

ARUN DISTRICT COUNCIL BUDGET MONITORING

Financial Position as at end of July 2020

1. Introduction

- 1.1 The Budget Monitoring report is the first full report since the outbreak of the Covid-19 pandemic. The speed of the pandemic has led to unprecedented socioeconomic disruption globally. The financial challenges that the Council is facing are also unprecedented with significant loss of income and additional expenditure in 2020/21 and beyond.
- 1.2 The financial position and outlook for 2020/21 has changed significantly since the budget was approved by Full Council on 19th February 2020. Budget performance is presented after taking account of the following:
 - Monitoring of additional Covid-19 related expenditure and reductions in income
 - Spend to date excluding commitments against profiled budgets.
 - Consultation with managers and budget holders on service performance.
 - Virements identified where possible from existing budgets to cover budget pressures.
- 1.3 This report sets out the Capital, Housing Revenue and General Fund Revenue budget performance to end of July 2020 and presents performance information for all aspects of financial risk such as income and expenditure related to the covid-19 pandemic, including any mitigations.
- 1.4 The report links the latest Round 4 Covid-19 return submitted to the MHCLG (DELTA return) to the budget monitoring position and estimated outturn for 2020/21.
- 1.5 The Council has received £1.874m of non-ringfenced Covid-19 government support in 2020/21 (plus £65k in March), however this is not sufficient to cover the full additional net expenditure anticipated for the full financial year.
- 1.6 The government announced an income compensation scheme in July, which is designed to compensate Councils for 75% of income losses (after a 5% deduction to allow for normal fluctuations). However, the scheme will only compensate Councils for sales and fees and charges and excludes commercial income and rents. Full details of the scheme are not yet available but there is a risk that the 5% deducted will be applied to all fees and charges, not just those areas that are affected by Covid-19 which would result in a higher deduction (pro rata).

2. General Fund Summary

- 2.1 The General Fund performance to end of **July 2020** against profiled budget is given in the table below. The table presents only the variances on budget in excess of +/- £20k.

| General Fund variance on profiled budget to end of July 2020 | |
|--|--|
| | Variance on Budget July £'000 |
| Service controllable spend | |
| Community Wellbeing | |
| Promenades & Foreshores concessions/rents | 39 |
| Recreation & Sport - management fee | 268 |
| Neighbourhood Services | |
| Car Parks fees and charges | 188 |
| Residential Services | |
| Homelessness | 326 |
| Technical Services | |
| Building Control - Fees and Charges | 34 |
| Land Charges - Fees and Charges | 23 |
| Sundry Properties - rents | 104 |
| Management & Support Services | |
| Computer Services - working from home | 46 |
| Other Variances less than +/- 20k | (110) |
| Total Service controllable budget variance | 918 |
| Corporate controllable budget | |
| Establishment against savings target | (225) |
| Corporate underspend (net) | (265) |
| General Fund net expenditure variance against profiled budge | 428 |
| * excluding Covid-19 non ringfenced grant funding of £1.874m (total £1.939m: £65k 2019/20) | |

2.2 Table 2.2 above shows a general next expenditure variance of £428k (adverse) against expected (profiled budget) to the end of July 2020. This excludes the Covid-19 non-ringfenced government grants of £1.874m (total general purpose C-19 support received is £1.939m with £65k received in 2019/20). The variation is comprised of a large number of over and under spent budgets against expected. The variation is mainly due to the Covid-19 pandemic which has resulted in significant additional expenditure (with some smaller reductions in expenditure) and a significant variation to the expected income. Whilst the expenditure related variations are relatively straight forward to identify and predict (e.g. emergency accommodation) the loss of income is more complex by nature.

2.3 Income from fees, charges and rents are included within net cost of service. In total this amounts to an overall financing of approximately £5m (please see section 6 for further details). Income is a key risk area to the budget as it is predominantly externally influenced, without direct link to service cost and each source is unique. Service income has reduced significantly due to the lockdown and subsequent social distancing measures. Income related variations can broadly be split into two types: the income forgone that cannot be recouped e.g. car parks; and income that is deferred e.g. rents, which can technically be recouped at a later date (resulting in a neutral outturn). However, deferred income has to be considered against the general negative economic outlook, which is likely to result in some impairment of the sums outstanding.

