

Blaby District Council

Cabinet Executive

Date of Meeting	5 July 2021
Title of Report	Financial Performance 2020/21 This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Accountancy Services Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 The report sets out details of the Council's financial performance against the General Fund revenue budget, Business Rates Retention, Council Tax, and the Capital Programme in respect of the financial year ended 31st March 2021.

2. Recommendation(s) to Cabinet Executive

- 2.1 That the financial performance for 2020/21 is accepted.
- 2.2 That the proposal in paragraph 4.1 to transfer £1,140,000 from General Fund balances to earmarked reserves is approved.

3. Reason for Decisions Recommended

- 3.1 Following the Redmond Review, the Ministry of Housing, Communities and Local Government (MHCLG) has put in place revised regulations that came into force on 31st March 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 and 2021/22 for all local authorities. As a result, the publication date for audited accounts has moved from 31st July to 30th September for the two financial years in question. The public inspection period must now commence on or before the first working day of August, effectively requiring the unaudited accounts to be signed off and published by 31st July.
- 3.2 Members will be aware that the audit of the 2019/20 accounts has still not been finalised, some 9 months after it commenced. There is no doubt that the COVID-19 pandemic has had an impact on the audit process but our auditors have also experienced resourcing issues, as have others in the public sector audit market, and this has also played a part in the delay in sign-off. Ultimately this means that there will be a corresponding impact on the timing of the 2020/21 audit. EY have already indicated that some of their audit work in respect of 2020/21 will not be scheduled until after 30th September, the statutory deadline. Clearly this is disappointing but is outside of the Council's control. Naturally, if there is any change to the financial performance, due to

amendments arising from the audit, this will be reported to Cabinet as soon as practically possible following completion of the audit.

- 3.3 In the interests of transparency the surplus for 2020/21 has been transferred to General Fund balances in its entirety. However, it is recognised that Cabinet Executive might wish to set aside some of that surplus in earmarked reserves, in order to prepare for and mitigate against future spending and funding pressures.

4. Matters to consider

4.1 General Fund Revenue Account

The Council's net expenditure for 2020/21 is summarised by Portfolio in Appendix A.

The Revised Budget allowed for a contribution from General Fund balances of £323,402 in recognition of the added pressures that the COVID-19 pandemic had brought to bear on the Council's financial position. A number of key income streams, including the leisure management fee, planning fees, and car parking charges have all been significantly reduced. In addition to this the Council was experiencing spending pressures in areas such as homelessness, the leisure centre contract, and refuse and recycling, amongst others. However, in spite of the pandemic the Council has been able to return an unprecedented surplus of £1,193,465 for 2020/21. This has been achieved through a combination of unused COVID-19 funding provided by the Government, better than expected performance from some income streams, and other more general expenditure savings.

COVID-19

During the year the Council received £1,255,871 in emergency funding from the Government to assist with the expenditure pressures and income losses that all local authorities were experiencing as a result of the pandemic. The Government also recognised the particular impact on key income streams that had been affected by the national lockdown and social distancing measures. As a result a further support measure was put in place to compensate authorities for a proportion of their sales, fees and charges income. At the point at which the 2021/22 budget was set, it was expected that the Council could receive around £547,000 compensation.

On reviewing the outturn at year end it became apparent that, although the additional cost of the pandemic has been significant, we have been able to subsume some of those costs within an overall underspend on the establishment. Furthermore, we have been able to recover a large proportion of the additional cost of bed and breakfast accommodation for homeless persons through the housing benefit system. This was recognised as a possibility from the outset but the extent to which costs could be recovered was difficult to predict. Finally, additional funding streams such as New

Burdens Grant, Test and Trace Administration Grant, the Compliance and Enforcement Grant, and Contain monies became available to support some of our additional expenditure in the year. Ultimately this meant that the Council still has approximately £315,000 of emergency funding remaining at year end, compared with an expectation that costs would exceed funding by around £33,000.

In terms of the Sales, Fees and Charges compensation, the outturn position is that we have accounted for an additional £147,000 grant income compared with the revised budget.

Therefore, in total £495,000 of the budget variance can be attributed specifically to COVID-19 funding streams.

Major Expenditure Variances

The table at Appendix B highlights the major variances, some of the more significant of which are detailed below.

Reduced Expenditure

- The Establishment budget was underspent by £281,927 at the end of the financial year. This is mainly due to vacant posts which have now been filled.
- Reduced expenditure across the Council has been seen on travel costs, which is due to the lockdown, with meetings and training being held remotely.
- Salary costs relating to Lightbulb Technical Officers have been capitalised and funded by Disabled Facilities Grant.
- The Council has achieved savings against many of its premises and supplies and services budgets in relation to the main offices due to lockdown measures and staff working from home.

