the Council's finances. Section 13 of this report has been written to update Members on the financial impact on the Council of the COVID-19 pandemic and to assess the level of funding provided versus the impact on Council resources. Members are asked to review the Section 151's assessment of the going concern report (reported to the Audit, Compliance and Governance Committee on 22nd July 2020) alongside this report.</p> <p>In accordance with financial rule A11.3, the Section 151 Officer is responsible for providing regular reports to the Cabinet on the Council's finances and financial performance. This report highlights the Council's financial performance for the previous year which sets out the General Fund and Housing Revenue Account (HRA) revenue and capital outturn position for 2019/20. The information contained within this report has been used to prepare the Council's Statement of Accounts for 2019/20.</p> <p>Financial rule B10.1 states that carry forward of planned underspend of revenue budgets into the following financial year will only be allowed with the agreement of the Section 151 Officer, in order to meet the needs of approved service delivery. Financial rule B10.3 states that all other carry forward requests, including budget underspends that have been carried forward in previous financial years, will be subject to full Council approval at the financial outturn meeting held after the year end.</p> <p>The Council's Treasury Management Policy requires the Section 151 Officer to report to members annually, by the 30th September, on the treasury management activities and treasury management indicators for the previous financial year. This report also seeks to meet this requirement.</p> |
| Recommendations | <p>I therefore recommend that Cabinet approve the following recommendations to Council:</p> <ol style="list-style-type: none">1. That Council receives the financial outturn performance position for the General Fund, summarised at Appendix 2, and notes that whilst services have been delivered in 2019/20, there was an overspend of £47,518.56 against the approved budget which has been met from general balances (after carry forward |

requests).

That furthermore Council:

2. Notes £191,552 of carry forward at Appendix 5.
3. Notes the annual treasury management report at Appendix 7 and note the actual 2019/20 prudential and treasury indicators.
4. Notes the capital programme outturn position as detailed in Appendix 8 and approve the carry forward of unspent budgets into 2020/21 (section 7).
5. Notes the position in respect of Section 106 agreements and partnership funding agreements at Appendix 9 (section 9).
6. Notes the outturn position in respect of collection rates for council tax and non-domestic rates for 2019/20 in Appendix 10 (section 10).
7. Notes the outturn position in respect of collection rates for sundry debts for 2019/20 in Appendix 11 (section 11).
8. Receives the financial outturn performance position for the Housing Revenue Account for 2019/20 in Appendices 12 to 13 (as detailed in Section 12) and approves the carry forward, virement and reclassification of budgets in 2020/21 as set out in paragraphs 12.8 to 12.10.
9. Notes the budget monitoring position to the end of June 2020 (section 13).

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| Financial implications | As detailed throughout this report. Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 264365 |
| Legal implications | <i>None directly arising from the report recommendations.</i> Contact officer: One Legal – legal.services@tewkesbury.gov.uk, 01684 272012 |
| HR implications (including learning and organisational development) | Employee capacity must be kept under review to ensure that any additional work is adequately resourced. If budget pressures mean monies for additional resource is not permissible a review of current projects and service delivery options will need to take place. Contact officer: Julie McCarthy, julie.mccarthy@publicagroup.uk, 01242 264355 |
| Key risks | As outlined in Appendix 1. |
| Corporate and community plan Implications | Key elements of the budget are aimed at delivering the corporate objectives in the Corporate Business Plan. |

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| Environmental and climate change implications | None. |
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1. Background