2.4 **Community Wellbeing**

2.4.1 Promenades and Foreshores promenades sundry properties income is currently £39k below expected to date. This is mainly Covid-19 related (£42k) and includes rent deferrals of £32k (explained in paragraph 2.6.3) and there is a small mitigation of £2k new income against budget.

2.4.2 The Council's leisure provider was severely affected by the pandemic with the centres forced to close by the government from 21 March 2020. Full Council approved a supplementary estimate of up to £406k on 15 July. The supplementary estimate regularises the situation in relation to expenditure to the end of September. The Council initially agreed to provide support for three months for agreed unmitigated cost (subject to open book accounting) towards the upkeep of the leisure facilities whilst they remained closed to a maximum of £136k. The Council also agreed to fund £270k for the re-opening phase to the end of September 2020. The decision was also taken to support the Leisure Provider by deferring the management fee resulting in an adverse variation of £268k to the end of July (£802k full year). The circumstances around reopening will result in a significant reduction in income for the Leisure Provider and additional costs. A Leisure Provider update report is included elsewhere on this agenda.

2.5 **Neighbourhood Services**

2.5.1 Car Park Pay & Display income is £188k below a profiled budget of £500k. Car Park charges ceased on 1st April due to the Covid-19 situation and were re-instated on the 15th May. The Town centre car parks have been worst affected.

Income from seasonal car parks remaining buoyant due to the exceptional weather and people remaining in the UK for their holidays, with the exception of Gloucester Road Bognor Regis. This car park is also used by Butlins day visitors, but Butlins remains closed for day visitors until 4th September.

2.5.2 It should also be noted that budgeted annual inflationary rise in charges of 2% has not been implemented (full year impact £30k).

2.5.3 There has been a small saving of £8k saving on the contractors (NSL) because of reduced core hours due to C-19.

2.6 Residential Services

2.6.1 Net expenditure on nightly paid accommodation for homeless households is £326k above profiled budget. The variation includes £271k directly due to additional placements made due to Covid-19. Furthermore, for those households where a negative decision has been made since the end of March 2020, who pre Covid-19 would have been asked to leave the accommodation up to 28 days after the decision, have been accommodated for longer in accordance with the government guidance to reduce the risk of the pandemic spreading. This has contributed to additional costs. The Covid-19 pandemic has delayed the planned restructure of the Housing Service. The 2020/21 budget for Homelessness was increased by £500k. This included a net budget increase for nightly paid accommodation of £240k and an increase in the establishment of £260k.

| Nightly paid monitoring - July 2020 | | | | |
|--|------------------------------|-----------------------------|-----------------------------|----------------------------|
| | Actual July 2019 £'000 | Outturn 2019/20 £'000 | Original Budget £'000 | Actual to Date £'000 |
| Gross Expenditure | 543 | 1,652 | 1,290 | 566 |
| Income | (193) | (516) | (440) | (227) |
| Net Expenditure | 350 | 1,136 | 850 | 339 |
| Income including Housing Benefit recovered | 36% | 31% | 34% | 40% |

Note : Net expenditure is gross expenditure less Housing Benefit (HB) recovered and a small amount of income paid by reipients. HB generally covers some 30% of gross expenditure but this will vary from month to month due to the phasing of the benefit payments.

2.6.2 At the beginning of the financial year, £1,055k was held in reserves in relation to General Fund Housing initiatives, which comprised of: £352k for unspent flexible homelessness grant, £151k unspent New Burdens funding and £552k from the Community Housing fund (of which, £240k is expected to be spent in the near future for the Angmering Community Land Trust). The original budget for 2020/21 assumed a flexible homelessness grant of £507k, which was being used as a one off contribution towards the increase in service costs for 2020/21. The actual grant of £705k includes £198k for homeless reduction initiatives.

2.6.3 The Council has been awarded £319k from the RSI (Rough Sleeping Initiative). In addition, a claim has been submitted for a further £21k for Rough Sleeping grant and £100k has been requested to fund the additional rough sleepers expenditure due to Covid-19.

