

Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	30 July 2020

PROVISIONAL REVENUE AND CAPITAL OUTTURN 2019/20

PURPOSE OF REPORT

1. To present the provisional revenue outturn figures for the Council as compared against the budgets and efficiency savings targets set for the financial year 2019/20.
2. To present the provisional outturn figures for the 2019/20 capital programme and update the capital programme for financial years 2020/21 to 2022/23 to take account of the re-phasing of expenditure from 2019/20 and other proposed budget changes.
3. The accounts are provisional at this stage and are also subject to final checking and scrutiny by the Council's external auditor. Should there be any significant changes to the outturn as a result of this process a further report will be submitted to Executive Cabinet.

RECOMMENDATION(S)

4. Note the full year forecast position for the 2019/20 revenue budget and capital investment programme.
5. Note the slippage requests outlined in Appendix 2 of the report to finance expenditure on specific items or projects in 2020/21.
6. Request Executive Cabinet approval for the contribution of £63k from in-year revenue underspends to the Change Management Reserve to finance one-off redundancy and pension strain costs arising from transformation and shared service strategies. This will bring the reserve to £250k.
7. Request Executive Cabinet approval for the contribution of £100k from in-year revenue underspends to fund the revenue implications of future planning appeals. This will bring the reserve to £100k.
8. Request Executive Cabinet approval for the contribution of £100k from in-year revenue underspends to fund crucial works to the council's CCTV operations centre.
9. Request Executive Cabinet approval for the contribution of £203k from in-year revenue underspends to increase the business rates retention reserve.
10. Note the 2019/20 outturn position on the Council's reserves outlined in Appendix 4.
11. Note the impact of the final capital expenditure outturn and the re-phasing of capital budgets to 2020/21 and approve the adjustments to the capital programme outlined in paragraph 61.
12. Request Council approval of the financing of the 2019/20 capital programme to maximise the use of funding resources available to the Council.

EXECUTIVE SUMMARY OF REPORT

13. There is a provisional underspend against the budget at year-end of £466k (as detailed in Appendix 1) after taking account of requests for slippage of committed items of £69k that have been approved by the Chief Finance Officer.
14. The provisional underspend excludes any variation to projected expenditure on investment items included in the budget in 2019/20. Details of the balances remaining at year end are shown in Appendix 3 and will be transferred into specific reserves and matched to expenditure in future years.
15. In the 2019/20 budget the expected net income from Market Walk after deducting financing costs is £1.004m. The final outturn position shows an underspend of £29k that will be used to increase the Market Walk income equalisation reserve.
16. The capital outturn expenditure for 2019/20 is £45.566m
17. The Council's Medium-Term Financial Strategy reported that working balances are currently maintained at £4.0m due to the financial risks facing the Council. Should the recommendations in this report be accepted, the forecast level of balances as at 31 March 2020 will be £4m.

Confidential report Please bold as appropriate	Yes	No
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Key Decision? Please bold as appropriate	Yes	No
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Reason Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more 3, a new or unprogrammed capital scheme of £100,000 or more	2, a contract worth £100,000 or more 4, Significant impact in environmental, social or physical terms in two or more wards
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REASONS FOR RECOMMENDATION(S) **(If the recommendations are accepted)**

18. To ensure the Council's budgetary targets are achieved.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

19. None

CORPORATE PRIORITIES

20. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all	✓	A strong local economy	✓
Clean, safe and healthy communities	✓	An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

21. The net revenue budget for 2019/20 is £15.654m. This has been amended to include approved slippage from 2018/19 and any transfers to/from reserves.
22. Appendix 4 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.
23. A full schedule of the investment budgets carried forward from 2018/19 are shown in Appendix 3 together with expenditure to date against these projects and any balances carried forward for use in future years (for capital items see Appendix 5).
24. The Council's approved revenue budget for 2019/20 included target savings of £150,000 from management of the staffing establishment and £85,000 efficiency savings, both of which have been achieved during the year.
25. Following recommendations made in the December 2019 budget monitoring report, in-year revenue underspends have been set aside to fund the following items:
 - £77,600 to finance the migration of property data into digital formats.
 - £98,500 to finance one-off redundancy and pension strain costs arising from transformation and shared service strategies.

