

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 27 JULY 2021



Title of Report	PROVISIONAL FINANCIAL OUTTURN 2020/21	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	Budget and Council Tax 2020/21, Council, February 2020	Public Report: Yes
	2021-2026 Medium Term Financial Plan, Cabinet, February 2021	Key Decision: Yes
Financial Implications	<p>This report sets out the financial outturn for 2020/21. The year was heavily affected by the pandemic and the council's response to it. This took a toll on the general fund's finances, with the budgeted £630,000 surplus turning into a £32,000 deficit. The housing revenue account fared better, with a surplus of £2.6 million, and the special expenses accounts ended with a surplus of £35,000.</p> <p>The capital programme underspent significantly, with spend of £16.9 million against a £33.2 million budget.</p>	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	None.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	None.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Cabinet with an overview of the Council's provisional financial outturn for 2020/21.	
Reason for Decision	Paragraph A.19 of the Council's Finance Procedure Rules requires the Head of Finance to provide quarterly reports on the Council's financial position.	
Recommendations	THAT CABINET APPROVES THE FINANCIAL PERFORMANCE FOR 2020/21 AND ITS ASSOCIATED IMPACT ON RESERVES AND BALANCES AS AT 31 MARCH 2021.	

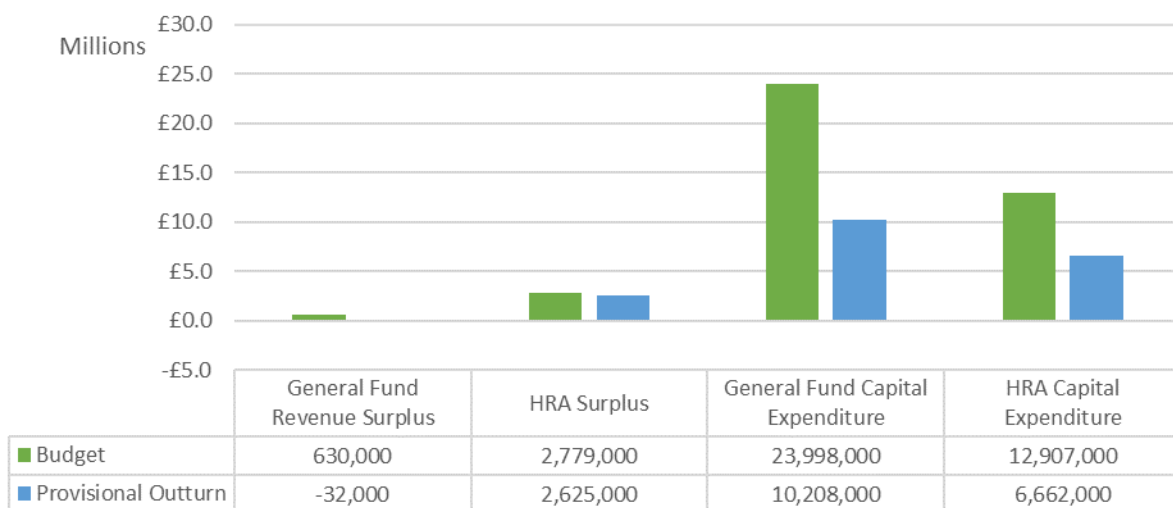
1.0 INTRODUCTION

- 1.1 Every year the council is required to produce its financial statements for the year, to set out the financial position of the council and summarise the material transactions within the year. This report provides Cabinet with an overview of the Council's provisional financial outturn for 2020/21 prior to the draft accounts being published on our website in late July 2021.
- 1.2 All outturn figures are noted as provisional as they are subject to the external audit and may change. The Audit and Governance Committee is due to consider and approve the final accounts on 22 September 2021, subject to completion of the audit.

2.0 FINANCIAL OVERVIEW

- 2.1 Figure one sets out the provisional outturn of key financial metrics for the Council's two main accounts, the General Fund and Housing Revenue Account (HRA). The figures show that financial outturn was less favourable than predicted in the 2020/21 budget that was approved by Council in February 2020. The effects of the global pandemic accounts for most of that adverse movement, and despite this setback, the Council's reserves position remains reasonably stable and healthy.

