

<b>Report to the Strategy &amp; Resources Committee – 22<sup>nd</sup> September 2020</b>	
<b>Monthly Financial Report (Period 4 July) 2020/21</b>	
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Purpose of Report:	This report provides the details of the Council’s 2020/21 financial position as at 31st July 2020 (Period 4) for revenue and capital budgets and the expected outlook for the remainder of the financial year taking into account the financial implications from the COVID-19 pandemic.
Publication status:	Unrestricted
Recommendation:	That the Committee notes the Council’s overall financial position for Revenue, Capital and Housing Revenue Account (HRA)
Appendices	<b>Appendix A:</b> Council’s Revenue Budget as at Period 4 (July 2020)
Background papers*	None

\*defined by the Local Government (Access to Information) Act 1985

## 1. Introduction

- 1.1. The Council has, over the last 2-3 years, sustained a very challenging financial position. The impact of COVID-19 has exacerbated this. Planning for the 2021/22 Budget and MTFs to 2023/24 has indicated that our finances are likely to become more precarious in the medium-term, with General Fund Reserves dangerously low projected at c£1.5m at end of 2020/21. A Reserves rebuild strategy is required as part of the 2021/22 Budget setting to provide the Council with medium-term financial resilience.
- 1.2. At Period 3 (July), the Council was forecasting a year-end deficit of c£2m which was largely due to COVID-19 related costs/income loss. At P4 (July) we are pleased to report **an improved financial position of c£0.7m**, due in the main to changes in the assumption on the impact of COVID-19 on waste service c£0.3m, additional New Homes Bonus c£0.3m, improvements in salary costs £0.1m, receipt of tranche 3 COVID-19 grant c£0.1m, offset by increases in Local Plan spend £0.1m. This is discussed in detail below.
- 1.3. Over the last six months the CEX and Finance team have made a number of changes to ameliorate the financial position and to provide support and resilience to ensure a more sustainable medium-term outlook. More specifically, they have:
  - Initiated dialogue with MHCLG to keep them informed of our financial position and the Council’s challenges. Officers have had three conversations with them, most latterly on 5<sup>th</sup> August. As a result, a further meeting towards the end of September has been agreed whereby there will be a discussion regarding our re-baselined 2020/21 finances. This process is currently being undertaken;
  - Recruited a new interim CFO (s151), on secondment from Surrey County Council for an initial period of six months to January 2021. She has been in post for approximately seven weeks at the time of writing and has already made a number of significant changes.
  - The key changes are listed below:
    - Undertaking a baseline of 2020/21 finances (a line-by-line review of all budgets in the Council, by Department). This is essential to ensure the Council has a robust base on which to set the 2021/22 Budget and Medium-Term Financial Strategy (MTFS). The aim is to have this completed for end of September to support a

further meeting with MHCLG. Results of this review will be more fully incorporated in next month's financial report;

- Post the baselining, work will commence with the Departments on the 2021/22 budget setting and MTFS to 2023/24 (using the 2020/21 baseline as the basis);
- Based on feedback from Members and senior Officers we have reviewed our monthly financial reports to make them more streamlined and comprehensible with key messages and actions clearly articulated. The start of these changes is reflected in this monthly report to S&R Committee, however there are more to come. This will include the introduction of a Council-wide savings programme and risk and opportunity reporting, supported by activities for risk mitigation and opportunity generation;
- We will be reporting finances monthly to Departments through their Departmental Leadership Teams (DLTs), to ELT and to Members (irrespective if a Committee is held);
- Implementing a business partnering approach in Finance where every Department and Committee is aligned to a partner in Finance who will work with them in a strategic, value-added and supportive way. We are also exploring various options for review and recalibration of the numerous transactional activities that the Business Partners (BPs) undertake;
- We are in the process of reviewing our financial sign-off protocols so that every number in finance is signed off by a senior Finance officer (Deputy CFO or CFO) before it is reported to CEX or Members to ensure consistency in reporting;
- A good budget is one which has been fully integrated – revenue and capital. So far, the focus has been on revenue (rightly so), however over the coming months we will be undertaking a review/re-baseline of our Capital Programme for 2021/22 to 2024/25 to ensure complete alignment with the revenue budget and ensuing affordability of the programme;
- The Local Government Association (LGA) has been instructed to undertake a review of how the Council capitalises its project costs to ensure that all the costs that should be charged to capital are, and not to revenue. Simultaneously, a review of the balance sheet (e.g. MRP policy) and working capital has been commissioned to determine any improvements in the management of cash;
- We have initiated a review of all Procurement activities in the Council. This has included a review of all contract and off-contract to identify areas of saving; and
- The CEX and the CFO meet weekly to ensure they are aligned with all financial requirements and can act quickly to ensure plans are on track.

