Public
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Financial Performance Report 2020/21, Quarter 2

Meeting/Date: Cabinet – 19th November 2020

Executive Portfolio: Executive Councillor for Finance and Resources

Report by: Chief Finance Officer

Wards affected: All

Executive Summary:

The Covid-19 pandemic has had a considerable impact on the Council. The Government's lockdown, announced on 20th March 2020, has meant that many of the businesses in Huntingdonshire have been forced to close – significantly impacting on the local economy, which in turn impacts on the Council's commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are safe during this period and that the most vulnerable in our community are cared for. This comes with additional cost pressures.

Financial Impact

These additional costs have had a significant impact on the financial outturn for 2020/21 as the lockdown as continued into the first quarter of this financial year, with the economy and businesses just starting to re-open. However, the true scale of its impact on the Council's finances in 2020/21 will not be truly known until March 2021. The Council is showing substantial losses across many of its largest streams of commercial income. These include rental income, Leisure income, parking, commercial waste, licensing fees and planning fees. As with any recession, investment income is anticipated to reduce which will create further pressures on the Council's finances.

On the expenditure front some of the key areas of additional pressure will include accommodation and support for rough sleepers, additional costs in supporting our most vulnerable with food parcels and assistance in accessing medical provisions – some of whom may not have required our support previously.

It is difficult to quantify the impact of Covid-19 at this stage with any certainty, but the financial pressure on the Council will be substantial – even after the Government's emergency Covid-19 funding for local authorities is taken into account. Due to the Council's reliance on commercial income and fees and charges and consequently its exposure to the economic cycle, the Council has sought in recent years to build up the general fund balance to ensure the Council is financially resilient in a recession. The Council is therefore able to draw upon its general fund reserve balances in 2020/21 to balance its budget.

Moving forward, the Council will reset its Medium-Term Financial Plan (MTFP) in recognition of the impact of the pandemic and the Council's strategic objectives. The Covid-19 crisis has meant that the Council has had to review what its most critical services areas and which are required to still be operational even during a global pandemic. The changing environment and "new normal" in which we are likely to find ourselves will require the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. This will also require the Council to review the structural position of its budget and how that needs to change going forward.

Recommendation(s):

It is recommended that:

- The Cabinet is invited to consider and comment on the financial performance at the end of September, as detailed in Appendix 1, and the register of reviews of Commercial Investment Strategy propositions at Appendix 2.

Appendix A

1. PURPOSE OF THE REPORT

1.1 To present details of the Council's projected financial performance for 2020/21.

- Revenue outturn estimated overspend of £2.403m.
- Capital outturn estimated underspend of £10.802m

1.2 The impact of the Covid 19 pandemic, as far as possible, has been reflected within the Council's financial position. This now includes the first claim from the Governments Income Compensation Scheme of £1.568m, this will be claimed retrospectively and is subject to approval.

2. BACKGROUND

2.1 The budget and MTFS for 2020/21 approved in February 2020, assumed a net expenditure budget of £17.688m, together with an increase in Council Tax of 2.6%. At the time of setting this budget it was not foreseen that a global pandemic was imminent, causing unprecedented actions to be taken within the UK and the rest of the world, in trying to restrict the spread of this pandemic.

Impact assessments were initially undertaken to estimate the impact on the council's budget and due to government support via emergency funding and the anticipated income compensation scheme, together with the ability to support the anticipated deficit with reserves, a revised budget for 20/21 has not been produced. However, this is constantly under review and any significant changes will be reported to cabinet.

The MTFS is currently under review for 21/22 onwards within the current budget setting cycle.

2.2 The detailed analysis of the Q2 outturn as at 30th September is attached at **Appendix 1**.

3. FINANCIAL PERFORMANCE

3.1 Financial Performance Headlines

The forecast outturn position for the current financial year and the impact of variations will be incorporated within the MTFS.

Revenue The approved Budget is £17.688m with the forecast outturn being £20.091m which is an overspend of £2.403m, a decrease of £0.593m compared to Q1 forecast. The main reasons are shown on the next page.

MTFS The MTFS was updated as part of the 2020/21 Budget setting process and will again be updated as part of the 2021/22 Budget setting process which is now under way. The revision of the MTFS will include 2019/20 outturn variations and others occurring or foreseen in 2020/21 that have an impact on future years.

Capital The approved Budget is £16.611m plus the re-phasing of £3.909m giving a revised total Capital Programme of £20.520m. The forecast outturn is £9.717m giving an underspend of £10.802m.

3.2 **Summary Revenue Forecast Variances by Service**

The table below shows the total variances for each Service and the main reasons where variances are greater than £50,000.

Head of Service	**Budget £'000s**	**Revised Forecast £'000s**	**Variance £'000s**	**Comments**
AD Corporate Resources	5,899	4,979	(920)	Emergency funding for Covid 19 -£2.295m; reduction in CIS rental income +£0.975m due to no CIS acquisitions as planned, increase voids and expected lower rental growth across the whole portfolio
AD Transformation	401	240	(161)	Combination of delays in projects and recruitment to vacant posts due to focusing and support the response to Covid 19
Chief Operating Officer	4,425	4,518	93	Increase agency costs for Development Management; Mid year adjustment on Housing Benefit, off set by various salary and efficiency across the whole service
Corporate Leadership	603	718	115	Increase costs due to supporting response to Covid 19
Head of ICT	2,139	2,131	(8)	
Head of Leisure & Health	(215)	2,065	2,280	Loss of income due to closure of Leisure Facilities
Head of Operations	3,347	4,553	1,206	Loss of income due to car park charges being suspended during lock down.
Housing Manager	177	172	(5)	
Growth Manager	842	679	(163)	Salary savings and reduced costs due to delay in projects due to Covid 19.

