



CABINET: 22nd July 2020

COUNCIL: 22nd July 2020

Report of: Chief Operating Officer and Head of Finance, Procurement and Commercial Property

Relevant Portfolio Holder: Councillor Adam Yates

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SUBJECT: FINANCE UPDATE

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To provide a summary of the revenue outturn position for the 2019/20 financial year, to provide an assessment of the impact of the coronavirus on the Council's finances, and to consider updates to the Housing capital programme and to the business plan for the Council's Development Company and associated actions.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the revenue outturn position for 2019/20 be noted.

2.2 That the estimated financial impact of the coronavirus be noted and kept under review during the current financial year.

2.3 That the proposed amendments to the Housing Revenue Account (HRA) capital investment programme, the Tawd Valley Development Limited (TVDL) business plan, and the associated actions set out in section 10 of the report be endorsed for approval by Council.

2.4 That, subject to Council approving paragraph 3.3 below, that the acquisition and development of the Halton Castle site in Westhead on behalf of the HRA be agreed in principle and authority be given to the Chief Operating Officer to carry out all necessary due diligence and thereafter enter into all necessary

arrangements with regard to the proposed purchase and development of the site for Council housing.

- 2.5 That call in is not appropriate for this item as this matter is one where urgent action is required given the timescales for the Halton Castle site scheme.

3.0 RECOMMENDATIONS TO COUNCIL

- 3.1 That the revenue outturn position for 2019/20 be noted and the proposed budget allocations set out in paragraphs 5.5 and 6.2 be approved.
- 3.2 That the estimated financial impact of the coronavirus in 2020/21 be noted and kept under review during the current financial year.
- 3.3 That the proposed amendments to the HRA capital investment programme, the TVDL business plan, and the associated actions set out in section 10 of the report be approved.
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4.0 BACKGROUND

- 4.1 For the last decade the GRA has been facing a challenging financial position, primarily as a result of ongoing reductions in government grant funding. To address this position a series of programmes have been agreed to deliver savings and generate additional income to enable services to be maintained and to allow targeted investment in key priority areas. A Sustainable Organisation Review process (SORP) is currently being implemented that is looking to save £1.9m per annum over a 3 year period starting in 2019-20. The effective implementation of these measures is a key factor in ensuring that the GRA maintains a healthy financial position.
- 4.2 The coronavirus has had a massive impact on life in the UK and the Council has responded proactively across a range of fronts to address the issues it has created. It was reported to the Cabinet meeting in March that the pandemic had been included on the Council's Key Risk Register in the "Very Concerned" category where urgent action is required at the highest level to manage the risk without delay. This report provides a summary of the projected financial impact of the coronavirus on the Council.
- 4.3 At its meeting in February 2020 the Council agreed the latest HRA capital investment programme and the Tawd Valley Development Limited Business Plan. This report sets out a number of proposed amendments to these documents to reflect new opportunities and recent developments.

5.0 GENERAL REVENUE ACCOUNT (GRA) REVENUE OUTTURN 2019/20

- 5.1 The Council set a GRA net budget of £12.873m for the financial year, and the final outturn shows a favourable budget variance of £78,000 (0.6%). This continues our strong track record of managing financial performance to ensure

that the outturn position is in line with the budget. Appendix 1 provides a summary of the outturn position for each GRA service area.

- 5.2 Employee costs form a significant proportion of the total budget and consequently are very important from a budget management perspective. The active management of staffing levels meant that this target was achieved for the year.
- 5.3 The external income that the GRA generates can be one of the most volatile areas of the budget, with income going up and down due to factors outside our direct control. This year income levels were generally in line or performed better than the budget targets. In particular there was a high level of Community Infrastructure Levy funding that was generated, and favourable budget variances were achieved on the Commercial Assets portfolio, HMO licencing income, treasury management investments and pay and display car parking.
- 5.4 In general good performance was also made in delivering the SORP in the year, including the implementation of a new management structure from November 2019, and preparation for the new staffing structure which was introduced in April 2020.
- 5.5 It is recommended that the favourable variance of £78,000 that has been achieved in the final outturn position is used to help meet the coronavirus spending and income pressures identified below.

