Committee: Policy, Resources & Economic Development Committee	**Date:** 16 December 2020
Subject: 2020/21 Budget Monitoring and Treasury Management Update	**Wards Affected:** ALL
Report of: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources)	**Public**
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Main Report

Introduction and Background

The report provides a financial update for the General Fund, Housing Revenue (HRA) and Capital Budgets for 2020/21, based on operational and financial impacts for the period April to October 2020. As a result of current operational and transitional arrangements, the financial impact of COVID-19 is included in the report.

The report also includes the half year treasury management report, as required under the Council's Treasury Management Strategy for 2020/21.

Recommendation(s)

Members are asked to:

R1 To note the projected outturn, working balances and reserves forecast for 2020/21 and associated key risks.

R2 To note the Treasury Management activity and Prudential Indicators contained in the report.

General Fund Forecast 2020/21

1. Based on activity to the end of October 2020, the General Fund revenue forecast is £139k underspent. Appendix A provides a detailed subjective analysis of the activity making up the underspend.

2. The General Fund Working Balance is forecast to be £3.056m as at 31 March 2021; £61k lower than the agreed level of working balances agreed as part of the 2020/21 budget strategy in March 2020. The forecast includes the transfer of £200k to Earmarked Reserves as approved by Council on 7th October 2020, following the decision to fund the Brentwood Leisure Trust Exit Strategy

Table 1 – General Fund Revenue and Reserves Forecasts for 2020/21

	2020/21 Current Budget £'000	**2020/21 Estimated Outturn £'000**	**Variance £'000**
Total General Fund Net Expenditure	**8,800**	**9,961**	**1,161**
Total Funding	**(8,800)**	**(10,100)**	**(1,300)**
General Fund (Surplus)/Deficit	**0**	**(139)**	**(139)**
Working Balance B/fwd.	**3,117**	**3,117**	**0**
Surplus/(Deficit) in year	**0**	**139**	**139**
Transfer to Earmarked Reserves – Council 7th October 2020	**0**	**(200)**	**200**
Working Balance C/Fwd.	**3,117**	**3,056**	**(61)**

3. The General Fund Earmarked Reserves balances are forecast and detailed below.

Table 2: General Fund Reserves Forecast to 31.03.2021:

	2020/21 Current Budget £'000	2020/21 Estimated Outturn £'000	Variance £'000
Funding Reserves	**1,197**	**1,531**	**(334)**
Service Reserves	**1,236**	**1,424**	**(188)**
Specific Reserves	**950**	**1,118**	**(168)**
Total Earmarked Reserves	**3,383**	**4,073**	**(690)**

4. Earmarked reserves opening balances were higher than anticipated at the beginning of the financial year due to service projects being delayed and a better than expected 2019/20 outturn. Detail projections forecasted are included within Appendix B.

5. Drawdowns from reserves on the whole are to match service expenditure. The forecast as reported at Appendix B does however include £187k draw down to support the work to be undertaken on the LDP. An update on the LDP and associated budget pressure is detailed at paragraph 6.

6. The Council's new Local Development Plan is currently undergoing examination by appointed planning inspectors. The plan runs until 2033, which at adoption would be less than the 15-year period required. This is because of the plan being produced over a long period of time within a changing national planning context, but also the Secretary of State pressure on the Council to publish/submit a plan swiftly. This combined has meant that the plan has been prepared with an early review in mind. Debate at the examination hearing sessions so far has included discussion on the need for an early review to meet longer-term development needs. Therefore, post adoption of a new plan (subject to soundness to be confirmed by the inspectors, expected mid-2021), the Council will need to begin work on a review of the plan for needs beyond 2033. This will require additional resources in the budget over and above the baseline budget for Planning Policy.