1.4 The improvements emanating from above plan will be included in monthly financial reports to Members over the coming months.

## **2. Key Messages – General Fund Revenue**

- 2.1. For P4 we have split the Council's finances into Business as Usual (BAU) budget, as approved by Council in February 2020, and COVID-19 (**see Table 1 below**). The aim is to show clearly to Members the impact of COVID-19 on the Council's bottom line.
- 2.2. At the end of **July (P4) the Council is forecasting an overall Council deficit of c£1.3m** against the £10.6m budget approved by Council in February 2020. The deficit consists of a c£0.6m improvement in the BAU position and a £1.9m adverse movement in COVID-19 related costs and income loss. (Refer to **Tables 2 and 3 for details of variances by Committee** on BAU budgets and COVID-19 and **APPENDIX A**).

2.3. **From P3 to P4 there has been an improvement of £0.7m** in the position. This is due to the following:

- £0.3m - changes in assumptions on the impact of COVID-19 on Waste Service with respect to additional costs of social distancing in refuse vehicles which are now unlikely to occur;
- £0.3m - additional New Homes Bonus of c£0.3m;
- £0.1m - improvement in forecast salaries outturn of c£0.1m
- £0.1m - receipt of tranche 3 COVID-19 grant of c£0.1m.

Offset by:

- £0.1m – increase in Local Plan costs.

**TABLE 1 – P4 Financial Position (BAU & COVID-19)**

	2020/21 COVID19	2020/21 BAU	2020/21 Outturn Forecast	2020/21 Annual Budget	2020/21 Variance against Budget
	£	£	£	£	£
<b>P03 (June) Outturn Forecast</b>	2,298,350	10,252,132	12,550,482	10,559,732	1,990,750
<b>P04 (July) Outturn Forecast</b>	1,882,950	9,934,632	11,817,582	10,559,732	1,257,850
<b>Movement in Outturn Forecast 20/21</b>	<b>(415,400)</b>	<b>(317,500)</b>	<b>(732,900)</b>	n/a	<b>(732,900)</b>

- 2.4. On the 2<sup>nd</sup> July the Government announced a further tranche (tranche 3) of COVID-19 funding. The Council's share of the additional £500m national allocation was c£120k. This takes the **total COVID-19 grant allocated to Tandridge to c£1.1m**. Against this funding, there is still a shortfall of £1.9m. If there is no additional Government funding the deficit will need to be mitigated by additional in-year savings and/or the use of Reserves to achieve a balanced budget.
- 2.5. The full impact of COVID-19 on the Council remains very much dependent on Government policy on lockdowns and social distancing and additional Government funding. **Details are set out in Table 3.** Further information is expected from MHCLG in September/October on funding relating to sales, fees and charges income compensation scheme announced in July. The next round of monthly data collection to MHCLG (DELTA 5 return) is due on Friday 4<sup>th</sup> September.
- 2.6. The improvement in the forecast reflects ongoing work to ensure robust plans are in place to deal with the impact of the crisis on the Council's finances. This work needs to continue in order to ensure the impact on the Council's Reserves is minimised.
- 2.7. At P4, **the current year-end forecast for salaries is £72,000 underspend.** If the current tight control on staffing costs is maintained it is possible the year-end underspend could increase. This also relies on the outcome of the current review by LGA into our ability to capitalise the costs of staff working on capital and transformation projects. This does not factor in any of the work currently being undertaken by the LGA.