6.0 HRA REVENUE OUTTURN 2019/20

- 6.1 The Council set a HRA gross budget of £25.085m for the financial year, and the final outturn shows a favourable budget variance of £0.737m (2.9%). Appendix 2 provides a breakdown of the outturn position for different budget areas.
- 6.2 It is proposed to allocate this favourable budget variance as follows:
 - That £661,000 is used to support the 2020/21 HRA budget and new revenue budget issues as previously agreed at Council in February 2020
 - That £51,000 be added to the repairs reserve to maintain the principle of the reserve balance being at least 10% of the budget for responsive repairs and void revenue repairs
 - That £25,000 of DWP grant money be carried forward into 2020/21 to ensure it can be used for its approved purpose of supporting tenants with Universal Credit and budgeting advice

7.0 CORONAVIRUS - FINANCIAL SUPPORT FOR BUSINESSES

- 7.1 The Council has currently paid out £19.695m in grant funding to 1,656 small businesses to help support them through the difficult financial climate. These payments have been made in line with a national scheme and consequently the full cost should be covered by government grant.
- 7.2 Under this scheme eligible businesses in the retail, leisure and hospitality sectors receive a grant of £10,000 if their business rateable value is below £15,000, and a grant of £25,000 if their rateable value is between £15,000 and £51,000. In addition other eligible small businesses in any sector that receive small business rate relief or rural rate relief can receive a grant of £10,000.

- 7.3 A team of officers was pulled together, working with colleagues in BTLS, to administer and manage this grant funding stream to try and ensure that payments could be made quickly but at the same time protecting taxpayers' money from the risk of fraud. Financial assistance has been provided promptly often within a few days of first contact with eligible businesses, and a post payment assurance system has been put in place in line with national guidelines to verify the validity of these grants. The majority of these grants have now been paid out but there may be further payments made as businesses that have not yet contacted the Council get in touch and as complex cases are resolved.
- 7.4 In addition to the scheme referred to above a new discretionary scheme is currently being delivered in line with national guidelines to provide funding for small and micro businesses with high on-going property costs that have suffered a significant fall in income. The businesses that are eligible under this scheme must have been trading on the 11th March 2020 and be ineligible for other grant schemes that have been announced previously.
- 7.5 This discretionary scheme is funded by a government allocation of £1.075m that has been made available to support businesses. To date 125 businesses have been paid a total of £0.476m and a process is in place to allocate the remaining funding.
- 7.6 As well as providing grant support for small businesses, a scheme for business rates relief has also been introduced for the retail, leisure and hospitality sectors, which have been severely affected by the coronavirus. Under this scheme businesses in these sectors, irrespective of their size, will not have to pay any business rates for the 2020-21 financial year. This scheme should benefit 563 business premises in the Borough and will reduce their business rates bill by a total of £9.826m.
- 7.7 A business rates relief scheme for nurseries has also been introduced. Under this scheme nursery businesses will not have to pay any business rates for the 2020-21 financial year. It is expected that 9 businesses will benefit from this relief which will save them around £65,000.
- 7.8 These schemes for business rates relief have been introduced in line with national guidelines and will be fully funded by government grant. Consequently while there will be a significant drop in business rates income this year as a result of these new reliefs, this will be fully compensated by additional government grant funding,
- 7.9 Financial advice and guidance has been offered to businesses that are encountering difficulties in paying their business rates. Where relevant and appropriate businesses have also been given the opportunity to defer making business rates payments until July to help with their cash flow, and recovery and enforcement action has also been amended to reflect the current exceptional circumstances.
- 7.10 More generally financial advice and guidance has been provided to businesses in the Borough to make them aware of the support that is available to them both from the Council and from the government. This support has included signposting

information on our website as well as dealing with a high volume of phone and email queries.

8.0 CORONAVIRUS - FINANCIAL SUPPORT FOR COUNCIL TAX PAYERS

- 8.1 The Council has been provided with a government grant of £0.995m for 2020-21 to provide council tax discounts to economically vulnerable people and households. Under this scheme the government expects all recipients of working age local council tax support (CTS) to be provided with a further reduction in their annual council tax bill of £150. At the start of April there were just over 4,600 working age CTS claimants and consequently providing a £150 reduction in their council tax bill would cost around £0.69m. It is expected that there will be an increase in the number of working age CTS claimants this year as a result of the impact of the pandemic and the economic recession and consequently it is difficult to assess the full cost of this £150 reduction. Once this position has become clearer and the amount of funds remaining can be firmed up then proposals for further support will be drawn up.
- 8.2 Financial advice and guidance has been offered to residents that are encountering difficulties in paying their council tax. Where relevant and appropriate residents have also been given the opportunity to defer making council tax payments until July to help with their financial situation, and recovery and enforcement action has also been amended to reflect the current exceptional circumstances.