Figure 1: 2020/21 Financial Overview



- 2.2 The small deficit on the General Fund, however, provides a slight concern. The Medium Term Financial Plan, last submitted to Cabinet in February 2021, showed potential deficits on the general fund from 2023/24, which are due to be reduced by savings from the Journey to Self Sufficiency Programme (J2SS) and funded using balances from the self-sufficiency reserve. As a result of the Covid-19 pandemic, the Council has not been able to progress the J2SS programme as planned, which means savings have not materialised this year and less has been contributed to the self-sufficiency reserve as a result.
- 2.3 Sections 3 to 5 of this report provide more detailed analysis of the provisional outturn for the three revenue accounts: the general fund, housing revenue account and special expenses. Section 6 then provides an update on the Council's capital programmes. Section 7 provides an update on work to improve financial management within the Council.

3.0 GENERAL FUND

3.1 Table 1 breaks down the provisional outturn for the general fund. It shows a £32,000 deficit, compared to a budgeted surplus of £630,000, which was due to be transferred to the Self-Sufficiency Reserve.

Table 1: General Fund Provisional Outturn Position

		2020/21 Budget £'000	2020/21 Provisional Outturn £'000	Variance £'000
1	Chief Executive	368	363	-5
2	Human Resources	648	640	-8
3	Legal & Commercial Services	1,412	1,379	-33
	Total Chief Executive's Department	2,428	2,382	-46
4	Strategic Director of Place	359	361	2
5	Community Services	6,297	7,675	1,378
6	Planning and Infrastructure	492	347	-145
7	Economic Development	828	831	3
8	Joint Strategic Planning	12	12	0
	Total Director of Place	7,988	9,227	1,239
9	Customer Services	3,100	2,822	-278
10	Finance	962	1,048	86
11	Strategic Housing	535	520	-15
	Total Director of Housing & Customer Services	4,597	4,390	-207
12	Non-Distributed Costs	93	72	-21
13	Corporate and Democratic Core	39	43	4
14	Journey to Self-Sufficiency Savings	-570	-116	454
15	Climate Change Reserve	885	885	0
	Net Cost of Services	15,460	16,883	1,423
16	Net Recharges	-1,470	-1,320	150
	Net Cost of Services after Recharges	13,990	15,563	1,573
17	Net Financing Costs	1,210	1,216	6
18	Investment Income	-191	-138	53
19	Localisation of Council Tax Grant	89	89	0
20	Revenue Contribution to Capital	115	147	32
21	Debt Restructuring Premium	0	23	23
22	Transfer to Reserves	0	4,801	4,801
23	Transfer to Other	0	7	7
24	Covid Response	0	704	704
	Net Revenue Expenditure	15,213	22,412	7,199
25	New Homes Bonus	3,411	3,411	0
26	Transfer from Collection Fund	66	66	0
27	Other Grants	0	1,755	1,755
28	Council Tax	5,484	5,484	0
29	National Non-Domestic Rates Baseline	6,882	11,664	4,782
	Total Funding	15,843	22,380	6,537
	General Fund Surplus/(Deficit)	630	-32	-662

3.2 Adverse variances

3.2.1 The adverse variances within table 1 total £2.9 million, with key movements relating to:

- **Community Services - £1.4 million (line 5).** The main causes of this variances are additional costs within our waste services of £549,000, largely explained by the need for additional staff to operate our waste services in covid-secure ways. Leisure services also cost £535,000 more than budget as a result of additional management and support costs to the leisure provider, which was partially offset by £123,000 of grant funding from the National Leisure Recovery Fund. Grounds maintenance costs were also £117,000 higher due to lost income related to the pandemic after factoring in £117,000 of income from Government's income compensation scheme.
- **Covid Response - £479,000 (line 26).** This line corresponds to the net costs of dealing with covid-19 that are held centrally, rather than featuring within service area budgets. Additional expenditure includes £25,000 on staff, £134,000 on cleaning, £134,000 on transport, £85,000 of payments to support parish councils and £75,000 of additional computing costs.
- **Journey to Self Sufficiency Savings - £454,000 (line 15).** The 2020-21 budget included provisional savings of £570,000 from the Council's Journey to Self-Sufficiency Programme. Most work on this programme was paused whilst the Council responded to the pandemic. Savings of £116,000 were identified through a budget review, leaving a shortfall of £454,000 against budget.