Additional Income

- The Council's main key income streams are detailed in the table below. However, some income streams, such as industrial estate rents and open spaces fees and charges have performed better than expected when setting the budget.

Key Income Streams

The following table provides an analysis of the performance of the Council's key income streams during the year:

	Approved Budget (£)	Revised Budget (£)	Actual Income (£)	Variance against Approved Budget (£)	Variance against Revised Budget (£)
Planning Fees	(768,000)	(520,000)	(548,496)	219,504	(28,496)
Building Control Fees	(245,000)	(245,000)	(220,483)	24,517	24,517
Building Control Partnership	(314,225)	(479,454)	(488,013)	(173,788)	(8,559)
Land Charges	(220,000)	(220,000)	(268,358)	(48,358)	(48,358)
External Investment Interest	(185,000)	(95,000)	(89,672)	95,328	5,328
Refuse and Recycling	(1,240,350)	(1,307,000)	(1,335,414)	(95,064)	(28,414)
Car Parks	(190,400)	(72,700)	(8,680)	181,720	64,020
Leisure Centres	(549,757)	0	0	549,757	0
	(3,712,732)	(2,939,154)	(2,959,116)	753,616	(19,962)

NB: brackets indicate excess income

The key income was heavily impacted by the pandemic at the start of the financial year. As a result, expectations were scaled back for many income streams and this was reflected in the revised budget.

As the table above shows the main variance in the Councils Key Income is in relation to income from leisure centres. In the first quarter of the financial year, and following the lockdown due to the Pandemic, it was clear that the Council would not meet its budgeted income due to the temporary closure of its leisure centres. At revised budget stage the decision was taken to reduce this budget down to zero.

Positive variances can be seen in Planning fees, Land Charges, and Refuse & Recycling income. Whilst the Building Control Partnership variance is positive, some of this income will be offset against additional establishment costs.

Planning income remained quite constant throughout the year, however the applications being received were of a lower value. Due to a lack of larger scale developments the budget was reduced from £768,000 to £520,000. Actual income exceeded the revised budget by £28,496, although this was still considerably reduced to the original budget.

The Land Charges budget was not revised during the year due to the income remaining quite constant. Stamp duty holiday on house sales had a large impact on the income and an additional £32,000 in comparison with the same period in 2019/20 has been received.

Overall the Refuse and Recycling income exceeded both the approved and revised budgets. This is mainly due to an increase in garden bin rental and larger domestic bins. Bulky item collection and trade waste both saw reductions in year due to the impact of COVID-19.

The pandemic resulted in closure of businesses, lockdown and a period of free parking which has led to the overall income totalling £64,020 lower than the revised budget.

Carry Forward of Unspent Budgets

As part of the closedown process an exercise has been undertaken to identify where it is reasonable to carry forward unspent budgets from 2020/21 to the next financial year. As a general rule this applies to one-off project related budgets, which are often externally funded. A total of £2,184,983 has been carried forward to 2021/22, of which £1,484,841 relates to external funding which has to be used for specific purposes. £15,277 relating to Community Lottery money and £483,595 Local Plan funds which were carried forward to 2020/21 in previous years remains unspent and is carried forward to 2021/22.

Earmarked Reserves

In addition to the General Fund balance the Council also maintains a number of Earmarked Reserves. Some of these are set aside for specific purposes whilst others have been created to mitigate the uncertainties that still surround local government funding. A detailed breakdown of the movement on Earmarked Reserves appears at Appendix C. The overall balance on Earmarked Reserves has increased significantly from £7,574,952 at the beginning of the financial year to £18,593,839 at 31 March 2021. However, it should be noted that £10,868,476 of the year end balance is technically not available for use. This is the balance set aside, as described in the following paragraph – Business Rates Retention – to mitigate the Collection Fund deficit at 31st March 2021.

Due to the large positive outturn as detailed above, there is an opportunity for the Council to consider setting aside further funds in earmarked reserves in order to mitigate against future costs. It is, therefore, proposed to transfer £1,140,000 from the General Fund balances to the following reserves –

	£	Reason
COVID Support Reserve	350,000	To mitigate the impact of ongoing COVID-related costs.
COVID Support Reserve	350,000	Additional provision for loss of leisure management fee.
IT Reserve	140,000	Top up to allow for future funding of Capital Programme and to cover the estimated cost of Wi-fi upgrade works and Disaster Recovery planning.
Blaby District Plan Priorities Reserve	200,000	Top up to allow for future funding of initiatives that meet the priorities set out in the Blaby District Plan, including the green agenda.
Agile Working Reserve	100,000	To allow for changes to the way we work post-COVID.
	1,140,000	

The COVID Support Reserve is a new reserve for the purposes set out in the table above. The Blaby District Plan Priorities Reserve has been created by amalgamating and renaming the Special Schemes Revenue and Capital Reserves.