9.0 ADDITIONAL SPENDING PRESSURES AND INCOME LOSSES AS A RESULT OF THE CORONAVIRUS

- 9.1 There have been a wide range of actions and initiatives that have been undertaken by the Council to address the issues and pressures created by the coronavirus. Some of these measures have created GRA additional spending pressures which have been outside the budget and policy framework, and an analysis is provided in Appendix 3.
- 9.2 GRA income performance will also be significantly below the original budget targets in a range of areas as a result of the coronavirus. This can be a result of charging having been suspended in certain areas, reductions in demand for services, and increases in non-payment and bad debts, as well as a range of other factors. An analysis of the main areas affected is shown in Appendix 3.
- 9.3 At the time of writing this report current GRA projections indicate:
- The total estimated spending pressures for the year could be in the order of £1.1m;
 - The total estimated income loss (excluding the collection fund) for the year could be in the order of £1.2m;
 - Our share of the estimated collection fund income loss could be in the order of £0.4m
 - This gives a total potential impact in the order of £2.7m

- 9.4 To date government grant funding of £1.2m has been received towards these pressures, which leaves a net impact of £1.5m. However the government has recently announced that it will provide further funding of £500m nationally to local authorities, but has not yet announced allocations for individual councils. In addition to this funding, a major new scheme has been announced that will help to reimburse lost income during the pandemic and boost cash flow. Where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover them for 75p in every pound lost. Furthermore the government is also bringing in changes to enable tax deficits to be spread over 3 years rather than the usual one. The details on this income scheme have not yet been published and so it is not possible at this stage to assess the funding it will provide.
- 9.5 While the total value of government financial support is not yet clear, any net financial impact of the coronavirus will have to be funded from GRA reserves. There is sufficient funding in reserves to cover this position but depending on the scale it could mean that some monies would need to be reallocated from existing schemes and projects to cover it. Consequently this situation will be kept under review during the year to ensure that an appropriate funding package can be put in place when the position has become clearer.
- 9.6 The impact of coronavirus on the HRA is smaller and projected to be £0.27m this year. This position reflects a projected minor reduction in income based on actual performance to date, as well as additional spending pressures such as the need for deep cleaning of void properties. These pressures represent around 1% of the overall HRA gross budget, and consequently should be able to be accommodated within the overall budget position.
- 9.7 The coronavirus and financial recession it has caused will undoubtedly have a negative impact for a considerable period of time. Consequently detailed consideration will be given to this issue in the budget setting process for 2021-22, but it is likely that the original SORP GRA savings target of £600,000 for that year will need to be increased.

10.0 UPDATES TO THE HOUSING CAPITAL INVESTMENT PROGRAMME AND TVDL BUSINESS PLAN

- 10.1 The TVDL business plan agreed at Council in February 2020 included proposals for the development of a Council owned site at Northfield in Skelmersdale for market sale. The best option for this site has now been reviewed in the light of current market conditions, planning approvals, tender prices received by TVDL following a competitive tender process through a procurement framework, and other relevant factors and it is now proposed that this site is developed for affordable housing instead in line with a development instruction issued under a Master Development Agreement entered into with TVDL. This will involve TVDL building 27 houses on this site, which would be paid for by the HRA at a cost of £4.77m. This cost would be funded primarily through HRA borrowing but also through applying for Homes England support of up to £30,000 per unit.
- 10.2 This amendment to the TVDL business plan would result in a lower profit margin being achieved than originally envisaged, but it is important to note that it is still in line with the profit margin achieved on other affordable housing developments

within stage 1 of the business plan. This change will eliminate the risk of open market sale, which is an important consideration in the current economic climate. It would also reduce the loan funding required by the company, and could bring £810,000 of Homes England funding into the Borough

- 10.3 A new opportunity has also been identified at the Halton Castle site in Westhead, where the existing site could be redeveloped and 10 new homes built for purchase by the HRA. The cost of this development would be £1.92m, which once again could be funded primarily through HRA borrowing but also through applying for Homes England support of up to £30,000 per unit, which could bring up to £300,000 of funding into the Borough. This is proposed to be a package deal with the current developer Ecogee, where TVDL would charge a development fee for its services, in line with the profit margins achieved on other phase 1 affordable sites.
- 10.4 From a Council housing perspective, officers have undertaken due diligence work and have reviewed these proposals to ensure that:
- There is demand for the this type of housing at these locations
 - The proposed specifications for the housing developments are good quality and match HRA requirements
 - There is sufficient capacity within the HRA business plan to accommodate the increase in borrowing required to finance these works
 - Financial modelling demonstrates that on a prudent basis, the rental income generated will be sufficient to meet the operating costs of this housing stock, and to repay the borrowing within a 40 year period
 - There would not be sufficient internal capacity to enable the Council to pursue these schemes directly itself
- 10.5 From a development company perspective, officers have also reviewed the proposed changes to the business plan. It is normal practice in commercial housing development that business plans are subject to change, as some schemes will prove to be unviable and new opportunities are identified. The new proposals represent relatively low risk approaches that should enable a reasonable rate of return to be achieved.