3.3 Favourable variances

3.3.1 Favourable variances totalled £0.5 million in 2020-21, with the key movements including:

- **Customer Services - £278,000 (line 17).** The Customer Services line includes our frontline customer service staff, but also other corporate functions such as the ICT, Property Services and Revenues and Benefits teams. Most of this variance is explained by budgeted repairs to the council office coming in £207,000 under budget, as planned one-off repairs were not completed due to the pandemic and pending consideration on the future office needs. There was also a net underspend of £90,000 from the Revenue and Benefits team, offset by additional expenditure of £63,000 on ICT services.
- **Planning and Infrastructure - £145,000 (line 7).** This is largely due to underspends on the local plan (£87,000) and on High Speed 2 (£82,000). Planning fee income was significantly lower than expectations during the year (£200,000) but this was largely offset by compensation from government (£109,000) and small underspends in employee costs, supplies and services across the planning teams.

3.4 The above variances show that the pandemic has had a significant impact on the Council's finances. Officers estimate that the total net cost to the general fund of the pandemic, excluding financial support provided by government, is around £2.2 million. Government provided £1,360,000 of support grants for the Council to compensate for lost income and additional costs, as well as £355,000 of new burdens funding for administering business grant schemes during the year. This additional income is shown in line 27 on table one.

3.5 The effect of earmarked reserves are built into the figures in table one. Two noticeable movements are:

- **Transfer of the Business rates reserves - £4.8 million (Lines 22 and 27).** In 2020/21 Government paid the Council £4.8 million in compensation for the business rates reliefs offered to businesses. This is seen as income on line 27, and line 22 is a transfer into earmarked reserves to fund the deficit expected on the collection fund next year.
- **The Climate Change Reserve - £1 million (lines 15 and 20).** In 2020-21 Cabinet created a £1 million climate change reserve, which was split between a £885,000 revenue budget (line 15) and £115,000 revenue contribution to capital (line 20). So far £138,000 has been spent, with £862,000 carried forward to future years.

3.6 General Fund Reserves

3.6.1 Despite the small deficit on the general fund this year, which must be met from reserves, the overall reserve position has increased significantly, from £16.7 million to £21.3 million (see table 2 below). This is primarily due to £4.8 million of business rate income being set aside to offset expected future volatility, with £4.3 million of that provision is expected to be used in 2021-22. There is also an earmarked reserve of £884,000 relating to grants for businesses, which was subsequently distributed to businesses by June 2021. Without these significant short term reserve movements, reserves have fallen by £0.6 million.

Table 2: General Fund Reserve Balances

	31 March 2020 £ million	31 March 2021 £ million
Minimum working balance	1.5	1.5
Self-Sufficiency reserve	6.3	6.2
Earmarked Reserves	8.5	13.4
Asset Protection Fund	0.2	0.2
Other	0.2	0.0
Total	16.7	21.3

3.6.2 The Council's reserve position has historically been high compared to other authorities within Leicestershire, with the Council's usable reserves compared to net revenue expenditure being 122% in 2019/20 compared to 85% within Leicestershire. The figures presented in this report shows usable reserves compared to net expenditure falling to 117% in 2020-21.

4.0 HOUSING REVENUE ACCOUNT (HRA)

4.1 Table 3 sets out the provisional outturn for the HRA, which covers our day-to-day income and expenditure from our activities as a social housing landlord. The net surplus was £154,000 lower than budgeted at £2.6 million. Within this movement there are £699,000 of adverse variances, along with £545,000 favourable variances.