**3. Key Messages – Capital (General Fund and Housing Revenue Account (HRA))**

- 3.1. The Council’s approved Capital budget for 2020/21, including both the General Fund and HRA, is c£120m including slippage from 2019/20.
- 3.2. At P4, the Council’s Capital Programme is forecasting an underspend of c£102m. This remains unchanged from June (P3), of this:
- c£98m is due to the General Fund Capital Programme, the majority of which is related to the Property Development Fund; and
  - c£4m relates to the HRA Capital Programme, predominantly due to delays in the Council House building programme and the programme of planned repairs and maintenance as a result of COVID-19.
- 3.3 Refer to Table 5 below for details.

**4. Key Messages – HRA (Revenue)**

- 4.1. At the end of July (P4) the HRA is forecasting a surplus of c£137k against the c£10.6m budget approved by Council in February 2020.
- 4.2. This forecast is a result of savings on interest payments and repairs and maintenance costs, which more than offsets the anticipated reduction in income resulting from COVID-19.
- 4.3. Refer to Table 4 below.

**5. General Fund Revenue (detailed Revenue variances)**

- 5.1. Table 2 below shows the forecast BAU revenue budget outturn by Committee, excluding COVID-19 related spend. Further details of the Councils budgetary position can be seen at Appendix A.

**TABLE 2 – P4 Summary Business as Usual (BAU) Revenue Budget Forecast variances**

Business As Usual (BAU) (excluded COVID-19 impact)	2020/21 Annual Budget  £	2020/21 Outturn forecast at P4 (July)  £	2020/21 Forecast Variance at P4 (July)  £	Change in Forecast since P3 (June)  £
<b>Strategy and Resources Committee</b> Committee Chair: Councillor T Elias Officers: J King/L Harrison/A D’Alessandro	2,411,531	2,243,231	(168,300)	(393,000)
<b>Planning Policy Committee</b> Committee Chair: Councillor K Jecks Officer: C Parker	1,338,038	966,138	(371,900)	138,800
<b>Community Services Committee</b> Committee Chair - Cllr B Connolly Officer - A Boote	6,351,100	6,334,500	(16,600)	23,900
<b>Housing Committee</b> Committee Chair: L Parker Officers: A Boote	459,063	390,763	(68,300)	(87,200)
<b>General Fund Total</b>	<b>10,559,732</b>	<b>9,934,632</b>	<b>(625,100)</b>	<b>(317,500)</b>

5.2. The **BAU forecast surplus of c£0.6m** predominantly consists of the following:

#### **Strategy and Resources Committee**

**A net underspend of £168,300 consisting of:**

- **£250,000 additional income relating to New Homes Bonus (NHB).** This is a combination of receiving additional monies above budget and choosing to use all NHB to support the revenue budget rather than some being used to fund capital as originally budgeted.
- **£42,000 saving on printing, stationery and postage** due to reduced occupancy in the building and thereby reducing demand for these services.
- **£83,300 salaries underspend.** This is comprised of numerous over and underspends.

**Offset by:**

- **£197,000 reduction in interest receivable** due to a decision to not proceed with an agreed property purchase through Gryllus.
- **£10,000 contribution to Public Sector Reform** to pay for consultancy costs in response to Government consultation, as agreed at Strategy and Resources Committee on 17<sup>th</sup> August 2020.

#### **Planning Policy Committee**

**A net underspend of £371,900 consisting of:**

- **£400,000 underspend on the Local Plan.** Work on delivering the Local Plan is continuing in 2020/21, and the budget for the year was set accordingly. Included in that budget were costs associated with work on the delivery of the South Godstone Garden Community, such as early work on the Area Action Plan (AAP). Whilst it was reasonable assumption that savings against this budget would be identifiable as the year progressed (and the timetable of the Local Plan became clearer) the removal of £500k from a total budget of £621k at such an early point in the year was premature and did not capture all projected expenditure for 2020/21. Based on the information currently available regarding the progression of the Local Plan to adoption, in addition to the £127k currently budgeted for it is estimated that a further £100k needs to be identified for expenditure during 2020/21 therefore bringing the total forecast outturn for 2020/21 of £227k. Throughout the remainder of the year we will be keeping in regular contact with the Project Manager to ensure our forecast outturn reflects the Planning Inspector's expectations of where the Local Plan has progressed. This will mean that the outturn numbers can be refined as the year progresses. Members should be advised that any slippages in progress in 2020/21 may impact future years. We will be undertaking a complete review of all costs as part of the 2021/22 budget setting process.