2.7 Technical Services

- 2.7.1 Building Control income is £34k down on the profiled budget of £162k due to the Covid-19 situation. The service has managed to maintain the same market share as this time last year.
- 2.7.2 Overall Land Charges income is £23k below profiled budget, which is approximately 40% of expected income. (32% down on this period last year) The market predictably deteriorated sharply in March and the first quarter of the financial year due to the measures surrounding the Covid-19 pandemic. The government announced a stamp duty holiday from 8th July 2020 and this will apply to all residential purchases up to £500k until 31st March 2021. The number of searches requested in July was up 49% from the previous year.
- 2.7.3 Prior to COVID19 the Council had anticipated £452k of rental income for the first quarter of this financial year. The income related to a number of services including Promenades and Foreshores (2.4.1 above). In response to the unprecedented difficulties faced by businesses the Council offered financial support to its tenants that were operating in the hospitality or leisure sectors. The Council offered a 3 month rent deferral where payment of monies deferred will re-commence in October 2020 on a monthly basis. The budgeted income in relation to those that were eligible to the rent deferral was £163K. Not all tenants have responded to the rent deferral offer and some tenants declined. In respect of those that have signed up the financial impact against the Council's original budget is £71k. The adverse variation related to sundry properties is £28k. Rental income received for Bognor Regis Arcade is £77k below expected to date.
- 2.7.4 The true financial impact cannot be determined at this time. We are continuing to liaise with our tenants to assess the impact and whether additional support may be required. Some businesses outside of the retail and hospitality sector may also require financial support and each case will need to be considered on an individual basis.

2.8 Management & Support Services

- There are some small reductions in expenditure due to less staff in the Civic Centre. Electricity is approximately £10k lower than for the same period last year. However, there has been significant additional expenditure associated with the initial set up costs of home working.
- 2.8.1 Computer Services have incurred £46k for the purchase of laptops and to upgrade the Council's IT infrastructure to enable staff to work from home effectively, which has become essential since the start of the pandemic.

2.9 Corporate Underspend

- 2.9.1 The budget has been assessed and £265k has been identified from unrequired contingency budgets, earmarked reserves and New Burdens government grants that are not required to directly support service expenditure and can be used to support the additional Covid-19 net expenditure. Budgets are set based on assumptions about service delivery, which sometimes result in a different actual budget requirement resulting in surplus budget. As these are identified, the surplus budget is vired to a corporate underspend and made available for resource re-allocation. The advantage of this is a reduction in the need for supplementary estimates and managing service delivery within the approved budget and Medium-Term Financial Strategy (MTFS). SMT (Senior Management Team) are expected to exercise their discretion in managing their budgets responsibly and prudently and wherever possible meeting additional cost pressures by virement from within existing budgets.

3. Externally Funded Services

- 3.1 Arun District Council hosts several services under its stewardship as the Accountable Body. Whilst these services are entirely externally funded, Arun District Council has service provision interests. These services are the Wellbeing team and Car Parking enforcement. There are no budgetary concerns to report on these services.

4. Establishment

- 4.1 Each year a vacancy management target is included within the budget to ensure that the establishment complement is scrutinised for efficiency and reflects the needs of on-going service delivery changes. For the Financial Year 2020/21 the target is set at £500k, up from £450k in 2019/20 due to the increase in pension contributions on current contributions (reduction in the lump sum past service cost resulted in a net reduction in budgeted pension contributions).
- 4.2 The establishment vacancy target is currently over-achieved by (£225k). However, the variation excludes the effect of the latest offer of 2.75% made by the employers as part of the national pay bargaining process which if accepted will result in an additional 0.75% above the 2% assumed in the budget (£30k to date). There has been a reduction in recruitment due to lockdown and all vacancies require CMT approval before they are advertised with a view to making efficiency savings. This is due to the financial pressures that the Council is facing in future years as well as the Covid-19 net expenditure pressure in the current year.