Table 3: Housing Revenue Account Provisional Outturn 2020/21

	Approved Budget £'000	Provisional Outturn £'000	Provisional Variance £'000
Repairs and Maintenance	5,256	5,348	92
Supervision and Management	2,469	2,318	-151
Provision for Doubtful Debts	100	112	12
Capital Financing (Depreciation, Impairment & Debt Management)	4,076	4,182	106
Total Expenditure	11,901	11,960	59
Less Rental Income & Service Charges	-17,952	-17,857	95
Net Cost of Service	-6,051	-5,897	154
Capital Financing (Principal & Interest)	3,382	3,339	-43
Investment Income	-110	-67	43
NET (SURPLUS) / DEFICIT	-2,779	-2,625	154

4.2 Adverse variances

4.2.1 The main HRA movements are described below:

- **J2SS savings - £225,000.** The 2020/21 budget included provision for £225,000 of savings from the Journey to Self Sufficiency Programme. As officers' energy was diverted to responding to the pandemic these savings were not identified this year.
- **Increased corporate recharges - £163,000.** As a ringfenced account, charges for corporate services, such as IT, HR, Legal and Finance, sit within the General Fund and are recharged back to the HRA. This means a proportion of adverse variances within the general fund corporate services budgets impact the HRA.
- **Lower than anticipated income – £132,000.**
- **Reduced investment income -£43,000.** Plans to invest in a property portfolio to earn higher returns did not go ahead, along with covid-19 reducing interest rates from existing sources.

- **Increased costs on Repairs and Maintenance - £40,000.** The pandemic caused significant disruption to our repairs and maintenance service which significantly reduced the volume of work that could be completed and required changes to established working practices. This meant that whilst the value of repair jobs completed fell, costs remained high reflecting the high level of fixed costs (e.g. staffing costs and vehicles) associated with the service.

4.2.2 Other, smaller variances in the year amounted to £96,000 and included additional provision for bad debts, following new debt write-off policies implemented in response to the pandemic (£12,000) additional spend on pest control (£11,000) and higher than anticipated spend on council tax for empty properties (£13,000).

4.2.3 Of the adverse variances, around £343,000 has been identified as resulting from the pandemic.

4.3 Favourable Variances

4.3.1 The main favourable variances for the HRA include:

- **Underspends on salaries - £236,000.** This comprises a net saving of £124,000 from underspends compared to budget, as well as £112,000 charge to the General Fund for staff that were diverted from their normal landlord-related duties to respond to the pandemic.
- **Lower interest costs - £43,000.** This relates to historic debt that predates the HRA becoming self-financing and is the result of lower interest rates caused by the pandemic.
- **Reduced costs resulting from pandemic related changes to service delivery - £126,000.** This includes reduced costs from grounds maintenance services (£27,000) and underspends from our resident involvement and tenant scrutiny panel (£28,000) resulting from the suspension of these services. There were also savings from reduced travel expenditure and car allowances (£34,000) and reducing grants to community groups that could not run (£25,000)
- **Lower than anticipated expenditure on utility bills - £37,000.** This includes lower gas, electricity and water bills across our HRA properties through the year.

4.3.2 Of the favourable variances, around £157,000 have been identified as resulting from the pandemic.

4.4 HRA Reserve Position

4.4.1 The HRA surplus of £2.6 million will be retained in HRA balances, which gives the Council the ability to use these funds flexibly in the future when opportunities arise, for instance to provide further funding to the capital programme or to repay debt when it falls due.

4.4.2 This brings the total HRA reserves up to £19.4 million. Table 4 below breaks down these balances and shows that there is now £5.3 million in reserves available to use flexibly in the future. This is in addition to the £13.0 million in the loan redemption reserve, which will be used in March 2022 to repay the first two HRA self-financing loans.