11.0 SUSTAINABILITY IMPLICATIONS

- 11.1 The creation of new Council homes will have the following positive sustainability implications:
- a) Meet the identified need for affordable rented housing within the communities of West Lancashire
 - b) Increase the sustainability of the Council's HRA Business plan through growth in units and income
 - c) Bring economic activity into the local area including employment and training opportunities.
 - d) Increase the shareholder dividend available to the Council from TVDL

12.0 RISK ASSESSMENT

- 12.1 The formal reporting of performance on the GRA and HRA is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. The outturn figures contained in this report are

draft at this stage and are potentially subject to change depending on any findings from the external audit of the accounts.

- 12.2 The coronavirus spending and income figures above are for the full financial year and reflect a combination of actual expenditure / income to date and estimated projections. The projections are open to large potential fluctuations dependant upon a range of factors including government support, national economic factors, changes in rules and regulations, and Member decisions.
- 12.3 The housing development proposals for Northfield and Halton Castle both involve applying to Homes England for financial support. Whilst this is not guaranteed at this stage, the discussions that have taken place indicate that these schemes would be considered favourably and so there is a good chance that this funding would be obtained. If this funding was not secured in full then consideration could be given to replacing it with HRA revenue contributions to capital.

13.0 HEALTH & WELLBEING IMPLICATIONS

- 13.1 The measures that have been taken to address the issues created by the coronavirus will have a positive impact on health and wellbeing.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix 1 – GRA Revenue Outturn 2019/20

Appendix 2 – HRA Revenue Outturn 2019/20

Appendix 3 – Projected Financial Impact of the Coronavirus in 2020/21

APPENDIX 1
GRA REVENUE OUTTURN 2019/20

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Corporate and Customer Services	3,211	-221	-6.9%
Environmental Services	6,568	-58	-0.9%
Finance, Procurement & Comm. Property	540	-131	See note
Housing and Regulatory Services	1,749	-162	-9.3%
Growth and Development	1,947	-266	-13.7%
Wellbeing and Leisure	3,233	5	0.2%
Employee Savings target	-445	445	See note
SORP Savings target	-320	320	See note
Other Budget Items	-3,610	-10	-0.3%
TOTAL	12,873	-78	-0.6%

NOTES

The budget figures for each area have been updated to include year-end capital accounting adjustments and the allocation of central budget items to services. These are technical accounting adjustments that do not affect the bottom line resource position.

The employee savings target and SORP savings target are corporate budget headings that are held centrally. The actual savings that are made in relation to these items are contained within services. Consequently savings made elsewhere will offset the apparent variance on these budget items.

Finance, Procurement and Commercial Property has a relatively low net budget as it contains the Community Related Assets Portfolio that generates a significant surplus and which is used to help service provision in other areas.

**APPENDIX 2
HRA REVENUE OUTTURN 2019/20**

Budget Area	Revised Budget £000	Variance £000	Comment
Employee Expenses	4,561	-125	Staffing vacancies throughout the year, increased recruitment and agency costs later in the year
Void repairs and response repairs	2,879	246	Both budgets are demand-led so final outturn depends upon various factors, primarily final settlement of old repairs & voids contract.
Other premises costs	3,069	210	Electrical testing offset by reduced capital electrical expenditure, gas servicing revenue costs and increased furnishing costs offset by increased furniture income
Transport costs	187	-27	
Budget contingency	183	-183	Around £80k contingency to supplies & services to fund new repairs contract - contact centre mobilisation costs
Supplies and Services	1,244	-13	
Support Services and internal income (net)	255	-214	Primarily funding from reserves to support tenants on Universal credit in week 53 from DHP's
Loan interest	3,057	0	
Contributions to capital	9,701	-274	Contribution available to fund the capital programme and purchase of housing stock
Dwelling rents	-22,420	-125	Voids rate lower than budgeted so less income lost due to voids
Other external income	-2,716	-232	Take up of Cat 2 level support offer by CAT 1 sheltered tenants and increased furniture service income
Total	0	-737	Represents 2.9% of the overall turnover

APPENDIX 3 PROJECTED FINANCIAL IMPACT OF THE CORONAVIRUS IN 2020-21

ESTIMATED SPENDING PRESSURES	£'000
Additional staff costs	147
Hire of additional vehicles due to social distancing	210
Leisure Contract (predicted worst case scenario)	413
Food parcel provisions for vulnerable residents	229
Protective Clothing and Equipment for staff	83
Support for Town Centre businesses (such as street furniture)	20
Other items	43
Total spending pressures	<u>1145</u>

ESTIMATED INCOME PRESSURES	£'000
Planning fees and charges	170
Pay and Display car park income	444
Market income	77
Garden waste charging	100
Commercial rent income including temporary rent reductions and suspensions *	200
Treasury management	84
All other income	93
Total	<u>1168</u>

* Operating in line with the Government's recently published Code of Practice for commercial property relationships during the COVID-19 pandemic (June 2020)