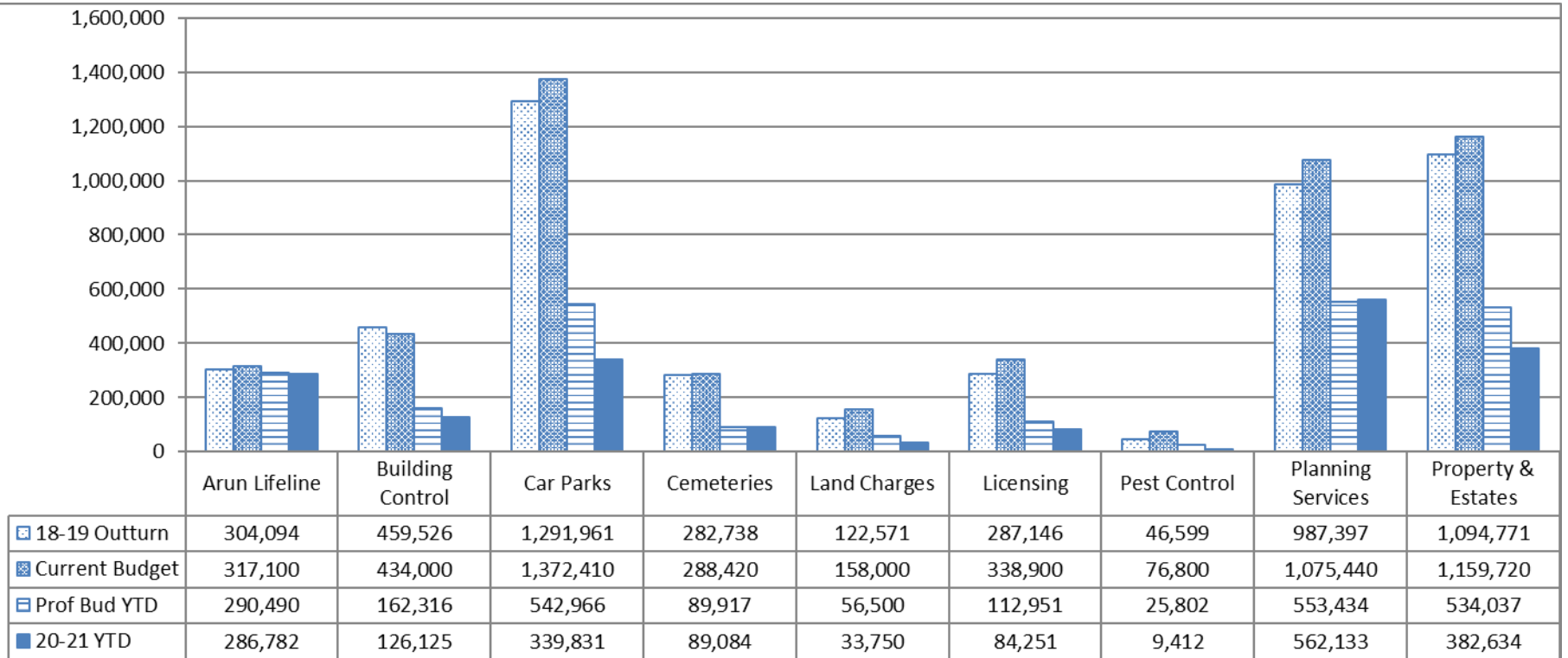
5. Income

- 5.1 Income from fees, charges and rents are included within net cost of service. In total this amounts to an overall financing of £5.214m (£5.205m original budget). Income is a key risk area to the budget as it is predominantly externally influenced, without direct link to service cost and each source is

unique. Service income has reduced significantly due to the lockdown and subsequent social distancing measures.

- 5.2 The income is currently £454k under achieved against expected to the end of July. The most significant loss of income is for Car Parks £203k (paragraph 2.4.2 relates to pay and display income) where the income lost cannot be recouped. However, the exceptionally good weather has resulted additional income for seasonal car parks which will help to mitigate the total annual loss. It is unlikely that losses in areas like Building Control £34k (paragraph 2.7.1), Land Charges £23k (paragraph 2.7.2), Licensing £29k can be recouped. However, Property & Estates is £151k lower than expected (Sundry Properties paragraph 2.7.4) but this consists of rents which could still be collected, over a longer period of time, or rent levels could be impaired by the anticipated economic downturn. The situation with regard to service income will continue to be monitored closely.
- 5.3 The graph on the following page shows income by source and value, achievement to end of July 2020 against profiled budget, full year budget and outturn last year.

General Fund Income



6 Covid-19 MHCLG Returns and estimated outturn

- 6.1 The Council has been providing the government with estimates of the adverse effect of the corona virus pandemic on services. The latest (R4) return related to the period ended July and the whole financial year estimated £4.5m additional net expenditure for 2020/21 (£2.9m with possible income support mitigation). The current government support of £1.8m is clearly insufficient to cover the net loss of between £1m and £2.7m. However, the prediction includes deferred income and it is too early to predict the level of impairment of areas like rents and the Leisure Provider. The budget monitoring position below does not take account of future loss of income or additional expenditure except for the Leisure Trust as the supplementary estimate is to fund support (expenditure) until the end of September. However, it is highly likely that the level of support will have to continue for the remainder of the year due to the change in operating conditions caused by the pandemic.