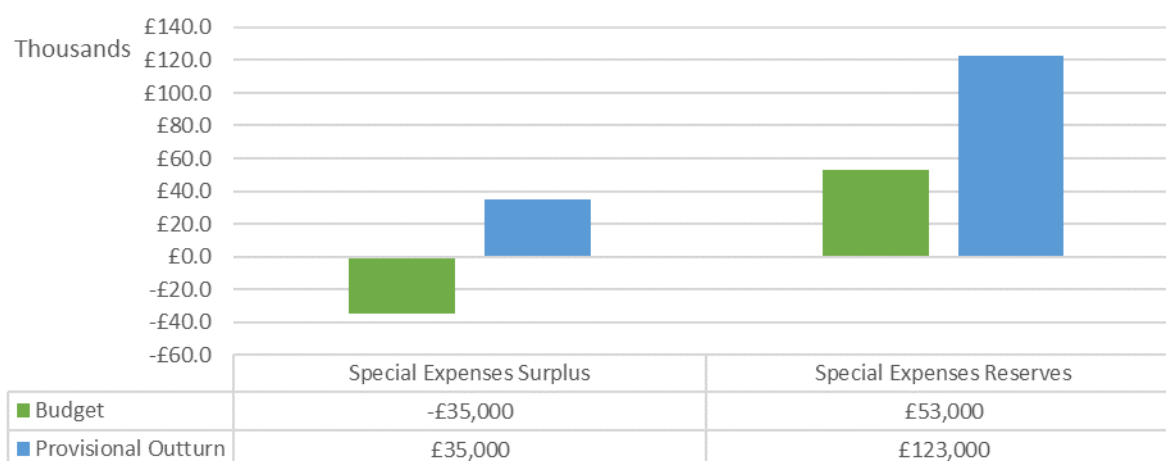
Table 4: HRA Reserve Balances

	31 March 2020 £ million	31 March 2021 £ million
Minimum working balance	1.0	1.0
Loan redemption reserve	13.0	13.0
Earmarked Reserves	0.1	0.1
HRA Balances	2.7	5.3
Total	16.8	19.4

5.0 SPECIAL EXPENSES

5.1 Where the Council provides services on behalf of, or in absence of, parish councils, the costs are managed through separate special expense accounts for each area. The disruption caused by the pandemic led to the cancellation of events and the reduction of routine work such as grounds maintenance, meaning expenditure was £182,000 lower than budget at £460,000. After accounting for financing costs and planned earmarked reserves (which includes £30k carried forward for Christmas lighting and decorations for 2021/22), the special expenses accounts finished the year with a £35,000 surplus as opposed to the £35,000 deficit that was budgeted for, with a resulting £35,000 increase in reserves, as shown in figure 2 below.

Figure 2: Special Expenses Financial Overview



6.0 CAPITAL

6.1 The Council's budgeted capital programme for 2020/21 was £36.9 million, of which £24.0 million related to the general fund and £12.9 million related to the housing revenue account. The outturn for the year was £16.9 million, with £16.0 million of slippages being carried forward into next year.

6.2 General Fund Capital Programme Movements

6.2.1 The provisional outturn on the General Fund capital programme was £10.2 million against a total budget of £24.0 million, an underspend of £13.8 million. Table 5 provides a detailed breakdown of expenditure against key lines, with £13.6 million of the underspend due to be carried forward into the next financial year and £170,000 of identified savings.

Table 5: General Fund Capital Programme Outturn 2020/21

Scheme	Original Budget £'000	Prior Year c/fwd £'000	In Year Approvals /funding £'000	Revised Budget £'000	Provisional		Carry forward to next year
					Outturn £'000	Variance £'000	
Disabled Facilities Grants	670	0	45	716	716	0	0
Council Offices	350	147	0	497	14	-484	435
IT & Software (Inc Finance Review & WIFI)	115	250	32	396	294	-102	102
Transport Account Vehicles	1,070	200	43	1,313	173	-1,140	1,140
Hood Park Leisure Centre Ashby	0	121	0	121	121	0	0
New Leisure Centre Coalville	9,678	7,251	0	16,929	8,048	-8,881	8,881
Depot works - various	0	94	55	149	67	-83	83
Car Parks	47	25	0	72	0	-72	72
Coalville Market Provision	0	218	354	572	516	-56	56
Commercial Property Works - various	165	0	0	165	0	-165	165
Heritage Assets work - Moira Furnace	0	280	0	280	0	-280	280
Other Works (Salt Bay Cover and Appleby Magna)	610	151	0	761	54	-707	585
Marlborough Square	0	1,766	0	1,766	99	-1,667	1,667
CV Park and Cemetery works	75	0	0	75	0	-75	75
Electrical Vehicle Charging and Recycling Trolleys	140	0	45	185	107	-78	78
	12,920	10,504	574	23,998	10,208	-13,791	13,619