SECTION A: CURRENT FORECAST POSITION – REVENUE

26. The net expenditure at the end of the financial year shows a provisional underspend against the Council's budgets of £466k (after taking requests for slippage and other special items into account). Details of the revenue outturn position are shown in Appendix 1 and requests for slippage are outlined in Appendix 2. The main variances over and above those previously reported to Executive Cabinet are shown in table 1 below.

ANALYSIS OF MOVEMENTS

Table 1 – Significant Variations from the Cash Budget

Note: Overspends/shortfalls in income are shown as ().

	£'000	£'000
Expenditure:		
Staffing Costs	129	
Increase in Bad Debts Provision	(220)	
Legal Fees - Planning Appeals	(18)	
Human Resources – Recruitment Advertising	<u>(15)</u>	
		(124)
Income:		
Net Rental Income - Logistics House	460	
Cemetery Income	35	
Council Tax Summons/Committal Costs	(16)	
Car Park Pay & Display income	<u>(10)</u>	
		469
Major Projects:		
Primrose Gardens	15	
Market Walk Extension	43	
Digital Office Park	<u>8</u>	
		66
Other Items:		
Community Infrastructure Levy (CIL) - Admin	84	
Other minor variances	<u>(29)</u>	
		55
Net Movement		466
Quarter 3 Net Forecast Underspend		0
Provisional Outturn Underspend 2019/20		466

Expenditure

27. The additional savings on staffing costs of £129,000 shown in table 1 above reflects the changes from the position reported to the end of December in the last monitoring report. The main changes are predominantly as a result of savings in the Early Intervention directorate, partly from vacant posts but also as a result of external funding. The Council is allowed to claim back staffing and other eligible costs as part of the Syrian Resettlement Programme funding agreement with Lancashire County Council. As a result, eligible staffing costs have been recovered for staff working on the programme, resulting in a saving against the Council's existing staffing budgets for 2019/20.

28. The council will make an additional contribution to bad debts of £220k to manage the expected higher level of general fund (excluding council tax and business rates) debtors. The general debtors bad debt provision will be £300k, it should be noted the council has a separate Market Walk Income Equalisation Reserve to help manage any voids or rent free periods at the shopping centre. This is forecast to be £468k by the end of 2019/20.
29. A specific earmarked reserve was created by the Council to help cover the revenue costs of local planning appeals. The costs incurred in 2019/20 were around £47k, predominantly from the Hut Lane and Orcheton House Farm appeals, and this exceeded the balance held in the reserve at the start of 2019/20 of £29k, resulting in a revenue overspend of around £18k for the year.
30. The Council has spent around £22k in 2019/20 for recruitment advertising, compared to the £7k annual revenue budget, resulting in an overspend of £15k. The majority of this is a result of advertising for the Director of Finance and Director of Early Intervention posts following the senior management restructure in 2019.

Income

31. In August 2019 the council purchased Logistics House as per the report to Full Council on 23 July 2019. The net income from this purchase, after borrowing, in 2019/20 was £460k.
32. Income streams from both Chorley Cemetery and Charnock Richard Crematorium were significantly higher in the fourth quarter of 2019/20 resulting in additional income of around £35k compared to the position previously reported in December. The full surplus for the year was around £62k compared to budget.
33. Income received from Council Tax Summons/Committal costs was lower than anticipated in the final months of 2019/20 compared to previous years and this has resulted in a shortfall of around £16k for the year, compared to the budget of £340k.
34. It was previously reported in September that income from Parking Fees was forecast to be below budgeted levels for 2019/20 by around £20k, mainly as a result of lost parking spaces on the Flat Iron car park whilst the works to Market Walk Extension were underway. Income levels have since fallen by a further £10k, predominantly due to the last week in March as we entered lockdown following Government restrictions in response to the Covid-19 pandemic.

Major Projects

35. Three of the council's major projects opened in 2019/20. The implications of this on the revenue budget are summarised in table 2 below, all figures exclude the cost of borrowing that are accounted for in the net financing budget:

Table 2: Summary of Outturn Position of Major Projects

	(Income)/ Expenditure Budget £000s	2019/20 Outturn £000s	2019/20 Variance £000s	20/21 Budget £000s	21/22 Budget £000s
Primrose Gardens Retirement Village	213	30	183	(50)	(65)
Extension to Market Walk	(125)	(218)	93	(250)	(280)
Strawberry Fields Digital Office Park	160	307	(147)	0	(150)
TOTAL	248	119	129	(300)	(495)