- 1.1** The impact of COVID-19 on Local Authorities across the Country is difficult to gauge due to different demographics, resources and demands. There has been significant lobbying on behalf of councils from the Local Government Association (LGA), the Districts Council Network (DCN), Society of District and Council Treasurers (SDCT) and the County Councils Network (CCN), to ensure adequate funding is given to Councils to cover their losses, which were estimated at in excess of £10Billion across the sector by the LGA.
- 1.2** From March 2020 the Council has identified significant adverse COVID-19 impacts on in year finances for both the General Fund and the HRA. Section 13 of this report sets out some of those impacts where known and identifies some mitigating action to protect the resources the Council has to continue to run its services. It is requested that Members review the Section 151's assessment of the going concern report (reported to the Audit, Compliance and Governance Committee on 22nd July 2020) alongside this report.
- 1.3** This report draws together the financial outturn position for 2019/20 for the General Fund and Housing Revenue Account (HRA) revenue and capital budgets, details reserve movements, summarises requests for carry forward of budgets approved by the Section 151 Officer under delegated powers and those requiring member approval.
- 1.4** In accordance with financial rule A11.3, the Section 151 Officer is responsible for providing regular reports to the Cabinet on the Council's finances and financial performance.
- 1.5** A summary of the actual General Fund outturn position by service is contained in Appendix 2.
- 1.6** A summary of the outturn position by cost centre within each service is contained in Appendix 3. Information is presented in the same format as used in the draft statement of accounts, in accordance with the CIPFA Code of Practice 2019/20.

2. General Fund Revenue Outturn 2019/20

- 2.1** The budget monitoring report to the end of December 2019, considered by Cabinet on 11th February 2020, projected the expected delivery of services within budget. The Cabinet made recommendations to full Council at the budget setting meeting, which were approved, for a number of budget virements as part of the revised budget 2019/20.
- 2.2** COVID-19 has created the most challenging financial environment that the Council has ever faced. Coupled with the continued impact of the changes in government funding arrangements and the economic climate present particular concerns for the Council's budgets moving forward. Given the proposed front-loaded cuts in Central Government funding, the Section 151 Officer recommended that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or the budget strategy (support) reserve. Whilst this option has not presented itself this year, it is of paramount importance that the Council aims to keep the level of its reserves robust.
- 2.3** The recorded additional expenditure in respect of COVID-19 in 2019/20 was £72,798. The total amount received from Central Government in 2019/20 was £50,043. The non-collection fund losses from income were circa £400k, with the largest contributor to that figure being lost income from car parking which has been met via a contribution from the car parking equalisation earmarked reserve. The income figure reported includes estimates for lost income from the

Cheltenham Trust and Gloucestershire Airport. It is not yet clear whether the announcement made on 2nd July 2020 from the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG), in respect of income losses, will apply to those that occurred in 2019/20.

- 2.4 It is therefore pleasing to report that despite the documented issues above, the reported overspend for 2019/20 is £47,518.56 which has been met from general balances.
- 2.5 A number of reported savings are the result of delays or slippage in carrying out particular tasks which are still necessary and will need to be completed in the 2020/21 financial year. Where this applies, requests for carry forwards are documented in Appendix 5 to this report.
- 2.6 A full explanation of all variances that exceed £50,000 is contained within Appendix 4.

3. The Medium Term Financial Strategy (MTFS)

- 3.1 The Government's policy of phasing out revenue support grant and in due course potentially allowing councils to benefit from a higher share of business rates created a need for this Council to develop a long-term strategy which was significantly different from that followed in past years.
- 3.2 COVID-19 has had a compelling impact on that strategy which has clearly presented a new risk given the volatility of the economy. An element of that risk has been offset in 2020/21 through Section 31 grants to compensate council's for a package of reliefs and discounts that were announced at the beginning of the pandemic.
- 3.3 The move to local business rates retention may not be so positive post COVID-19 as it is clear that the economy will take many years to recover. The Government's desire is to make sure that the system is fair and that there is a balance between incentives and managing risks – business rates retention will create another obstacle in the Government's commitment to unite and level up the country.
- 3.4 The scale of potential budget savings as a result of COVID-19 will require significant work to deliver them within the agreed timescales and there is a danger that this could divert management time from the delivery of services to the delivery of savings. Regular progress meetings to monitor the delivery of savings will need to be matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised
- 3.5 Some of our income-streams like car parking may never return to the levels pre-COVID and so the work continues to look at alternative options to replace that income through the use of our significant asset portfolio. Focus has therefore been expedited to look at re-focussing and re-energising our asset portfolio to ensure they are being used to maximum effect.
- 3.6 The Section 151 Officer is in the process of reviewing the capital programme and the council's existing asset base in order to assess the potential for generating additional capital receipts. Depending on the tools provided by Central Government (e.g. capitalisation directive) it may be permissible to apply capital resources to fund revenue expenditure. In addition it may be advantageous to apply capital receipts to repay debt, thus reducing the Minimum Revenue Provision (MRP) commitment which currently represents £2.062m expenditure in the current financial year 2020/21