6.2.2 The variances within the General Fund capital programme include:

- **New Coalville Leisure Centre.** Delays in obtaining agreement to carry out works on the A511 have resulted £8.9 million of slippage into 2021/22.
- **Marlborough Square Improvements.** Delays on this project have resulted in £1.7 million of slippage which is fully funded by reserves. The delay was mainly due to our ability to move on to the construction phase for this project in the previous year, which is governed by completion of a Section 278 Highways agreement with Leicestershire County Council. The S278 Agreement for this project was particularly complex and the Highway authority had requested further survey information. Once all consents were in place and a contractor appointed expenditure proceeded, however the delay from 2019/20 affected this year.
- **Transport Account Vehicles.** In light of the climate emergency, the Council has put on hold procurement of new vehicles until a new fleet strategy has been agreed. This

has resulted in slippages of £1.1 million. The transport account is funded by a combination of a grant, capital receipts (from the sale of disposed vehicles) and mostly unsupported borrowing.

- **Other Works – Salt Bay Cover and Appleby Magna Caravan Park.** Due to delays in commencement of the projects and delays in works, there is a total of £585K slippages to 2021/22 and identified savings in the year of £121.6K. Delays in works were due to the pandemic and also due to lengthy negotiations with third parties who would be affected by the development works. Both schemes were fully funded through reserves.
- **Council Offices.** Improvement works to the council are paused whilst a review of the Council's accommodation is completed. This has resulted in an identified saving of £49K and slippages of £435K. All capital works were to be funded through unsupported borrowing.

6.3 HRA Capital Programme Movements

6.3.1 The provisional outturn on the HRA capital programme is £6.7 million against a budget of £12.9 million, an underspend of £6.2 million. Table 6 below provides a detailed breakdown of expenditure against key lines, with £2.4 million of the underspend due to be carried forward into the next financial year.

Table 6: HRA Capital Programme Outturn 2020/21

Scheme	Original Budget £'000	Prior Year c/fwd £'000	In Year Approvals /funding £'000	Revised Budget £'000	Provisional		Carry forward to next year £'000
					Outturn £'000	Variance £'000	
Home Improvement Programme	3,870	0	0	3,870	1,776	-2,094	815
New Supply Programme	3,811	1,556	0	5,367	3,282	-2,085	426
Estate Improvements	770	487	0	1,257	187	-1,070	391
Compliance	125	400	0	525	54	-471	470
Major Aids and Adaptations	300	0	0	300	277	-23	23
Supported Housing Improvements	200	300	0	500	0	-500	230
Capitalised salaries	614	0	0	614	480	-134	0
Other capital projects	474	0	0	474	606	132	0
TOTAL HRA CAPITAL PROGRAMME	10,164	2,743	0	12,907	6,662	-6,245	2,355

6.3.2 The variances within the HRA capital programme include:

- **Home Improvement Programme underspend of £2.1 million.** This programme was adversely affected by the pandemic, with non-essential work on tenants' homes suspended for a number of months as a result of restrictions. Officers have reprofiled the five-year programme to allow work that did not take place to be completed in future

years. For this reason, only £815,000 of funding is carried forward into next year's programme, with further revisions to years 2 to 5 of the programme expected in the 2022/23 budget setting process.

- **New Supply Programme underspend of £2.1 million.** The New Supply programme budget consisted of £3.8 million for new build projects and £1.6 million for acquisition of homes and land. The new build budgets had a collective underspend of £3.4 million as a result of delays in starting work on a number of sites. This was offset by spending £1.3 million more than the original budgeted amount on acquisitions, as the Council began a programme of acquiring properties on the open market to increase the supply of affordable homes.
- **Expenditure on estate improvements was underspent by £1.1 million.** This programme encompasses a variety of smaller projects, the largest of which is off-street parking improvement works, which was budgeted at £628,000 with spend of £187,000. Projects being carried forward to next year include works to install mobility scooter stores, a pilot place-shaping project and additional underspend on the off-street parking improvements that was not already built into next year's budget as part of the 2021/22 budget process.
- **Supported Housing Improvements was underspent by £500,000.** Work to begin designing improvements was put on hold in response to the pandemic, with the programme rebased in the 2021/22 budget. The element relating to improvements with assistive technology is being carried forward into next year's programme, with an expected cost of £230,000.
- **The new Housing IT system project was overspent by £236,000.** The 2020/21 budget for this programme was based on the project ending in April 2020, but delays, including the temporary suspension of the project to allow staff to respond to the pandemic, means the project is not due to be completed until later this year.