6.2 Estimated Outturn 2020/21

| General Fund Reserve Movement estimated outturn 2020/21 | Original Budget £'000 | Current Budget £'000 |
|--|--------------------------------------|-------------------------------------|
| Net Budget Requirement | 26,238 | 26,732 |
| Financed by: | | |
| Government Grants and Retained Business Rates | (9,036) | (9,124) |
| Council Tax | (16,585) | (16,585) |
| Taken From / (Added to) Balances | 617 | 1,023 |
| General Fund Balance 01 April 2020 | 7,076 | 7,076 |
| Budgeted draw down from GF Reserve | (617) | (617) |
| Supplementary Estimates | 0 | (406) |
| Current Budget Variation Estimated Outturn 2020/21 | 0 | (428) |
| Covid-19 non-ringfenced grant funding (£1.874m pro rata) | 0 | 625 |
| General Fund Balance 31 March 2020 | 6,459 | 6,250 |

The original budget for 2020/21 assumed a reduction in the General Fund Reserves of £617k. The additional costs and loss of income associated with the Covid-19 pandemic has been highlighted throughout this report. The variance against budget is currently £428kin (table 2.1). Full Council on the 15th July approved a supplementary estimate of £406k for additional financial support for our Leisure provider. The Council is actively lobbying the Government to be reimbursed for all costs and loss of income that have or will have been incurred due to Covid-19. The Council has received a non-Ringfenced Covid-19 support

grant of £1.874m (£625k pro rata). The impact to date has resulted in an anticipated General Fund balance of around £6m at the 31 March 2021. However, this assumes that the current negative variation against budget continues and the situation is likely to get worsen (e.g. if a second wave occurs) unless further action is taken to mitigate the effects of the pandemic by examining expenditure plans for the remainder of the year and earmarked reserves.

- 6.3 In response to the coronavirus pandemic the Government has increased the Business Rates Retail Discount and extended it to include the leisure and hospitality sectors. The Government has also introduced a Nursery Discount to support the provision of the Early Years Foundation Stage. The Government has undertaken to fully reimburse local authorities for the loss of net business rate income attributable to these new reliefs. For Arun, the total cost of the new reliefs is estimated at £18m, of which Arun's share is £7.2m (40%). The loss of business rate income will not impact upon Arun's General Fund until 2021/22 when the current year's collection fund balance is distributed. However, the compensation for loss of income will impact upon the General Fund in the current financial year. To allow for this it is recommended that the Government compensation for the new reliefs (paid as a S.31 grant) is put into an earmarked reserve, to be drawn down in 2021/22 to offset Arun's share of the collection fund deficit.

7. Earmarked Reserves

- 7.1 Earmarked reserves are amounts set aside from General Fund Reserve to provide financing for specific future expenditure plans and held alongside the General Fund for drawdown as required under the scheme of virement. These reserves are to be reviewed regularly to ensure that they are being drawn down as appropriate or returned to General Fund reserve.
- 7.2 The earmarked reserve balances will have to be closely examined to determine if any planned expenditure can be deferred if this funding is required to support the Council's financial position in the short term due to the Corona Virus pandemic.

| Earmarked Reserves 2019/20 | Balance as at 31 Mar 2020 £'000 | Expected Outturn balance as at 31 Mar 2021 £'000 |
|--|--|---|
| Community Wellbeing | (418) | (406) |
| Littlehampton Wave | (212) | (0) |
| Corporate Support | (632) | (499) |
| Funding Resilience Reserve | (5,826) | (5,826) |
| Council Advice & Monitoring | (26) | (26) |
| Delayed capital & special projects | (2,358) | 0 |
| Enhanced AM & Other Schemes (2020/21 budget) | (1,390) | (50) |
| Unallocated Capital Schemes | (686) | (686) |
| Economy | (179) | (40) |
| Neighbourhood Services | (667) | (691) |
| Place St Maur Consultancy | (237) | (237) |
| Pension Deficit Financing | 0 | 0 |
| Planning | (285) | (121) |
| Planning LDF | (243) | (43) |
| Residential Services | 0 | (0) |
| Northgate Project Revs & Bens | (17) | 0 |
| Community Housing Fund | (552) | (312) |
| Flex Homelessness Grant | (352) | (552) |
| New Burdens | (151) | (87) |
| Private Rented Sector Accommodation | (25) | 0 |
| Technical Services | (407) | (381) |
| Community Flood Fund | (601) | (601) |
| Asset Management | (504) | (390) |
| Total | (15,768) | (10,947) |