4. Budget carry forward requests

- 4.1 At the year end, a number of budget holders requested 'carry forward' of unspent budgets. Requests fall into two categories and have been dealt with as follows:
- 4.2 Some requests are in respect of goods and services ordered but not received by 31st March 2020. Some relate to items of expenditure not yet incurred due to slippage in work programmes but still planned to be spent in line with the original intention of the budget. Others are amounts of

grant funding which have been allocated but not yet been taken up by their intended beneficiaries. In line with previous practice, these have been reviewed by the Executive Leadership Team and approved by the Section 151 Officer, under delegated powers (financial rule B10.1). A list of the approved carry forward of budgets totalling £191,552, for which expenditure is in line with the original approved purpose, is contained in Appendix 5. In accordance with the Service Reporting Code of Practice (SeRCOP), a transfer was made to a 'carry forward' reserve in 2019/20 (Appendix 6) and transfers will be made from the 'carry forward' reserve in 2020/21 to the appropriate cost centres in order that members and officers have a clear indication of the total budget, including carry forwards, available for 2020/21.

5. Treasury Management / Prudential Indicators

- 5.1** Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Cabinet and Council of an Annual Review Report after the financial year end. The detailed treasury report, as approved by the Treasury Management Panel at its meeting on 6th July 2020, is attached at Appendix 7.

6. Business Rates Retention Scheme (BRRS)

- 6.1** One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return (NNDR1) which is submitted to the Ministry of Housing, Communities and Local Government (MHCLG). The NNDR1 return was submitted to MHCLG by the deadline of 31st January 2019 and the budget was based on the figures within that return.
- 6.2** The table below reflects the actual performance against the revised budget with an overall positive variance for the year of £74,977 when taking into account the Gloucestershire Business Rates pooling arrangement.

| | 2019/20 Original Budget £ | 2019/20 Revised Budget £ | 2019/20 Actual £ | 2019/20 Variance £ |
|--|--|---|---------------------------------|-----------------------------------|
| Retained business rates per NNDR1 | 21,993,793 | 21,993,793 | 21,993,793 | - |
| Tariff payable to government | (18,936,362) | (18,936,362) | (18,936,362) | - |
| Grant to compensate for government decisions | 1,651,218 | 1,766,755 | 1,791,881 | 25,126 |
| Estimated levy payable to government after Pool surplus/deficit | (311,468) | (443,370) | (393,519) | 49,851 |
| Net retained business rates | 4,397,181 | 4,380,816 | 4,455,793 | 74,977 |
| Less Baseline Funding (target level of net retained rates) | (2,795,889) | (2,795,889) | (2,795,889) | - |
| Net surplus on business rates against baseline funding | 1,601,292 | 1,584,927 | 1,659,904 | 74,977 |
| Deficit adjustment re 2017/18 | 73,117 | 73,117 | 73,117 | - |
| Deficit adjustment re 2018/19 | (178,287) | (178,287) | (178,287) | - |
| One-off adjustments re previous years' deficits | (105,170) | (105,170) | (105,170) | - |
| Net retained business rates (after one-off deficit adjustments) | 4,292,011 | 4,275,646 | 4,350,623 | 74,977 |
| Transfer to BRR earmarked reserve | - | - | - | - |
| Drawdown from BRR earmarked reserve to fund previous deficits | 42,893 | 43,085 | 243,085 | 200,000 |
| Net movement on BRR earmarked reserve | 42,893 | 43,085 | 243,085 | 200,000 |

6.3 A further transfer of £200,000 has been made from the Business Rates Retention (BRR) earmarked reserve in respect of the Cyber Central costs incurred in the year. The balance on this reserve will be used to fund future budget gaps which arise as a result of the accounting arrangements for the Retained Business Rates Scheme as reported to Cabinet / Council previously and economic growth initiatives within the borough.