General Fund Balances

As a result of the outturn referred to above, £1,193,465 has been added to the General Fund balance. This leaves a year end balance of £5,214,677, representing 39.5% of the budgeted net revenue expenditure for 2021/22, but only 34.6% when taking into account planned contributions to support the budget in 2021/22. The Council's upper limit, set as part of its policy on reserves, is 35%.

If the proposed transfer of £1,140,000 to earmarked reserves, set out above, are approved then General Fund balances would sit at 30.9% of the net budget requirement, or 25.9% after planned contributions are taken into account. This level of balances is still considered to be reasonable and prudent.

4.2 Business Rates Retention

Based upon the statutory NNDR1 return it was estimated that income from business rates in 2020/21 would be £49,829,505. Blaby's share of business rates income, again based upon the NNDR1 return, would have been £19,931,802 (40%).

This allowed for significant growth in 2020/21 which was expected to be generated primarily from the development of Fosse Park.

However, the actual position has been significantly impacted by the COVID-19 pandemic. One of the first support measures that the Government introduced, after announcing the first national lockdown, was an expansion of the retail relief that was already available to some businesses. This resulted in many businesses in the retail, leisure and hospitality sector having their rates bill reduced to nil. Although local authorities have been compensated for loss of rates resulting from the expanded retail relief, this measure reduced the Council's Non Domestic Rate Income by over £22m. Compensation is by way of Section 31 grant, which must be credited to the General Fund, whereas the loss of NNDR income results in an increased deficit on the Collection Fund. Blaby's share of that deficit will be charged to the General Fund in 2021/22 and beyond, so it has been necessary to carry forward the Section 31 grant to 2021/22 to offset the deficit.

The outturn income from business rates in 2020/21, as illustrated by the NNDR3 return, was £21,177,700, of which Blaby's share (based on 40% of the total) was £8,471,080.

The following table below shows the main variances between the estimated position on the NNDR1 return, and the final outturn.

	NNDR 1 £	NNDR 3 £	Variance £
Gross Rates Payable	55,799,928	51,066,074	(4,733,854)
Transitional Arrangements	31,649	418,957	387,308
Small Business Rate Relief	(1,255,640)	(1,483,117)	(227,477)
Mandatory Reliefs	(1,338,069)	(1,302,380)	35,689
Discretionary Reliefs	(67,951)	(72,952)	(5,001)
Unoccupied Property	(1,200,000)	(1,389,867)	(189,867)
Discretionary Relief funded by S31 Grant	(135,497)	(22,171,250)	(22,035,753)
Net Rates Payable	51,834,420	25,065,465	(26,768,955)
Provision for Bad Debts/Write-offs	(100,000)	(275,542)	(175,542)
Provision for Appeals	(1,770,000)	(3,090,000)	(1,320,000)
Transitional Protection Payments	(31,649)	(418,957)	(387,308)
Cost of Collection Allowance	(103,266)	(103,266)	0
Non Domestic Rating Income	49,829,505	21,177,700	(28,651,805)

Aside from the expanded retail relief, the other more significant variances are those in respect of gross rates payable and the appeals provision. Gross rates were £4.7m lower than predicted when the budget was set, largely as a result in delays to new growth coming forward. This growth is still expected to add to the business rates base in the future, in particular with Fosse Park West having opened in April 2021. The appeals provision has been increased to reflect the check, challenge and appeals received by the Valuation Office at 31st March 2021. The number of appeals is greater than anticipated when the 2020/21 budget was set but Material Changes of Circumstances relating to COVID-19 have been excluded from the provision on the understanding that the Government plans to introduce legislation to stop such appeals. However, the Valuation Office has yet to reject MCCs and there remains a strong possibility that businesses will look to other reasons on which to base their appeals, e.g. reduced use of office accommodation.

As a result of the impact of COVID-19, the Business Rates Collection Fund has moved from a surplus of £620,161 at 31st March 2020 to an exceptional deficit of £27,177,940 at 31st March 2021. Blaby's share of that deficit is £10,908,022.

Due to the way in which local authorities are required to account for business rates income, the impact of this deficit will not be felt until 2021/22 and beyond. In recognition of this the Government has taken measures to mitigate the budgetary impact on local authorities.

- Local authorities have been allowed to spread the in-year element of any deficit across three financial years rather than just a single year (i.e. 2021/22). The Council allowed for this measure when setting the 2021/22 budget, and included a deficit of £8,781,353 after applying the spreading adjustment.
- An upfront payment of Section 31 Grant was made to local authorities in April 2020. This included the elements attributable to other precepting authorities and the Government itself, in order to support the cash flow of the billing authority. The amount remaining, after distributing the appropriate shares to Government, the County Council and the Fire Authority, can be carried forward to 2021/22 to offset the deficit.
- The Government will make a compensatory, one-off payment called Tax Income Guarantee to local authorities in 2021/22. This will be based on 75% of the difference between the NNDR1 and NNDR3 returns, with certain adjustments made in respect of levy calculations to avoid double compensation.