36. The popularity of **Primrose Gardens Retirement** has meant the apartments are now 84% occupied. This is a much faster rate of occupancy than originally budgeted for and so the project in 2019/20 was £183k under budget. The final apartments are due to become occupied in the coming weeks as Covid-19 restrictions are lifted.
37. The extension to **Market Walk** opened in December and has four units occupied equivalent to 75% of total lettable space. The net income in 2019/20 was £93k higher than originally budgeted. There has been considerable interest in the remaining units however due to the impact of Covid-19 the leases have not yet been finalised. This will impact on the outturn for 20/21 where the current prudent estimate is net income of £100k increasing to £200k for the proceeding years.
38. **Strawberry Fields Digital Office Park** opened in October 2019 and occupancy increased with 65% of office space let or under negotiation to be let by the end of March 2020. Due to delays in the development of the access road on the adjacent site the office park opened five months later than originally budgeted. This resulted in a variance to budget of £147k.

Other Items

39. The Council is permitted to use 5% of the income collected each year through the Community Infrastructure Levy (CIL) to cover the cost of administering CIL. The total CIL collected in 2019/20 was initially estimated to be around £1.0m, generating eligible CIL admin of around £50,000. The final figure for CIL Admin in 2019/20 was just over £134k and as a result, additional staffing and non-staffing expenditure previously expected to be covered through the base budget will instead be legitimately met through the CIL admin allocation therefore creating a further saving of around £84k in 2019/20.

Requests from Underspends

40. During 2019/20, the Council utilised a sum of around £226k from the Change Management Reserve to finance the one-off redundancy and pension strain costs as a result of the restructures already implemented. The balance remaining at year end is now around £187k and this may not be sufficient to cover further staffing changes due to take place as part of the transformation and shared services strategies, so this reserve will need to be resourced correctly for the Council to fund these changes. It is therefore proposed that a sum of £63,000 is set aside from the 2019/20 revenue underspends to increase the remaining reserve to £250k.
41. The Council has previously created a specific earmarked reserve set up to cover the revenue cost implications of local planning appeals. The balance held in this reserve at the start of the 2019/20 financial year was £29k and this has now been fully utilised during the year to cover costs relating to several recent appeals. It is therefore proposed that a sum of £100,000 is set aside from the 2019/20 revenue underspends to mitigate the cost of future planning appeals.
42. The council has invested £250k in CCTV from its asset improvement budget in 2019/20. £50k related to the existing Market Walk and was funded through MW service charge reserves. The enhancements to the council's CCTV are nearing completion however it is apparent the council needs to also invest in its operations centre in order to fully support the investment. It is requested that £100k is added to the asset improvement budget to fully realise the benefits of its investment. It is therefore proposed that a sum of £100,000 is set aside from the 2019/20 revenue underspends to fund this CCTV investment.
43. The potential medium-term impact of Covid-19 on the council's budget is a reduction in the retained business rates. Current estimates have the collection of business rates in 2020/21 6% lower than in 2019/20 even after accounting for the Government announcements

regarding additional retail, hospitality and leisure reliefs. The council's share of such a reduction is approximately £400k per annum. The Government has provisionally announced support by allowing councils to spread these losses over three years rather than one. However, it is prudent for the council to set aside the remaining underspends in 2019/20 of £203k to increase the business rates retention reserve and help the council manage future uncertainty in this key funding stream. If approved, the reserve would stand at £1.150m at the end of 2019/20, approximately 20% of the annual budget for retained business rates.

MARKET WALK

44. The budgeted net rental income from Market Walk after taking account of financing costs in 2019/20 is £1.004m.

Table 3: Market Walk Income 2019/20

	2019/20 Budget £	2019/20 Outturn £	2019/20 Variance £
Rental & Insurance Income	(1,774,100)	(1,686,495)	(87,605)
Operational Costs (excluding financing)	150,110	32,800	117,310
Market Walk Extension Revenue Expenditure	0	0	0
Net Income (excluding financing)	(1,623,990)	(1,653,695)	29,705
Financing Costs	619,730	619,730	0
Net Income (including financing)	(1,004,260)	(1,033,965)	29,705
Income Equalisation Reserve (Annual Contribution)	50,000	79,705	(29,705)
Asset Management Reserve (Market Walk)	50,000	50,000	0
Net Income	(904,260)	(904,260)	0

Income

45. Income is £87k short of the budget in 2019/20 mainly due to two units being vacant during 2019/20. A number of tenants renegotiated leases during the year that also resulted in a drop in income
46. There is currently one vacant unit and eight occupied units undertaking negotiations with the council as part of their lease renewals.