6.4 The Government's policy of phasing out revenue support grant and in due course allowing councils to benefit from a higher share of business rates creates a need for this Council to develop a long-term strategy which is significantly different from that followed in past years. Since 2013 the Council has had a direct financial interest in economic and business growth in the borough, and will have a larger stake in it under the Government's proposals for reforming business rates.

7. Capital Outturn 2019/20

- 7.1** The outturn position in respect of General Fund capital is contained in Appendix 8. Members are asked to note the outturn position and, where there is slippage, approve the carry forwards into 2020/21 requested by officers.

8. Reserves

- 8.1** The Section 151 Officer has, under delegated powers (financial rule B11.4), authority to make transfers to and from these operational reserves in accordance with the intention of the reserve as determined by the Council's Reserves Policy and Protocol. The transfers approved by the Section 151 Officer for 2019/20 are set out in the outturn performance position schedules at Appendix 2 and 3.
- 8.2** Appendix 6 also details the reserves held by the Council, states their purpose and indicates the balance at 31st March 2020. In setting the budget for 2020/21 a review of reserves was undertaken to assess whether the levels were appropriate and in line with the policy for reserves and balances; and also whether they took into account the needs and risks of the organisation and the prevailing economic conditions.
- 8.3** In assessing the adequacy of reserves and balances for 2020/21 the Section 151 Officer used a risk based approach to assess the appropriate level of general balances which calculated the optimum level to be £1.219m. At the year end, the General Fund Balance stands at £1.273m and therefore is marginally above the optimum level recommended by the Section 151 Officer.
- 8.4** An assessment of the Council's earmarked reserves has been made in line with the fiduciary duty of the Section 151 Officer at the year end. Accepting that the long-term impact from COVID-19 could leave the council exposed without clear decision-making in delivering a balanced budget, the level of reserves appears adequate at this point in time and no other changes are currently recommended. However, it is important to make Members aware of the following points.
- 8.5** There is an expectation that Council's will need to shoulder some of the cost burden, particularly lost income from fees and charges, from COVID-19. This will inevitably require the use of both general balances and some earmarked reserves.
- 8.6** As a consequence, reserves could fall to a level that the Section 151 Officer considers unsustainable. In setting the budget for 2021/22, Members will need to be mindful that there will be an expectation to replenish those reserves in order that the Council is robust and covered against a second wave or future changes to local government financial support. With diminishing central government support in the form of direct grant, volatility within business rates, and the impact on individual's ability to pay council tax, it is inevitable that some difficult choices will need to be made in respect of service provision.

9. Section 106 receipts

- 9.1 A position statement in respect of the activity of Section 106 receipts is contained in Appendix 9.
- 9.2 The following summarises the activity in respect of Section 106 for 2019/20, compared to 2018/19.

| | 2018/2019 | 2019/200 |
|---|-----------|-----------|
| Balance of unused Section 106 receipts | 2,762,033 | 2,732,629 |
| Net additional receipts in year | 7,000 | 25,081 |
| Receipts used to finance projects in year | (36,403) | (481,089) |
| Balance outstanding at year end | 2,732,629 | 2,276,621 |

10. Council tax and business rates collection

- 10.1 The monitoring report for the collection of council tax and business rates (NNDR) income is shown in Appendix 10. This shows the position at the end of March 2020.

11. Sundry debt collection

- 11.1 The monitoring report for the collection of sundry debt income is shown in Appendix 11. This shows the position at the end of March 2020.