**Offset by**

- **£28,100 salaries overspend.**

#### **Community Services Committee**

- **£16,600 salaries underspend.**

#### **Housing Committee**

- **£68,300 salaries underspend.**

**6. COVID-19 Costs**

6.1. **Table 3** below analyses the **COVID-19 forecasts by Committee with a deficit of c£1.9m** forecast at the year-end after taking account of Government funding received to date.

**TABLE 3 – Covid 19 Forecast costs analysed by Committee as at 31<sup>st</sup> July 2020.**

<b>COVID-19</b>	<b>2020/21 Outturn forecast at P3 (June) £</b>	<b>2020/21 Outturn forecast at P4 (July) £</b>	<b>Change in Forecast since P3 (June) £</b>
<b>Strategy and Resources Committee</b> Committee Chair: Councillor T Elias Officers: J King/L Harrison/A D’Alessandro	747,300	745,550	(1,750)
<b>Planning Policy Committee</b> Committee Chair: Councillor K Jecks Officer: C Parker	784,400	785,800	1,400
<b>Community Services Committee</b> Committee Chair - Cllr B Connolly Officer - A Boote	1,735,800	1,438,800	(297,000)
<b>Housing Committee</b> Committee Chair: L Parker Officers: A Boote	33,600	34,700	1,100
<b>General Fund Total</b>	<b>3,301,100</b>	<b>3,004,850</b>	<b>(296,250)</b>
Covid-19 Government Grant	(1,002,750)	(1,121,900)	(119,150)
<b>General Fund Total after Grant</b>	<b>2,298,350</b>	<b>1,882,950</b>	<b>(415,400)</b>

6.2. The forecast deficit for COVID-19 has improved by £0.4m since P3. This is primarily due to a reduction in the forecast costs of social distancing on the waste contract (£245k) and additional grant received from Government (£120k).

6.3. At P4, the forecast COVID-19 pressures of c£3m (as per above table before the application of central grant funding) consist of:

**Expenditure of c£1.3m, primarily due to:**

- **£567,000 – Estimated cost of support to Freedom Leisure.** A package of proposals has been received from Freedom Leisure and is currently under consideration by Officers and Members.
- **£265,000 – Forecast expenditure on Waste Services.** Costs relate to additional H&S requirements, cleaning and disinfecting of equipment and personnel, social distancing of workers, professional fees in relation to extension of existing waste contract, increased cost of maintaining old vehicles where renewal has been delayed and hire of vehicles.
- **£227,500 – Expenditure for meeting Tandridge’s share of expected loss that will be made by Southern Building Control** as a result of reduced business activity. Income will be significantly lower due to fall in business as a direct result of the lockdown. The full impact has been reduced by vacant posts not being filled. The partnership is currently undergoing a review into the sustainability of the service and any changes resulting from this review will be reflected in the coming months.

- **£75,000 – Forecast additional interest payable on short term borrowing** to manage cash flow due to the reduced collection of Business Rates and Council Tax.
- **£68,100 – Staff overtime expenditure in relation to COVID-19.** This includes staff making shielding calls, work paying grants to local businesses, finance officers time and time of the Covid response taskforce.
- **£19,500 – Expenditure on Neighbourhood Plan.** A delay in the plan going to referendum will result in the grant to cover the cost of the examiner being received in later years, whereas the costs has been incurred in this financial year.
- **£17,100 – Cumulative miscellaneous expenditure on multiple budget lines relating to COVID-19.**
- **£15,000 – Expenditure on support grants paid to Parish and volunteer agencies.**
- **£12,500 – Expenditure on Private Sector Enabling** as the contractor (Millbrook) has redeployed staff for a 12-week period to support Surrey County Council's overall COVID-19 response.
- **£10,000 – Purchase of IT Software and Hardware** to accommodate the need for staff to work from home.
- **£8,600 – Additional costs of housing rough sleepers** during the pandemic.