General Fund Revenue Variances

7. Appendix A provides the General Fund subjective analysis and detailed subjective analysis for 2020/21*.*

8. The key variances on the General Fund are:

- COVID-19 related expenditure - £674k, primarily comprising: £365k of delayed operational savings which are unlikely to be implemented; social distancing and support costs for staff, residents and businesses - £261k, and legal costs relating to the need to change numerous contractual arrangements - £28k. These costs have been offset by £982k of Central Government funding.
- COVID-19 related income reduction - £1,356k, of which £1,260k relates to carparking and season tickets, where it is assumed that minimal income will be received for season tickets in 2020/21 due to the encouragement of working from home arrangements for many companies and parking income is currently assumed to be 75% down on the current budget. The Council has now received the first tranche - £318k of the government's 'Income Guarantee' scheme for the period April to July 2020.
- Vacancies – projected underspend - £602(-) k, this position exceeds the vacancy factor of 4% (£418k) included in the budget strategy for 2020/21.
- Reduced corporate project management costs - £79(-) k.
- Additional costs to support the *LDP* - £289k – net of reserve contribution of £187k.
- Insurance tender savings of £155(-) k.
- Golf income higher than anticipated due to impact of lockdown being eased - £165k (-)
- Net reduction in interest costs payable/ receivable and brokers fees - £768(-) k. The Council is following the market trend of borrowing shorter term at preferential interest rates from other Local Authorities. Average lending rates on short-term borrowing to October 2020 were 0.9%.
- Budget savings achieved - £254k
- Legal – Professional fees are forecast to increase - £134k due to the advice required for the transfer of leisure facilities in house and various commercial and Affordable Housing activities.

General Fund Budget Risk:

9. The following financial risks have been identified in preparing this update and going into the preparation of the General Fund budget for 2021/22:

- Government Funding of COVID-19 – the Government's income guarantee scheme will not refund all council income lost because of COVID -19 restrictions and slow general recovery. This will have an impact on the 2020/21 outturn.

- Parking and Season Ticket income – for season tickets, the worst-case scenario has been included in the forecast outturn in this report. A permanent change to companies working arrangements in the long term will be a major consideration for the Council's medium-term financial plan going forward. A review of parking income as at the end of November 2020, has identified a slight improvement in fees of circa £100k since the above projected figures. Therefore, parking income assumptions going forward will be revised to show a reduction in income of 60% instead of 75% to the end of the financial year. These income streams are extremely volatile at the present time.
- The Council is seeing the benefit of low interest rates on short term local authority borrowing; however, this source of borrowing is dependent on government funding for COVID-19 and could dry up with short notice or may continue into 2021/22 as further government funding is passed to local authorities to support COVID-19 and further recovery.
- The forecast outturn includes major increased costs for the LDP, professional legal fees to support workstreams like the Brentwood Leisure Centre, affordable housing contracts, commercial activities, etc; which are sustainable in the short term only.
- The operational impact of transferring the Brentwood Leisure Centre and associated community halls to the Council and ensuring the leisure centre is operational with effect from the 5th December 2020, are not included in the forecast outturn detailed at paragraph 1 of this report. Officers are in the process of evaluating the financial impact of the various levels of service to be provided. The associated cost will include one off costs of transfer, e.g., legal costs: as wells as ongoing service delivery expenditure and income. A sum of £200k has been set aside for costs associated with the Brentwood leisure Centre. Enquiries are being made as to the Councils' eligibility to bid against the National Leisure Relief Fund, for additional financial support.
- The Council currently carries a balance of £363k on the balance sheet reflecting an outstanding loan to the Brentwood Leisure Trust, which has gone into insolvency. The insolvency process is likely to take time and the Council will need to consider writing off the loan balance to the General Fund in 2020/21.

HRA Forecast 2020/21

10. In March 2020, Council approved an HRA budget and net surplus of £0.087m for 2020/21, and an HRA Working Balance of £1.484m as at 31st March 2021. With an Affordable Housing earmarked reserve of £2.4m.

11. As Members are aware the HRA outturn for 2019/20 was £413k higher than expected, therefore the balance brought forward as at 1st April 2020 reduced to £1.071m.

12. The HRA in year variances for 2020/21, and resulting working balance forecast is summarised below, with further detail reported at Appendix C:

Table 3: HRA Forecast Outturn 2020/21

	2020/21 Current Budget £'000	2020/21 Estimated Outturn £'000	Variance £'000
Total Housing Service Expenditure	**6,537**	**6,889**	**352**
Total Housing Service Income	**(13,179)**	**(13,160)**	**19**
Non-Service Costs	**5,545**	**5,576**	**31**
Appropriations	**1,010**	**1,010**	**0**
(Surplus)/Deficit on HRA	**(87)**	**315**	**402**
Working Balance B/fwd.	**1,071**	**1,071**	**0**
Surplus/(Deficit) in year	**87**	**(315)**	**402**
Working Balance C/Fwd.	**1,158**	**756**	**(402)**

13. The main variances comprise:
    - COVID-19 related expenditure - £132k.
    - COVID-19 related income impact - £30k.
    - Increased Repairs and Maintenance costs - £381k. to partially fund the adverse variance the Directors of Corporate Finance and Housing & Enforcement have agreed the virement of £190k from revenue contributions to capital to the Repairs & Maintenance budget to support the additional costs. Net impact £191k.
    - Security costs - £98k - impact of delays to capital improvements to Drake House.
    - Insurance tender savings - £55k (-) and
    - Additional ICT and consultancy costs - £79k
    - Other minor variances totalling £-73K.