6.3.3 At the end of the year the HRA capital programme funding balances stood at £9.6 million at 31 March 2021, compared to £10.0 million at the start of the year. This fall is largely down to right to buy sales being significantly lower than anticipated in 2020-21, with 33 sales compared to a budgeted figure of 42 sales. This meant capital receipts from right to buy sales were £0.5m lower than budgeted for.

7.0 IMPROVING FINANCIAL MANAGEMENT

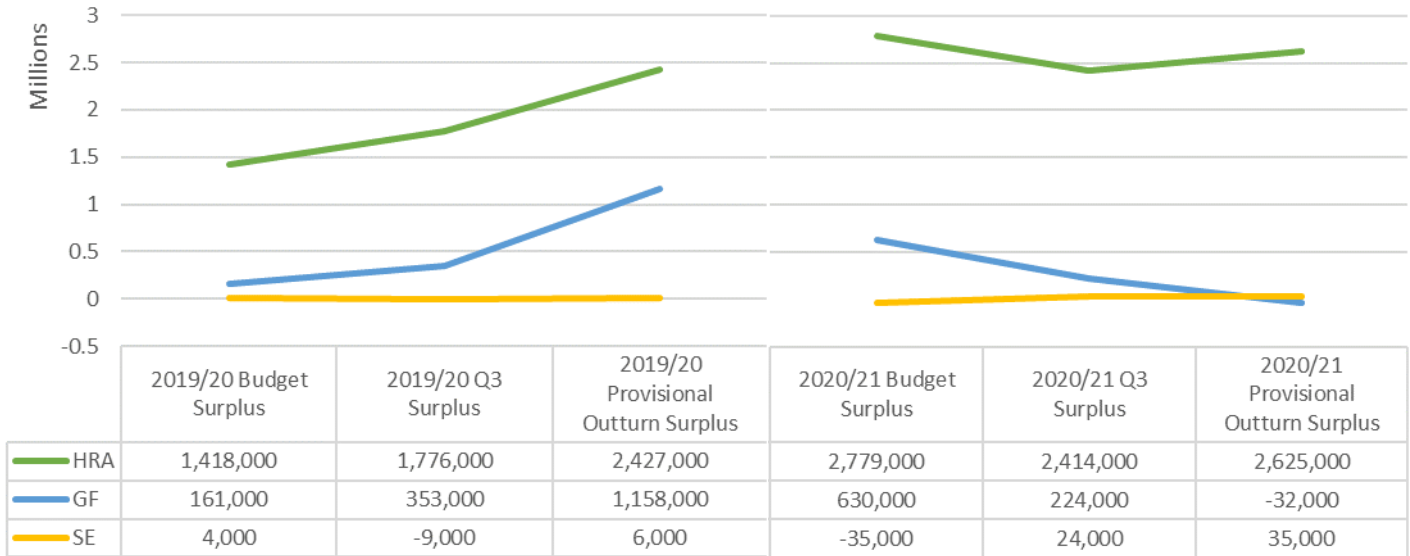
7.1 The Council has had to adapt plans to improve financial management to reflect the changing circumstances over the year. This included starting budget monitoring earlier than previously, so the financial effect of the pandemic could be understood and factored into decision making. Resources were also diverted into additional reporting requirements, as well as supporting wider pandemic such as grant processing.

7.2 As a result, planned improvements to the Council's financial management have been curtailed, although critical work has continued, such as the procurement and development of the new finance system which is due to go live at the beginning of the next financial year.