**Loss of Income of c£1.7m, primarily due to:**

- **£491,300 – Reduced income on Planning Applications and advice.** We are now starting to see a downturn in the level of planning applications received.
- **£300,000 – Reduction in interest receivable following the cut in the Bank of England base rate** from 0.75% to 0.1% influencing the return on investments. Lower returns are now forecast on fund investments.
- **£248,000 – Loss of income for Tandridge Commercial Services** as the operational team is working within the boundaries of COVID-19, social distancing and Health & Safety restriction with having to wear PPE and staff sickness means the team are unable to work at normal capacity. This will all have a knock-on effect on the team's capabilities to deliver a normal service of maintaining the HRA housing stock and therefore will lead to less billable work for the team.
- **£247,250 – Reduction in Investment Property Income.** Due to the enforced closedown some tenants have requested rent holidays, this primarily affects Quadrant House.
- **£124,900 – Loss of income for Car Parking off-street.**
- **£63,200 – Parks and Open Spaces decrease in revenue from sports facilities.**
- **£54,800 – Loss of income for Car Parking on-street.**
- **£51,600 – Loss of income from Hackney Carriages taxi driver licencing.**
- **£48,700 – Loss of income for Garden Waste Club due to COVID-19 delaying the start date of the new waste contract.**
- **£45,000 – Loss of 5% admin fee for Community Infrastructure Levy work** due to slowdown in development.
- **£34,000 – Reduction in Land Charge searches income** as the lockdown resulted in the reduction of property purchases.
- **£10,800 – Lost sales commission at Meadowside** as fewer people look to move.

6.4. To date the Council has received £1,147,755 of grant to help offset the cost of COVID-19. Of this £25,698 was used to fund 2019/20 COVID-19 costs, with the balance of £1,121,900 being used to reduce the impact of COVID-19 in 2020/21. Details on the co-payment mechanism for irrecoverable Sales, Fees and Charges income, which in theory may cover up to 71% (75% of the remaining 95% of income loss) of our lost income, are still awaited and no account of this additional support has been included in this monitoring report. We are expected to hear from Central Government on this in September.

## 7. 2020/21 HRA Revenue

7.1. At the end of **July (P4) the HRA is forecasting a year end surplus of c£137k** before transfers to Reserves. This surplus will be added to the planned transfer to Reserves at the year end to balance the HRA to zero.

7.2. Details of the key variances are shown in the **Table 4** below.

**TABLE 4 - HRA Budget Forecast variances as at 31<sup>st</sup> July 2020**

<b>KEY HRA REVENUE VARIANCES</b> Committee Chair - Councillor L Parker Officer - A Boote	<b>Annual Budget 2020/21</b>  <b>(£)</b>	<b>Budget Variances June (Period 4)</b>  <b>(£)</b>	<b>Forecast Variance at year end (31/3/2021) BAU</b>  <b>(£)</b>	<b>Forecast Variance at year end (31/3/2021) COVID-19</b>  <b>(£)</b>	<b>Forecast Variance at year end (31/3/2021) Total</b>  <b>(£)</b>
Salaries	1,722,400	22,500	19,800	2,700	<b>22,500</b>
Services costs	5,951,600	0	0	100	<b>100</b>
Corporate Support Services	1,441,800	0	0	0	<b>0</b>
Repairs and Maintenance	2,640,500	0	0	<b>(100,000)</b>	<b>(100,000)</b>
Interest Charges on loan	1,912,100	0	<b>(264,000)</b>	0	<b>(264,000)</b>
Rental Income Dwellings	<b>(14,200,500)</b>	0	0	200,000	<b>200,000</b>
Rental Income Garages	<b>(279,700)</b>	0	0	10,000	<b>10,000</b>
Other Income	<b>(226,000)</b>	0	0	<b>(5,500)</b>	<b>(5,500)</b>
<b>Forecast outturn before transfer to reserves</b>	<b>(1,037,800)</b>	<b>0</b>	<b>(244,200)</b>	<b>107,300</b>	<b>(136,900)</b>
Transfer to reserves	1,037,800	0	244,200	<b>(107,300)</b>	<b>136,900</b>
<b>Forecast outturn after transfer to reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