Expenditure

47. Historically any shortfall in income has been offset by underspends in expenditure relating to Market Walk. The revenue expenditure budgets for professional fees and maintenance have sufficiently underspent to cover the shortfall in income.

Reserves and Future Forecast Outturn

48. The £29k underspend will be utilised to increase the income equalisation reserve in 2019/20 by more than the budgeted £50k. The reserve will be £468k at the end of 2019/20 that will be used to manage the impact of possible voids during 2020/21 and further into the future.
49. The Market Walk income budget was reduced for 2020/21 by £100k to account for the likely fall in future income. This was predominately funded by reducing the Market Walk expenditure budget that has historically underspent.

COVID-19

50. The impact of Covid-19 on the 2019/20 budget has been minimal. The main budget implication has been the need to increase the bad debt provision as described earlier in this report.
51. The pandemic will impact the council, its businesses and residents over the coming months and years. The main areas of budget risk to the council are:
 - reductions in council tax and business rates income
 - increased cost pressures – additional homelessness support and other additional support to residents, investment in council offices and IT to continue supporting customer facing services
 - potential reductions in fees and charges such as parking charges or planning fees
 - potential reductions in commercial income
52. The Government has provided the council with £1.3m to manage these budget risks so the council can continue to provide services to its residents and businesses. Chorley Council has distributed over £20m of grants to businesses as part of the Government initiative to provide short term support to local businesses.
53. Recently the Government has announced it will support councils for 75% of shortfalls in some of its fees and charges, this however does exclude shortfalls in commercial income. This support is welcomed, and the council is awaiting further guidance on how this programme of support will operate.
54. At this stage it is not clear what the short impact of Covid-19 will be for the council. The council has been prudent when setting aside reserves to manage future uncertainty including £4m of general reserves and £950k for managing short term reductions in business rates income (£1.153m is the proposals in this report are approved).
55. However, the council's reserves are also set aside to manage the medium to long term impact of the pandemic including the risk of a sustained recession. As such, through its membership of local authority networks, Chorley Council continues to lobby the Government to provide the level of support to district councils that it has been provided to support social services and the NHS.

GENERAL FUND RESOURCES AND BALANCES

56. With regard to working balances, and as per Appendix 1, the Council holds a £4m General Fund balance to manage budget risks not covered by earmarked reserves or provisions. The impact of the initial provisional underspend, together with the in-year transfers to reserves, is a closing balance of £4.466m for working balances.
57. Should the recommendations in this report be approved, the forecast level of balances as at 31 March 2020 will be £4m as detailed in table 4 below.

Table 4 – Movement in General Fund Balance

General Balances	£m
Opening Balance 2019/20	4.000
Provisional revenue budget underspend	0.466
Initial General Fund Closing Balance 2019/20	4.466
Change Management Reserve	(0.063)
Planning Appeals Reserve	(0.100)
CCTV operations centre	(0.100)
Business rates retention reserve	(0.203)
General Fund Closing Balance 2019/20	4.000

58. Appendix 4 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.

SECTION B: CURRENT FORECAST POSITION – CAPITAL

59. The approved capital budget as per the revenue and capital outturn report approved on 20 June 2019 and subsequent adjustments, including the adjustments outlined in this report, are tabled below.

	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m
Approved Budget	21.148	3.882	3.941	28.971
Q1 Adjustment	(1.569)	(2.707)	(2.766)	(7.042)
Q2 Adjustment	34.111	0.190	0.000	34.301
Q3 Adjustment	(7.118)	17.536	1.065	11.483
Outturn Adjustments	(1.006)	27.407	1.700	28.102
Revised Budget	45.566	46.308	3.940	95.815

60. Some budgets have been re-profiled between 2019/20 and 2020/21 including:

- the remaining expenditure at Strawberry Fields now forecast to be spent in 2020/21, this includes additional barriers, pedestrian access and landscaping.
- the scope of works to Union Street to be reviewed in 2020/21 as a result of the Covid-19 pandemic