7.3 Nevertheless, figure 3 below shows that the Council did not experience such a significant favourable movement between quarter 3 and outturn as it has done in previous years. The general fund surpluses moved by £256,000, compared to

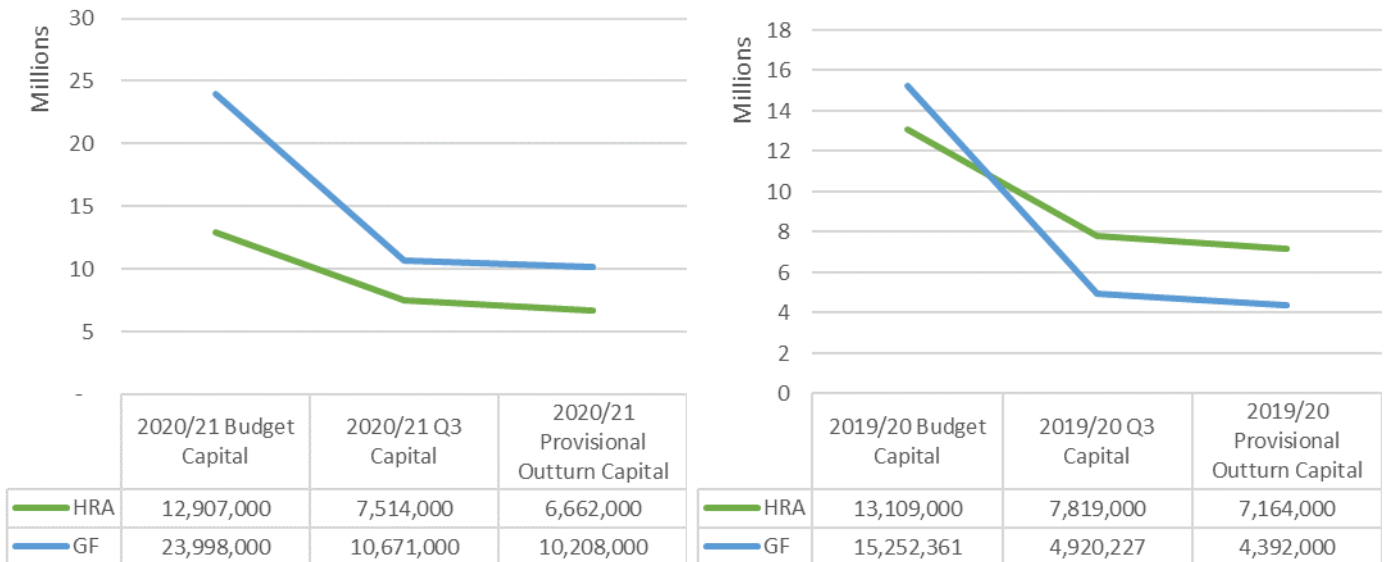
£805,000 in the previous year, whilst the HRA moved by £211,000 compared to £651,000 in the previous year.

Figure 3: Comparison of revenue surpluses at budget, quarter three and provisional outturn in 2019-20 and 2020-21



7.4 The variance between quarter 3 and outturn is less pronounced within the capital programme, with figure 4 below showing that developing an accurate budget remains the challenge with capital, due to the propensity for projects to slip into future years. Officers will consider ways to reduce the effect of this issue more during the 2022/23 budget setting process.

Figure 4: Comparison of expected capital expenditure at budget, quarter 3 and provisional outturn in 2019-20 and 2020-21



Policies and other considerations, as appropriate	
Council Priorities:	The financial position of the Council affects all the Council's priorities.
Policy Considerations:	Not applicable.
Safeguarding:	Not applicable.
Equalities/Diversity:	Not applicable.
Customer Impact:	Not applicable.
Economic and Social Impact:	Not applicable.
Environment and Climate Change:	Not applicable.
Consultation/Community Engagement:	Not applicable.
Risks:	The report sets out that the Council experienced a deficit position on the general fund this year, largely because of the pandemic. This means the Council was unable to set aside the budgeted £630,000 surplus to the journey to self-sufficiency reserve, which reduced the Council's ability to mitigate anticipated financial deficits in the medium term. This risk will be explored later in the year with the update to the medium term financial plan.
Officer Contact	Dan Bates Head of Finance and S151 Officer Dan.bates@nwleicestershire.gov.uk