7.3. There are two key variances within **HRA BAU**.

- **An underspend of £264,000 on interest payable.** This is partly due to loans being refinanced as a lower than expected interest rate due to the introduction of the PWLB HRA certainty rate, essentially a 1% discount on PWLB rates for HRA borrowing, and partly due to lower than forecast borrowing to fund HRA capital expenditure.
- **An overspend of £22,500 on salaries.**

7.4. There are two key variances within **HRA COVID-19 expenditure**

- **An overspend of £210,000 on rent loss from bad debts** as HRA arrears are expected to increase significantly and an increased revenue contribution to the bad debts reserve is forecast as a result of COVID-19. At this stage it is assumed that an increase of £210,000 will be required. This forecast included both dwellings and garages. The situation will become clearer over the coming months as the level of direct debit cancellation and increase in arrears becomes known.



- **An underspend of £100,000 on repairs and maintenance expenditure** is being forecast. Due to the lockdown and required social distancing measures planned repairs and maintenance have been postponed. It is thought that some of the delayed work can be caught up with during the year, depending on the weather, but not all planned expenditure is likely to occur this financial year.

- 7.5. The level of HRA rent arrears will be closely monitored throughout the year. A reduced level of repairs and maintenance work is likely to alleviate the in-year impact of an increased transfer to the bad debts provision however the repairs and maintenance work will still need to be undertaken in future years.
- 7.6. Any government assistance available to tenants to help them deal with the financial impact of COVID-19 on their ability to pay their rent will signposted to tenants. Discretionary Housing Payments may be used to clear tenant arrears in some cases if additional funds are made available.

## 8. 2020/21 Capital Budget

- 8.1. In February 2020 the Council approved a capital budget, both General Fund and HRA, of £81,972,800. On the 9th July this committee approved £38,139,248 of slippage from 2019/20 to be added to the 2020/21 budget taking the revised budget to £120,112,048.

**Table 5 – Capital Programme Forecast at P4 (July)**

	Budget 2020/21 £	Budget YTD P4 £	Actual YTD P4 £	Variance YTD P4 £	Forecast Variance 2020/21 £	Variance %
<b>Community Services - Committee Chair: Councillor B Connolly - Officers: A Boote</b>						
Waste and Recycling	2,991,308	997,000	16,000	(981,000)	(40,800)	-1%
Parks, Playgrounds and Open Spaces	530,900	177,000	6,403	(170,597)	(120,200)	-23%
Community infrastructure and assets	1,194,040	398,000	31,452	(366,548)	(277,200)	-23%
<b>Total Community Services</b>	<b>4,716,248</b>	<b>1,572,000</b>	<b>53,855</b>	<b>(1,518,145)</b>	<b>(438,200)</b>	<b>-9%</b>
<b>Housing General Fund - Committee Chair: Councillor L Parker - Officer: A Boote</b>						
Social Housing Grants	100,000	8,300	0	(8,300)	(8,300)	-8%
Disabled Facilities Grants	426,000	35,500	28,689	(6,811)	(35,500)	-8%
<b>Total Housing GF</b>	<b>526,000</b>	<b>175,300</b>	<b>42,246</b>	<b>(133,054)</b>	<b>(206,500)</b>	<b>-39%</b>
<b>Strategy &amp; Resources - Committee Chair: Councillor T Elias - Officers: J King/L Harrison/A D'Alessandro</b>						
Property Development Fund	98,841,500	32,947,200	29,125	(32,918,075)	(97,860,500)	-99%
Council Offices Buildings	100,000	33,300	13,096	(20,204)	(25,000)	-25%
IT - Hardware/Infrastructure	873,600	291,200	37,575	(253,625)	(180,900)	-21%
<b>Total Strategy &amp; Resources</b>	<b>99,815,100</b>	<b>33,271,700</b>	<b>79,796</b>	<b>(33,191,904)</b>	<b>(98,066,400)</b>	<b>-98%</b>
<b>Total-General Fund</b>	<b>105,057,348</b>	<b>35,019,000</b>	<b>175,897</b>	<b>(34,843,103)</b>	<b>(98,711,100)</b>	<b>-94%</b>
<b>Housing Revenue Account - Committee Chair: Councillor L Parker - Officer: A Boote</b>						
Council House Building	11,376,700	1,827,600	1,484,430	(343,170)	(1,827,600)	-16%
Improvements to Housing Stock	3,608,000	3,169,000	(457,985)	(3,340,369)	(1,810,400)	-50%
Housing Management Software	70,000	21,700	70,000	48,300	(21,700)	-31%
<b>Housing Revenue Account</b>	<b>15,054,700</b>	<b>5,018,300</b>	<b>1,096,445</b>	<b>(3,635,239)</b>	<b>(3,659,700)</b>	<b>-24%</b>
<b>Total Capital Programme</b>	<b>120,112,048</b>	<b>40,037,300</b>	<b>1,272,342</b>	<b>(38,478,342)</b>	<b>(102,370,800)</b>	<b>-85%</b>