61. It is requested that Council increase the following capital budgets:

- The council has invested £250k in CCTV from its asset improvement budget in 2019/20. £50k related to the existing Market Walk and was funded through MW service charge reserves. The enhancements to the council's CCTV are nearing completion however it is apparent the council needs to also invest in its operations centre in order to fully support the investment. It is requested that £100k is added to the asset improvement budget to fully realise the benefits of its investment.
- The original development for West Way playing fields included a budget of £2.7m. This was revised downwards to £2.3m as per the Cabinet report on 13 Feb 20. Since then the specification for the development has been changed with an ambition to deliver a jogging track, compact athletics track as well as a new recreational area. The revised budget is now estimated to be £2.753m. It is proposed the budget is increased to £2.753m with additional funding coming from unallocated s106 and overage that have been received.
- The current budget for the enhancements to indoor market is £400k. Further work to developing the site has been undertaken and it is realised that there is an opportunity, as part of the covered market refurbishment, to bring the Council's town centre assets together more homogenously and develop synergy between the structures, capitalising on a recognisable contemporary Market Walk 'brand'. This should also allow the covered market to benefit from the success of the Market Walk extension. It is important for the council to continue to develop and broaden the town centre offer, especially when some retail providers continue to experience difficulties. It is proposed to increase the budget to £600k to fund further works

including works to the entrances making them more bright and welcoming as well as installing external awnings all around the perimeter of the market.

- The council sets aside £100k per year for the repairs and maintenance of its leisure centres. This relates to the maintenance the council is responsible for under the conditions of the current leisure contract. This budget has historically underspent but there is a forecast spend of £300k in 2020/21 as works are completed to prepare the leisure facilities for the handover of the new contract. This includes an estimated £150k for a new air handling unit at All Seasons. It is requested that the leisure maintenance budget is increased by £200k to £300k in 2020/21.

62. Other adjustments to the capital budget include:

- As per the report to Council on 21 July 2020 the approved budget for the developments at Tatton is £14.010m. This includes a new extra care facility, community centre, pharmacy and investment in new play and open space.
- As per the report to Council on 11 June 2020 the council is in the process of purchasing two units at the Common Bank Industrial Estate. The council has agreed terms with a new tenant for a 10-year lease. This purchase will generate a net revenue income to the council. The total purchase cost is £383k and the budget has been increased to reflect this.
- Full Council on 7 April 2020 approved a total budget of £3.880m for the Whittle Surgery development. A further report was approved by Full Council on July 2020 to approve an additional capital budget of £350k to create a new parish building on the site.
- A report to Full Council on 21 July 2020 approved a £2m budget for the improvements to its leisure centres as per the new contract awarded for the management of the leisure facilities. £1m is forecast to be funded through CIL and the remaining from borrowing that will be repaid through the fee paid to the council as part of the contract agreement.

CAPITAL PROGRAMME FINANCING 2019/20

Fund	Original Budget 2019/20 £'000	Quarter 1 2019/20 £'000	Quarter 2 2019/20 £'000	Quarter 3 2019/20 £'000	Quarter 4 2019/20 £'000	Change £'000
External Contributions	5.091	5.079	5.416	1.450	1.519	(3.572)
Grants	2.584	2.494	2.394	1.903	1.685	(0.899)
New Homes Bonus	0.415	0.415	0.361	0.218	0.279	(0.136)
Earmarked Reserves	0.766	0.766	0.661	0.597	0.493	(0.273)
Revenue	0.485	0.485	0.485	0.010	0.033	(0.452)
Capital Receipts	0.642	0.667	0.715	0.243	0.216	(0.426)
Borrowing	11.165	9.674	43.659	42.146	41.341	30.176
Capital Financing 2019/20	21.148	19.580	53.691	46.567	45.566	24.418

63. The increase in borrowing is due to the Logistics House site acquisition being included in the capital programme in quarter 2. This is more than funded through the revenue generated by the site.
64. The reduction in external contributions is the result of reprofiling S106 and CIL contributions to play and open space projects from 2019/20 into 2020/21.
65. Grant income was lower than originally budgeted mainly due to the re-profiling of the grant support for West Way playing fields from 2019/20 to 2020/21.

IMPLICATIONS OF REPORT

66. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

67. The financial implications are contained within this report

COMMENTS OF THE MONITORING OFFICER

68. No Comment

GARY HALL
CHIEF EXECUTIVE & CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
David Bond/James Thomson	5488/5025	29/01/20	***