12. Housing Revenue Account (HRA)

HRA income and expenditure (Appendix 12)

- 12.1 The HRA revised forecast for 2019/20 (based on performance to December 2019) anticipated an operating surplus of £1,465,400 for the year, which after appropriating revenue contributions to capital of £8,790,500, would leave a balance of £1,500,000 in revenue reserves at 31st March 2020.
- 12.2 The outturn statement at Appendix 12 shows a net increase of £149,142 in the operating surplus to £1,614,542 for the year. The requirement for revenue contributions to capital was significantly reduced to £3,370,175 (as explained in paragraph 1.8 below) leaving a balance of £7,069,466 in revenue reserves at year end.
- 12.3 An explanation of variances exceeding £30,000 is shown below:

| Detail | Forecast £'000 | Actual £'000 | Variation £'000 |
|--|-------------------|-----------------|--------------------|
| General & Special Management – savings on utility costs | 2,378 | 2,342 | 36 |
| ALMO Management Fee – development costs on abortive schemes charged to revenue | 5,294 | 5,345 | (51) |
| Repairs & Maintenance - additional repairs identified through tenancy visits | 3,911 | 3,989 | (78) |
| Bad Debts – anticipated impact of Universal Credit mitigated by recovery/support processes | 200 | 157 | 43 |

| | | | |
|---|--------|--------|------------|
| Dwelling Rents – additional rent from acquired properties and reduced RTB sales | 18,435 | 18,506 | 71 |
| Service Charges – higher recharges for communal repairs | 852 | 921 | 69 |
| Other net variances | | | 59 |
| Increase in Operating Surplus | | | 149 |

Major Repairs Reserve (Appendix 13)

- 12.4 In accordance with regulations this reserve is funded by sums equivalent to the depreciation provision and has been used to finance HRA capital expenditure.

HRA Capital Programme (Appendix 13)

- 12.5 Actual expenditure for the year was £26,023,260, an underspend of £3,822,640 compared with the forecast of £29,845,900.
- 12.6 The programme includes a number of projects where expenditure plans span a number of financial years and are delivered through more than one contract. Where delays occur, for example through extended consultation with leaseholders or procurement issues, Cheltenham Borough Homes seek opportunities for advancing other projects within overall funding. Costs remain controlled at both contract and project level.
- 12.7 Significant project variations from forecast (exceeding £50,000) are shown below:-

| Project | Forecast | Actual | Variation |
|--|----------|--------|--------------|
| | £'000 | £'000 | £'000 |
| Major void refurbishment – increased proportion of higher value void work | 747 | 800 | (53) |
| Window & Door replacement – delays in door replacement, waiting for government update on fire certification | 2,275 | 1,841 | 434 |
| Heating Installations – invoicing issues with supplier, orders delayed until new supplier commenced April 2020 | 901 | 670 | 231 |
| Paths, Fences & Walls – contingent budget, spent on essential repairs as required | 284 | 192 | 92 |
| Acquisitions – completion delays at year end due to COVID 19 | 4,667 | 4,045 | 622 |
| New development schemes – primarily due to delayed completion of land purchase, now expected in 2020/21 | 14,854 | 11,703 | 3,151 |
| Approved development schemes – earlier start on site at Monkscroft Villas and Pennine Road | 675 | 1,434 | (759) |
| Other net variances | | | 105 |
| Total variance to forecast | | | 3,823 |

- 12.8 Changes to the projected financing of the capital programme have arisen from the reduction in overall spend (£3.823m.), the availability of additional capital receipts and grants, and additional long term borrowing undertaken at advantageous rates. This has reduced the requirement for

revenue contributions to capital from £8,790,500 to £3,370,175. The unspent resources will be carried forward to fund future programmes.

12.9 The approved capital programme for 2020/21 will be subject to significant delays arising from COVID 19. CBH are currently rescheduling projects and revising costs to produce an updated programme. Priority is being given to decent homes work and health and safety compliance.

13. 2020/21 Revenue and Capital budget monitoring to June 2020

13.1 Due to the pressures of the year end process a detailed monitoring exercise has not been undertaken at this point in the year. However, the financial impact of COVID-19 has been closely monitored since March 2020, with the additional expenditure incurred and the forecast loss of income being reported to the Ministry of Housing, Communities and Local Government (MHCLG) on a monthly basis.