8.2. The forecast underspend of £102,370,800 consists of:

### **Community Services**

Total underspend of £445,200 consisting of:

- £137,500 – Public Conveniences Capital Works.
- £136,000 – Vehicle Fleet Renewal.
- £73,000 – Children’s Playground Equipment.
- £47,200 – Park, Pavilions & Open Spaces.
- £27,700 – Garden Waste Bins.
- £14,600 – Refuse, Recycling and Food Waste bins.
- £5,500 – Litter Bins.
- £3,700 – Land Drainage works.

Offset by:

- £7,000 – Overspend on Waste & Recycling Contract Equipment.

### **Housing General Fund**

Total underspend of £206,500 consisting of:

- £106,500 – Disabled Facilities Grants.
- £100,000 – Social Housing Grants.

### **Strategy & Resources**

Total underspend of £98,066,400 consisting of:

- £97,860,500 – Property Development Fund.
- £180,900 – IT Hardware/Infrastructure.
- £25,000 – Council Offices maintenance.

## **9. Impact on Cash Flow as a result of COVID-19**

9.1. There is a concern amongst all Billing Authorities about the extent to which COVID-19 reduces the money received in respect of Council Tax and Business Rates. As many billing authorities only retain a small proportion, with the majority collected being paid to preceptors. The concern is as precepts were set well before the start of the financial year, prior to the onset of COVID-19 collection rates will be significantly below expectation as the finances of residents and local businesses deteriorate. As precept payments to Surrey County Council, Surrey Police and the Government were set in line with statute the gearing effect will particularly reduce the Council’s cashflow.

### **9.2. Council Tax**

As a billing authority, the Council collects £79m in Council Tax for 2020/21, on behalf of preceptors. This is distributed approximately Surrey 75%, Surrey Police 12.5% and Tandridge 12.5%.

A cashflow modelling exercise based on Council Tax collected indicates that the **shortfall in collection in 2020/21 will be 4.7% less than the budgeted amount**, assuming that the current level of collection is replicated for the remainder of 2020/21. The modelling shows that the **negative impact upon the Council’s cash flow would be c£3.7m for the whole year.**

### 9.3. **Business Rates**

As a billing authority, the Council would collect £21.9m in Business Rates for 2020/21, on behalf of preceptors. However, as a result of COVID-19 additional Business Rate Relief of 100% has been granted to the Retail, Hospitality and Leisure sectors. This is distributed as Central Government - Central Share, 50%, Tandridge 40% and Surrey 10%. However out of the 40% the Council receives it has to pay a Tariff Payment to Central Government of £7.9m with it only retaining £0.8m in cash.