Programme Delivery Manager	70	36	(34)	
Total	**17,688**	**20,091**	**2,403**	

Further analysis of the revenue variance and service commentary are in **Appendix 1**. This provides the variances by service and where the variances are greater than +/- £10,000 comments have been provided by the budget managers/Head of Services. Where there are adverse variances the budget managers have provided details of the actions they are undertaking and where possible indicated if this will have an ongoing impact on the MTFS. This does not include the Income Compensation Scheme claim as this is still subject to approval.

3.3 **Capital Programme**

The approved gross capital programme for 2020/21 is £16.11m plus the re-phasing of the £3.909m giving a revised total Capital Programme for 2020/21 of £20.520m.

The forecast net expenditure outturn is £9.717m, an underspend of £10.802m.

The table below shows the total variances for each Service and the main reasons where variances are greater than £50,000.

	Budget £000	**Forecast outturn £000**	**Forecast (underspend) / overspend £000**	**Main reasons for variance**
AD Resources	12,371	2,351	-10,020	Delay's in projects in relation to Bridge Place Car Park; Oak Tree Remedial work Projects impacted by Covid 19 are Alms Close and Huntingdon Redevelopment which is being rephased within the current budget cycle for 21/22
AD Transformation	207	161	-46	Impacted by resources being redeployed elsewhere within the business to support the response to Covid 19
Chief Operating Officer	2,306	1,886	-420	Reduction in disabled adaptations
Head of ICT	62	62	0	

	Budget £000	Forecast outturn £000	Forecast (underspend) / overspend £000	Main reasons for variance
Head of Leisure & Health	1,149	1,456	307	Additional spend to be funded from CIL and grant income
Head of Operations	3,819	2,427	-1,392	Impacted by resources being redeployed elsewhere within the business to support the response to Covid 19
Housing Manager	0	0	0	Impacted by resources being redeployed elsewhere within the business to support the response to Covid 19
Planning Policy Manager	606	1,374	768	Additional spend is CIL funded projects not shown within the budget.
Total	**20,520**	**9,717**	**-10,803**	

3.4 **Finance Dashboard**

The Outturn for Q2 also looks at the collection rates for Council Tax and NDR, together with the working ages caseload for Council Tax Support Scheme. The details are shown in Appendix 1.

In summary, Council Tax collection rates are holding in line with 19/20 rates, however NDR is showing a decline compared to 19/20. This is mainly due to the impact of Covid 19 pandemic and the lock down of the economy, together with Government initiatives to support the hospitality sector with additional reliefs of £20.8m compared to 19/20. The Council will be compensated for these reliefs via the normal grant income received via the business rates retention scheme.

Council Tax Support Scheme has seen a significate increase in caseload within the working age group of 11% compared to 19/20.

4. UPDATE ON THE COMMERCIAL INVESTMENT STRATEGY

4.1 The Commercial Investment Strategy (CIS) was approved by Cabinet in September 2015 and the CIS Business Plan in December 2015. The implementation of the CIS is seen as a key means by which the Council can generate income to assist it in meeting the forecast gap in the revenue budget, by 2023/24 it will have in part contributed in reducing this to £1.2m.

4.2 At the end of Quarter 2, the financial projections for the CIS are:

CIS Investments	Budget (£'000)	Outturn (£'000)	Variance (£'000)
Cash Investments			
CCLA Property Fund	(162)	(160)	2
Total Cash Investments	**(162)**	**(160)**	**2**
Property Rental Income	(5,880)	(4,660)	1,220
MRP	879	697	(182)
Net Direct Property Income	**(5,001)**	**(3,963)**	**1038**
Management Charge	144	144	0
Total Property Investments	**(4,857)**	**(3,819)**	**1038**
TOTAL	**(5,019)**	**(3,979)**	**1040**

4.3 **Investments**

4.3.1 Due to Covid 19 the investment market virtually closed for business. In Q2 there has been some return in activity, but a significant number of funds remain gated to buying or selling assets and accordingly very few quality investment assets have come to the market, the majority being development sites or retail. Resources have been concentrating on managing income from existing tenants during the pandemic whilst awaiting more clarity on the current and future financial position and the demands from the income stream. We continue to monitor the market and flag up any exceptional opportunities, There has been only one opportunity within District, an industrial site off Cromwell Road, St Neots but at only 20% let was not attractive. The Government continued consultation in this period on use of PWLB funds for investing for yield, the indicators are that this source of funding will be switched off for commercial property investment and may extend to prevent any PWLB borrowing if Local Authorities undertake any borrowing elsewhere for property investment. A summary of opportunities is included in **Appendix 2**.

4.3.2 Returns from the CCLA property fund have decreased in 2020/21. Other investment vehicles such as bank deposits and money market funds interest rates have also decreased significantly since the Covid-19 pandemic.

4.3.3 To date the majority of the Council's investments have been funded from earmarked reserves or cash balances. Recent acquisition such as Fareham, Rowley Centre and Tri-Link have required loans from PWLB to fund their purchases; part of the purchase price and acquisition costs were met from earmarked reserves.

5 COMMENTS OF OVERVIEW & SCRUTINY

5.1 The comments of the relevant Overview and Scrutiny Panel will be included in this section prior to its consideration by the Cabinet.

6. RECOMMENDATIONS

6.1 The Cabinet are invited to consider and comment on financial performance at the end of September, as detailed in section 3 and in **Appendix 1**, and the register of reviews of Commercial Investment Strategy propositions at **Appendix 2**.

7. LIST OF APPENDICIES INCLUDED

Appendix 1 – Financial Performance Monitoring Suite 2020/21, Quarter 2
Appendix 2 – Register of reviews of CIS investment propositions, Quarter 2

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