8. Housing Revenue Account

- 8.1 The estimated reserve movement for the HRA against original budget and the current estimated outturn reserve movement due to supplementary estimates and budget performance to end of July 2020 is shown in the table below:

| Housing Revenue Account Reserve Movement estimated outturn 2020/21 | Original Budget £'000 | Current Budget £'000 |
|---|--------------------------------------|-------------------------------------|
| HRA balance 01 April 2020 | 8,947 | 8,947 |
| Budgeted deficit for 2020/21 | (1,726) | (1,726) |
| Supplementary approvals | | 0 |
| Capital slippage | | (142) |
| Revenue slippage | | 0 |
| Current Budget Variation Estimated Outturn 2020/21 | | 0 |
| HRA Balance at 31 March 2021 | 7,221 | 7,079 |

- 8.2 HRA revenue project slippage £142k for specialist fees related to IT work.
- 8.3 Repairs and maintenance (planned and responsive) expenditure – please refer to 9.2
- 8.4 HRA income consists almost entirely of rents. Current projections forecast rental income in line with the budget forecast.
- 8.5 Loss of income due to right to buy (RTB) disposals and void dwellings, still remain a key financial risk. The estimated number of RTB disposals for 2019/20 was set at 12 (there were 4 RTB disposals in 2019/20, 9 RTB disposals in 2018/19, 18 RTB disposals in 2017/18 and 24 in 2016/17). To date there has been 1 disposal in the current year.
- 8.6 Details of the HRA capital, improvements and repairs programmes are shown in paragraphs 8.6 Paragraph 9, covering Capital Receipts also has relevance for the Housing Revenue Account.

9. Capital, Asset Management and Other Project Programmes

- 9.1 The Council's budget for 2020/21 included several projects which although included in the Capital budget for project management and monitoring purposes cannot, under current accounting regulations, be charged to the capital accounts.
- 9.2 The capital and projects budget will continue to be monitored on a corporate level as this provides better information and control of the budget.
- 9.3 The table on the next page has been restated to include Capital and Revenue Expenditure for both General Fund and Housing Revenue Account.

General Fund

- 9.4 The current budget includes £5.6m related to delayed projects, £2.8m of this relates to Littlehampton Public Realm, this is grant funding which is due to be spent by 31 December 2020 and 31 March 2021, the Covid-19 pandemic has delayed this project, however, delivery is still anticipated within the agreed timescales. The works for this project have been tendered and we are awaiting the contract to be awarded in August.
- 9.5 A settlement has now been agreed with the contractor of the Bognor Regis public conveniences that will allow us to move forward and provide the much-needed facilities on the seafront. The first part of the settlement sum has now been paid to the contractor with the balance on completion
- 9.6 Planning for the new youth centre to replace the Keystone Centre is expected to be submitted by Littlehampton Town Council in September. The Council has been working with Littlehampton Town Council and is contributing £250k towards the project.

Housing Revenue Account

- 10.0 The current budget includes £10.5m related to delayed projects, £142k relating to housing IT and the balance stock development.
- 10.1 At the end of April Arun purchased 10 flats at the Old Maltravers Social Club in Littlehampton for affordable rent. Work has restarted after the lockdown at Windroos also in Littlehampton, once complete this will provide a further 14 units.
- 10.2 As a result of the Covid-19 pandemic the Council's newly appointed housing repairs contractor had been only undertaking emergency repairs, in June things started to return to normal. As a result of this, expenditure across repairs is currently under profile, as there is a back log of repairs, this will likely resolve itself over the coming months. In addition, this has also caused a delay in the interfacing of the housing system QL with the contractor's system and therefore QL commitments for orders raised until this is done are not included in the above figures which they had done previously.
- 10.3 There is £700k commitment for fire doors against the Windows & Doors budget carried over from 2019/20, a payment for the doors is anticipated in advance of the start of the installation programme as these have already been manufactured.