A cashflow modelling exercise based on **Business Rates collected indicates that the shortfall in collection in 2020/21 will be 16% less than the budgeted amount**, assuming that the current levels of collection is replicated for the remainder of 2020/21. The **negative impact upon the Council's cash flow would be c£1.8m for the year**.

- 9.4. Overall the cash flow modelling indicates that because Council Tax receipts are received in advance of precept payments, the forward Council Tax receipts will mitigate the impact of the shortfall Business Rate receipts until the end of the year. **The impact of the overall forecast shortfall of £5.5m in combined Council Tax and Business Rate will not impact until February 2021. The cost of borrowing to meet cashflow needs is estimated at £75k and is included in the COVID-19 expenditure costs above.**

## **10. Comments of the Chief Finance Officer (s151)**

- 10.1. The Council has a duty to ensure its expenditure does not exceed resources available. The short and medium-term financial outlook is uncertain. The pandemic has resulted in increased costs which are not fully funded in the current year.
- 10.2. Financial planning over the medium-term has indicated that the Council is expected to spend beyond the resources that it has available, all exacerbated by the pandemic. This will increasingly deteriorate the Council's Reserves in 2020/21 and beyond, to a negative level, in order to set a legally balanced budget. If this trend continues the s151 will have no alternative but to issue a s114 notice requiring all non-statutory spend to cease immediately.
- 10.3. Without clarity on future Government funding, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This subsequently places an onus on the Council to continue to consider issues of financial sustainability as a matter of urgency in order to ensure stable provision of services in the future. Within this context the Council will continue to develop and implement plans to ensure that the delivery of services are contained within resources and we work towards closing the medium-term gap.
- 10.4. The Section 151 Officer confirms the financial information presented in this report has been based on reasonable working assumptions, taking into account all material, financial and business issues and risks.

## **11. Comments of the Head of Legal Services (Monitoring Officer)**

- 11.1. The Council is required to set and operate within a balanced budget. Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer (CFO), in consultation with the Council's Monitoring Officer, to make a report under this section if it appears to her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure. In practice, this is most likely to be required in a situation in which reserves have become depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year.
- 11.2. This mechanism, in issuing a S114 notice would require all non-statutory spend to cease immediately, a situation which could exacerbate the Council's current situation. Nevertheless, should the statutory S151 Officer, at any time, not be satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget then she will need to formally draw this to the attention of Members and take further action.

- 11.3. On the 11th June, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued modifications to their Section 114 Guidance, to allow authorities under budgetary pressure due to COVID-19 the time and space to explore alternatives to freezing spending via a Section 114 notice. The guidance also acknowledges these are unprecedented circumstances and the usual mitigating actions required to balance an authority's budget following the issuing of a section 114 notice would damage the coronavirus response required by Government from local authorities. It suggests that CFO's should "at the earliest possible stage" make "informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming Section 114 requirement" and communicate the potential unbalanced budget position due to COVID-19 to MHCLG, at the same time as giving a potential Section 114 scenario report to Members and the external auditor. Whilst the position set out in this report presents an extremely serious challenge, it is the view of the statutory S151 Officer that a Section 114 notice is not required at the current time although this will be kept under constant review.

## **12. Climate Change Implications**

- 12.1. This report does not contain proposals that would impact on the Council's commitments to taking action on climate change.

## **13. Equality Impacts**

- 13.1. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary. In implementing individual management actions, the Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 13.2. Services will continue to monitor the impact of these actions and will take appropriate action to mitigate additional negative impacts that may emerge as part of this ongoing analysis.

## **14. Conclusion**

- 14.1. At the current time a net deficit of c£1.3m for the General Fund is forecast due to the reasons highlighted above. The overspend will necessitate funding from the Council's Reserves at the end of the financial year although it is hoped that a further part of the COVID-19 related expenditure will be funded by additional government grant above that already received.
- 14.2. As previously discussed, the COVID-19 situation is constantly changing and the Council updates it's plans and projections regularly to take account of the latest guidance from Government. The overspend forecast between P3 and P4 has reduced by as c£0.7m in light of the most recent information, additional government grant and management action. Future monitoring report will continue to be updated based on the most up to date understanding of the situation and guidance available.

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