At 31st March 2021 the Council's share of Section 31 Grant in respect of expanded retail relief was £9,488,745 and this amount has been set aside in an earmarked reserve to offset the deficit across the next three financial years (2021/22 to 2023/24).

Entitlement to the Tax Income Guarantee compensation has been calculated to be £1,292,580. This sum has also been transferred to an earmarked reserve for the same purpose as the S31 Grant.

As stated above, Blaby's share of the deficit at 31st March 2021 is £10,908,022, not too dissimilar to the predicted deficit of £10,448,012 declared when setting the 2021/22 budget. The difference is mainly due to additional appeals. The S31 grants and Tax Income Guarantee compensation together total £10,781,325 and, therefore, cover the majority of the deficit carried forward into 2021/22.

4.3 Council Tax

The Council Tax Collection Fund has moved from a small deficit of £49,526 at 31st March 2020 to a more significant deficit of £1,010,334 at the end of 2020/21. This represents an in year deficit of £968,808 which has arisen mainly as a result of the pandemic. The most significant drivers for the increase are Council Tax Support, bad debt written off, and an increase in the impairment provision for non-collection. The outturn deficit was, however, slightly lower than anticipated when setting the 2021/22 budget (£1,283,706), largely because the number of working age CTS claimants didn't quite reach the level expected, following the extension of the furlough scheme. There remains as risk, therefore, that once the furlough scheme is withdrawn, that the cost of CTS could show a significant rise in 2021/22. Overall the collection rate for Council Tax held up far better than expected and was only marginally lower than 2019/20.

Blaby's share of the deficit as at 31st March 2021 is £145,423.

Similarly to NNDR, the Government will provide a Tax Income Guarantee payment equating to 75% of Council Tax losses in 2020/21. Blaby expects to receive £87,150 through this mechanism to offset its share of the deficit.

4.4 The Capital Programme

In 2020/21 the Council spent £2,854,964 on Capital schemes, compared with the latest Capital Programme budget of £6,536,188. This represents an underspend of £3,681,224 or 43.68% against planned capital expenditure, of which £3,169,123 has been carried forward to 2021/22 to enable the schemes to be completed.

Appendix D shows expenditure against the budget by scheme.

<u>Capital Expenditure:</u>	Approved Budget £	Revised Budget £	Actual Outturn £	(Under)/ Overspend £
Corporate Aims & Objectives	920,119	2,485,341	735,968	(1,749,373)
Asset Management Planning	2,581,617	3,094,015	1,555,693	(1,538,322)
Other Capital Schemes	42,000	63,534	13,000	(50,534)
Section 106 Funded Schemes	0	893,298	550,303	(342,995)
Contingency Budgets	50,000	0	0	0
Total Capital Expenditure	3,593,736	6,536,188	2,854,964	(3,681,224)
<u>Financed by:</u>				
Borrowing	2,176,692	3,086,672	1,504,036	(1,582,636)
Capital Receipts	714,912	562,489	274,841	(287,648)
Earmarked Reserves	65,000	154,077	44,662	(109,415)
Revenue Contributions	121,513	267,907	50,540	(27,367)
External Funding	515,619	2,465,043	980,885	(1,484,158)
Total Capital Financing	3,593,736	6,536,188	2,854,964	(3,681,224)

The main variances against the budget are explained below:

- Disabled Facilities Grants (DFGs) – Underspend of £1,052,420. As members will be aware building works and referrals were heavily impacted by COVID-19, and the social distancing law implemented. There was also builder delays and limitations on materials throughout the year. The team continued to work hard, and the last quarter of the financial year has seen an additional £125,199 capital expenditure.
- Council Offices Refurbishment Programme - £334,394: The underspend has been carried forward to 2021/22 Capital project, however the refurbishment has been placed on hold following the COVID-19 outbreak. The Council is currently reviewing its future accommodation requirements.
- Revenues and Benefits System - £400,000 – The full budget has been carried forward to 2021/22. The project was delayed due to redeployment of resources to cover the more immediate needs arising from the pandemic, e.g. payment of business grants.
- Section 106 Contributions - £342,996: A total of £483,601 was carried forward from 2019/20 with additional contributions to the value of £409,698 being allocated to various community projects during the financial year. Projects to the value of £550,303 were completed by 31st March 2021 with the remaining balance being carried forward for completion in 2021/22.

5. What will it cost and are there opportunities for savings?

5.1 Financial implications are detailed in the main body of this report.