13.2 The emergency will have a major impact on the ability to deliver the budget in 2020/21, as the loss of income and additional costs are expected to exceed government grant received. The following table shows the actual and projected losses for the period 1st April to 30th June 2020 and the whole year 2020/21. Details of significant variances (over £50,000) are provided in paragraphs 13.3 to 13.17 below.

| | 2020/21 Budget | Loss April-June | Expected loss for year |
|--|---------------------------|----------------------------|-----------------------------------|
| | £ | £ | £ |
| Car Parking | 4,514,000 | 1,048,121 | 2,635,229 * |
| Bereavment Services | 2,241,029 | 190,154 | 320,881 * |
| Development Services | 723,174 | -2,814 | 15,000 |
| Land Charges | 223,819 | 36,517 | 43,511 |
| Building Control | 569,000 | 50,816 | 68,597 |
| Recycling Income | 1,422,000 | 93,800 | 176,852 * |
| Green Waste | 761,500 | -57,297 | -57,297 |
| Household Waste | 61,600 | 4,695 | 12,395 * |
| Trade Waste | 649,500 | 27,788 | 48,085 * |
| Licenses | 440,482 | 48,895 | 70,849 * |
| Animal/pest/pollution control | 81,440 | 8,129 | 16,526 * |
| Shopmobility | 14,200 | 3,396 | 5,171 * |
| Markets | 33,700 | 8,425 | 12,638 * |
| Parks & Gardens lettings | 92,178 | 22,271 | 33,793 * |
| Highways-roundabout sponsorship | 44,485 | 11,121 | 44,485 * |
| Marketing Cheltenham | 233,250 | 40,080 | 53,340 * |
| Commercial Rents | 4,880,327 | 40,000 | 40,000 |
| Investment Interest | 824,300 | 41,875 | 167,500 * |
| Gross Loss of income | £17,809,984 | £1,615,973 | £3,707,555 |
| Additional expenditure | | £802,500 | £1,703,000 |
| Government grant received to June 2020 | | -£1,210,110 | -£1,210,110 |
| Estimated net shortfall | | £1,208,363 | £4,200,445 |
| <i>* Estimated Irrecoverable lost income</i> | | | <i>£3,540,447</i> |

13.3 Car Parking – Income

There is a loss in car parking income of £1.048m for April to June 2020 (93% of profiled budget) and a forecast loss of £2.635m for the year, all of which will be irrecoverable. This income stream is expected to recover slowly throughout the year, from a loss of 85% in the month of June to an estimated loss of 10% in March 2021. These assumptions will be reviewed closely throughout the year.

13.4 There is a risk that this income will never recover to past levels, as consumer and working behaviours may change permanently, as more people continue to work and shop from home in the future. Assuming that the estimated income level of 90% of budget continues going forward, there will be a loss of circa £450k in 2021/22 and beyond, creating a shortfall in the medium term financial strategy which will need to be met from new income streams or reduced spending.

13.5 Bereavement Services

There is a loss in bereavement services income of £190k for the quarter to 30th June, (35% of profiled budget), mainly as a result of the restrictions on numbers at funerals and type of services

held. The projected forecast income of £321k for the year assumes a continued loss of 35% income for July and August, with normal income levels being achieved from September onwards. This lost income will not be recoverable.

There is additional expenditure totalling £98k for the quarter to 30th June, as a result of backfilling cremation and grave digging services and additional administration, arising as a result of staff shortages during lockdown.

Building control

- 13.6** There is a loss in building control income of £50.8k to 30th June 2020 representing a loss of 36% against budgeted income for the period. This may improve as the economy recovers, and may be recoverable through applications postponed until next financial year.

Recycling income

- 13.7** There is a shortfall in recycling income of £93.8k for the quarter to 30th June 2020. The projected loss of £176.8k for the year assumes that recycling credits are not impacted by the emergency, but that there is a reduction in the bulking facility sales of 25% to September 2020, returning to normal income levels for the remainder of the year. However, there has been a delay in raising invoices for income in the first quarter so this position may improve during the second half of the year.