14. Central Government has to date made no arrangements to reimburse the HRA for COVID-19 costs and the HRA is not included in the government's 'Income Guarantee' scheme. COVID-19 costs will increase substantially should additional shielding measures be needed for staff and sheltered schemes.

15. The current HRA forecast outturn includes a £1m contribution to the HRA Affordable Housing Reserve. On closure of the HRA account at year end, any additional pressure on the revenue budget which cannot be funded by additional income or savings, will be

managed through a reduced contribution to the reserve. This will be a short-term measure to enable budget pressures to be managed in the medium term.

HRA Budget Risks:

16. The following financial risks have been identified in preparing this update and going into the preparation of the General Fund budget for 2021/22:

- The HRA is receiving no compensation for any COVID costs incurred. Therefore, these costs need to be financed from within operational budgets.
- Ongoing inspection and condition surveys are highlighting additional works to HRA housing stock, which was not forecast in the current HRA medium term financial plan.
- The HRA reserves and in year projected financial surpluses, provide limited flexibility to fund emergency expenditure and restricted capacity to support investment in affordable housing. The level of HRA reserves will be risk assessed and considered as part of the HRA three-year business plan for 2021/22 to 2023/24.
- Rent increases for the majority of HRA properties are limited by statute to CPI + 1% from 2020/21 to 2024/25, this constricts the increased income available to the HRA. As the affordable housing development is completed, properties are let at ‘affordable rents’ and will therefore provide financial capacity in the HRA. In the meantime, material cost areas such as repairs and maintenance, utility costs and other contracts need to be reviewed to ensure that costs are minimised as much as possible and services provide value for money.

General Fund /HRA/ Commercial Capital Programme 2020/21

17. The current capital strategy budget totals £54.3m and is detailed at Appendix D.

18. The strategy has been updated for capital slippage from 2019/20 outturn report that was reported to PRED on 9th September 2020.

19. Non-Commercial expenditure on capital schemes to the end of September 2020 is 23.8% of the current Capital Strategy budget, excluding the WOC. The HRA major repairs programme has £2.6m in commitments to date for 2020/21, in relation to various Health and Safety works.

20. In September 2020, the Council advanced £27.5m to Sail for the purchase of further investment properties.

21. To the end of October 2020, budget managers have identified slippage of £7.609m; delays in schemes being primarily due to COVID restrictions.

22. A revision to the Capital strategy is now underway and will be reported to PRED in January 2021 as part of the budget strategy.

Treasury Management (TM) update

23. The Council's Treasury Management Strategy was approved by Council on 4th March 2020. It is a requirement of the Strategy that a half yearly report is presented to Members detailing any changes to the approved strategy.

24. This mid-year report covers the following:

- An economic update for the 2020/21 financial year to date
- A review of the Treasury Management Strategy and Annual Investment Strategy
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators
- A review of the Council's borrowing strategy for 2020/21
- A review of the Council's investment portfolio for 2020/21
- A review of compliance with Treasury and Prudential Limits for 2020/21.

25. The update is detailed in paragraphs 26 to 38. Appendix E provides an economic update, as provided by the Council's TM advisors.

26. No prudential indicators have been breached in the period April 2020 to September 2020, and no arrangements have been made to reschedule debt. It is unlikely that the current TM environment is beneficial for debt rescheduling up to March 2021.

27. As detailed at paragraph 17, the Capital strategy for 2020/21 to 2022/23 was updated for 2019/20 slippage of Circa £12m on the G Fund capital Programme for 2019/20 of circa £12m, the capital Financing Requirement has been amended accordingly.

28. A review of all other TM prudential indicators has been undertaken as at the end of September 2020, concluding that there is no change required. The Councils indicators are detailed below:

Table 4: Treasury Management Indicators 2020/21

Prudential Indicator 2020/21	2020/21 original estimate £000	2020/21 revised estimate £000

Capital Expenditure	38,064	54,300
Capital Financing Requirement	149,729	162,327
Operational Boundary	149,729	149,729
Gross External Borrowing	131,380	139,287
Authorised Limit	157,729	157,729

29. In line with other Local Authorities, the Council has benefited from low short-term borrowing rates within the LA inter lending environment, due to Central Governments financial support for COVID-19 to the Council's businesses and residents. With average rates on short-term borrowing of less than 365 days at around 0.09%, and on lending to SAIL at 4%; a net benefit of £768k is expected to be achieved.