Green Waste

- 13.8** There is a surplus of Green Waste income for the first quarter of £57k due to the increase in the level of demand, particularly when the Household Recycling centre was closed to the public.

Licences

- 13.9** There is a loss of licensing income to 30th June of £48.9k, representing 44% of profiled budget for the period and an expected loss of £70.8k for the year. This loss will not be fully recoverable, due to fixed renewal periods. There is a possibility that income levels will not return to normal in future years, if some businesses cease trading as a result of a prolonged lockdown.

Investment Income

- 13.10** There is an estimated net reduction in investment interest of £167.5k that will not be recovered. This is a result of the reduction in interest rates, which may not recover for some time. This budget may therefore be impacted in 2021/22.

Expenditure

- 13.11** The additional costs of the emergency are estimated at £803k for the quarter to June 2020, with an estimated total spend of £1.7m for the year. Most of this expenditure is one off. However this includes £500k shortfall in savings targets for new projects which may need to be delayed or reprioritised. This will have an impact on the budgets for 2021/22 onwards.
- 13.12** Homelessness - The expenditure includes additional spending on homelessness, of an estimated £20k per month which may continue beyond March 2021, if there is a recession as a result of the emergency. The future cost of this service will depend on how long it takes the economy to fully recover.
- 13.13** Ubico - The expenditure includes £198k additional costs incurred by Ubico Limited for the period March to 30th June, in order to continue providing essential waste and environmental services during lockdown. These costs include the backfilling costs of household collection, PPE and other health and safety materials and the safe reopening of the Household Recycling Centre.
- 13.14** Food Hub costs - The council have provided a food hub to support the local community, facilitated

by Cheltenham Trust, during the lockdown, with total additional expenditure incurred to 30th June 2020 being £106k. This is made up of food preparation and delivery of meals to vulnerable people in the community.

- 13.15** The activity against the council's approved expenditure budgets will be reviewed and reported in the next budget monitoring report in September 2020. Any savings in these budgets, for example as a result in changed working practices during lockdown, will reduce the forecast net overspend for the council for the year.

Government Grant

- 13.16** The council has received £1.210m grant income in the period to 30th June 2020, to partially offset the actual and projected losses reported to the MHCLG, as part of monthly returns submitted.
- 13.17** On 16th July 2020 we were informed by Central Government that we would receive a further £172,147 from the 3rd tranche of government funding. In total, to date, this council has received £1,382,257. Based on our best estimates this will cover the additional costs directly incurred as a result of this pandemic, excluding those attributed savings targets.
- 13.18** Of more concern to this council is the loss of income from sources such as car parking. The government has announced a co-payment scheme that will compensate councils for irrecoverable income losses from sales, fees and charges. They expect Council's to absorb the initial 5% of losses compared to planned income from these sources. Thereafter, there will be a cost splitting arrangement where 75p in every pound of relevant losses will be compensated for by the government. Technical guidance has just been released detailing how the Government will operate the income support scheme. Members will receive a further update from the Executive Director Finance and Assets once he and his team have collated all the necessary information.

14. Section 151 Officer advice

- 14.1** The Government reforms to local government finance which includes the fair funding review and 75% business rates retention could have a significant impact on this Council as a result of a commitment from Ministers to rollout a full business rates reset – i.e. all the growth achieved since 2013 would be reset to zero. The financial uncertainty surrounding COVID-19 makes it increasingly likely that any major changes to local government finance will be deferred for yet a further year.
- 14.2** Despite 10 years of austerity, COVID-19 has presented the biggest financial challenge ever to this council. Whilst I am confident that the Council has enough resources at its disposal to combat the short-term effect, difficult decisions may need to be made in future budget rounds to ensure the council remains financially resilient.
- 14.3** In agreeing the recommendations in this report, members need to be mindful of the prevailing challenging financial climate and ensure that any carry forwards recommended for approval (even those for which the Section 151 Officer has the delegation to approve) are the most effective use of scarce resources.