30. As at 30th November 2020, the Council's short-term debt portfolio was 34.5% of total borrowing.

31. These arrangements are not sustainable for the medium term unless central government transfers more recovery funding into the sector towards the end of the financial year and into 2021/22. Should these cashflow benefits dry up quickly, there is a risk that the Council will have to secure immediate borrowing at higher rates of interest. To minimise the risk, the Council's TM advisor has been commissioned to assist with arranging fixed rate long term borrowing. As a result, £27m in PWLB borrowing for a period of 30 years was taken out in October 2020.

32. The Council held £4m of investments as at 30 November 2020 (£0.010m at 31st March 2020). Interest earnings for the year are forecast to be £0.042m.

33. Investments during the year have been short-term cashflow investments with other local authorities and deposits into call accounts with Lloyds and Santander banks. Over a number of years due to the low yield on interest rates and to minimise the consolidation of investments in a restricted number of high security counterparties, the Council has used internal balances and temporary borrowing to fund its capital programme. Hence the Council's investment portfolio is minimal. However, the security of funds continues to be the priority even with investment in other LA's.

34. The strategy approved in March 2020, did not anticipate the impact of COVID-19 on the strategy. The Council made the following TM arrangements to quickly respond to the crisis:

    a) deferring payments with the agreement of central government and ECC pensions team,
    b) receiving business rate relief s31 grants in full from central government prior to the start of the financial year, and

c) borrowing prior to receipt of the final tranche of Busines Grants funding, to ensure immediate availability of support to the business community.

35. HM Treasury have recently announced the outcome of a consultation exercise regarding lending terms. The aim of the consultation was to develop a method to prevent local authorities and entities within their “group boundary” from using borrowing to buy investment assets primarily from yield without impeding their ability to access PWLB funding for service delivery, housing and regeneration schemes. The consultation was in response to the perceived abuse of the PWLB lending facility by a small number of local authorities that have borrowed substantial sums from PWLB to acquire investment properties primarily for yield.

36. The new lending terms came into effect on 26th November 2020. Under these terms, authorities wishing to borrow from PWLB are required to submit a high-level summary of their capital spending and financing plans for the next three years, and to confirm that there is no intention to purchase investment properties primarily for yield. If there are any such plans within the capital spending programme over the next three years, the PWLB will not lend to that local authority.

37. If an authority were to deliberately mislead HM Treasury, it would face the sanction of having its access to PWLB lending suspended and, in extreme cases, of being required to repay its loans to PWLB.

38. Following the updated PWLB change in borrowing arrangements, the government reduced the PWLB borrowing rates.

39. The implications of the revised PWLB lending terms for Brentwood are:

a) The current capital strategy as detailed at Appendix D includes a loan of £27.5m to SAIL to purchase assets for income yield and capital appreciation. Both the Council and SAIL transactions were completed prior to the introduction of the new guidelines.
b) The strategy does not include any transactions for the purchase of assets for yield.
c) The capital strategy is due to be updated in January 2021, as part of the MTFP. The revised rules will be considered in preparing the strategy.
d) Where the council is investing in housing, regeneration, it current council assets or replacing current debt; reduced PWLB borrowing rates will reduce interest costs

Issue, Options and Analysis of Options

The key risks to the projected budget forecast are identified in the body of the report.

Consultation

None required.

References to Corporate Plan

To ensure the provision of efficient and effective services of our residents and businesses.

Implications

Financial Implications
Name/Title: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources) and Section 151 Officer
Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk

The Council's Medium Term Financial Strategy for 2021/22 to 2023/24 will be reported to PRED in January 2021. This budget monitoring report will form the basis of the preparation of the MTFS. Risk associated with the 2020/21 forecast position have been identified at paragraphs 9 and 16, the MTFP will consider actions to minimise the risks and any additional financial risks identified in preparing the budget strategy.

Legal Implications
Name & Title: Amanda Julian, Corporate Director (Law & Governance) and Monitoring Officer
Tel & Email: 01277 312500/amanda.julian@brentwood.gov.uk

The Council has duties within an existing legal framework to set a balanced budget for each financial year and to monitor income and expenditure against this budget.

Economic Implications
Name/Title: Phil Drane, Corporate Director (Planning & Economy)
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There are no direct economic implications, although it is important that the Council maintain a robust budget to inform how the Council interacts with residents, businesses, partners and customers through the provision of certain services.

Background Papers

Budget report 2020/21 4th March Ordinary Council

Appendices to this report

Appendix A: General Fund subjective analysis variances.
Appendix B: General Fund forecasted Earmarked reserves position.

Appendix C: HRA subjective analysis variances.
Appendix D: 2020/21 Capital Programme Forecast.
Appendix E: Treasury Management - Economic briefing