15. Conclusion

- 15.1** The outturn position for 2019/20 demonstrates that, despite another challenging year, the Council has managed to deliver services within budget..
- 15.2** The carry forward requests will assist in the delivery of corporate objectives, help to complete projects started in 2019/20 and support initiatives which help to close the medium term funding gap.

15.3 Members should note that the outturn position has been used to prepare the Statement of Accounts for approval by the Audit, Compliance and Governance Committee in September 2020.

16. Consultation

16.1 Appropriate members and officers were consulted in the process of preparing the outturn position and associated reports and accounts.

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| Report author | Contact officer: Paul Jones, Executive Director Finance and Assets paul.jones@cheltenham.gov.uk, 01242 264365 |
| Appendices | <ol style="list-style-type: none"> 1. Risk assessment 2. Summary outturn performance position - General Fund 3. Service level outturn performance position - General Fund 4. Significant variances 5. Carry forward requests 6. Movement on earmarked reserves and general balances 7. Annual Treasury Management review 8. Capital programme - General Fund 9. Section 106 receipts statement 10. Council tax and NNDR collection 11. Sundry debt collection 12. HRA Operating account 13. HRA Capital programme and Major Repairs Reserve |
| Background information | <ol style="list-style-type: none"> 1. Section 25 Report – Council 17th February 2020 2. Final Budget Proposals for 2019/20 – Council 18^h February 2019 3. Final Budget Proposals for 2020/21 – Council 17^h February 2019 |

| The risk | | | | Original risk score (impact x likelihood) | | | Managing risk | | | | |
|-----------|--|-----------------------|-------------|---|---|-------|------------------|---|----------|-----------------------|------------------------------|
| Risk ref. | Risk description | Risk Owner | Date raised | I | L | Score | Control | Action | Deadline | Responsible Officer | Transferred to risk register |
| CR3 | If the Council is unable to come up with long term solutions which close the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision. | Cabinet | 01/09/2010 | 5 | 3 | 15 | Reduce | The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities. | Ongoing | ED Finance and Assets | 01/09/2010 |
| CR105 | If the Budget Strategy (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Section 151 Officer in the council's Medium Term Financial Strategy | ED Finance and Assets | 01/04/2016 | 5 | 4 | 20 | Reduce | The MTFS is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2020/21 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever possible. | Ongoing | ED Finance and Assets | |
| 1.02 | If income streams from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business | ED Finance and Assets | 14/09/12 | 5 | 4 | 20 | Accept & Monitor | The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by | Ongoing | ED Finance and Assets | |

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|------|--|-----------------------|----------|---|---|----|--------|--|---------|-----------------------|--|
| | and the constrained ability to grow the business rates in the town then the MTF5 budget gap may increase. | | | | | | | the Council. The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base. | | | |
| 1.03 | If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year. | ED Finance and Assets | 15/12/10 | 4 | 4 | 16 | Reduce | Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and income generation will be prioritised to mitigate the risk of income fluctuations. | Ongoing | ED Finance and Assets | |
| 1.07 | If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is | ED Finance and Assets | 13/12/10 | 5 | 3 | 15 | Reduce | Work with Publica and county wide CFO's to monitor changes to local government financing regime including responding to | Ongoing | ED Finance and Assets | |

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|--------------------|---|-----------------------|----------|---|---|----|--------|--|---------|-----------------------|--|
| | likely to be increased volatility around future funding streams. | | | | | | | government consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement. | | | |
| New corporate risk | If government support to compensate this Council for the impact of COVID-19 is insufficient, greater reliance will be placed on the use of reserves, service reduction and asset sales. | ED Finance and Assets | 13/12/10 | 5 | 5 | 25 | Reduce | <p>The Council will continue to lobby for additional resource, as promised by Central Government from the outset of the pandemic.</p> <p>Work programmes are underway to review service provision, capital programmes and rationalisation of assets.</p> | Ongoing | ED Finance and Assets | |