Asset management and other projects monitoring - July 2020

| | Original Budget £'000 | Current Budget £'000 | Actual to date £'000 |
|---------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| General Fund | | | |
| <i>Technical Services</i> | | | |
| Asset Management | 903 | 1,788 | 105 |
| Works to Public Conveniences | 150 | 549 | 172 |
| Cemetery Buildings & Walls | 250 | 262 | - |
| Fitzleet Car Park | 250 | 310 | 70 |
| Reactive Maintenance | 295 | 295 | 33 |
| Disabled Facilities Grants | 1,500 | 1,500 | 356 |
| <i>Corporate Support</i> | | | |
| Computer Services | 180 | 245 | - |
| GDPR | - | 45 | - |
| Storage Area Network (SAN) | 350 | 350 | 25 |
| Wireless Infrastructure | 50 | 50 | - |
| Digital Strategy | - | 200 | - |
| Arun Improvement Programme (AIP) | - | 102 | 11 |
| Web/Integration | - | 118 | 1 |
| EH System | - | 61 | - |
| Arun Improvement Programme (AIP) | - | 80 | 3 |
| <i>Community Wellbeing</i> | | | |
| Littlehampton Wave | - | 212 | 66 |
| <i>Economy</i> | | | |
| L'ton Public Realm Phases 1-2 | - | 2,285 | 16 |
| L'ton Public Realm Phase 3 | 200 | 750 | 14 |
| <i>Neighbourhood Services</i> | | | |
| Keystone Centre | - | 250 | - |
| Place St. Maur | - | 237 | - |
| Play Areas | 100 | 185 | - |
| Sea Road Skatepark | - | 1 | - |
| Sproule Close | - | 1 | - |
| Larksfield | - | 4 | - |
| Linden Rec | - | 32 | 31 |
| Canada Road | - | 46 | 40 |
| <i>Residential Services</i> | | | |
| Grants to Registered Social Landlords | - | - | - |
| Total General Fund | 4,228 | 9,958 | 943 |

Housing Revenue Account

| | | | |
|---|---------------|---------------|--------------|
| Stock Development | 9,341 | 5,022 | 1 |
| Longford Road | - | 221 | 33 |
| Windroos, Worthing Rd L'ton | - | 2,320 | 114 |
| Summer Lane, Pagham | - | 5,631 | 267 |
| Cinders Nursery, Yapton | - | 1,800 | - |
| Maltravers Old Social Club, Littlehampton | - | 2,050 | 2,050 |
| Quiet Waters, Angmering | - | 1,250 | 1 |
| Chichester Road, Bognor Regis | - | 1,450 | 10 |
| Housing IT | - | 142 | 2 |
| Housing Improvements | 820 | 820 | 13 |
| Domestic Boiler Installations | 625 | 625 | 24 |
| Commercial Boiler Rooms | 100 | 100 | - |
| Reroofing Programme | 300 | 300 | (3) |
| Kitchen & Bathroom Replacement Programme | 400 | 400 | (11) |
| Fire Compliance | 300 | 300 | (1) |
| Windows & Doors | 1,200 | 1,200 | 7 |
| Aids & Adaptations | 250 | 250 | 3 |
| Housing Repairs | 1,850 | 1,850 | 306 |
| Day to Day General Repairs | 1,293 | 1,293 | 367 |
| Voids | 750 | 750 | 22 |
| Total Housing Revenue Account | 17,229 | 27,774 | 3,205 |
| Total Programme | 21,457 | 37,732 | 4,148 |

Total programme comprises Capital, Asset Management and other projects budget plus Housing Repairs. Although Housing Repairs forms part of the HRA revenue budget it is included here because of the close link with the Housing Improvements Programme.

11. Capital Receipts

- 11.1 Arun has entered into an agreement with the Government to retain the additional receipts generated by the relaxation of the Right to Buy discount rules, subject to these receipts being used for the provision of new social housing and Arun matching every £30 of receipts with £70 of its own funding (the 70/30 rule). A further condition is that the receipts must be spent within three years, failing which they must be returned to the Government plus interest at 4% above base rate.
- 11.2 In June 2020 Arun signed an amendment to that agreement as the Government acknowledged that the Covid-19 crisis had halted or slowed down housing development. The amendment gives authorities time to catch up with their spending plans, by rolling up the next two deadlines (30/06/2020 & 30/09/2020) to the end of the calendar year 31 December 2020.

| | £'000 |
|--|--------------|
| "1 for 1" receipts accrued to 30 June 2020 | 5,564 |
| Arun's 70% contribution (70/30 X £5,564k) | 12,983 |
| Total investment requirement | 18,547 |
| Less amount already invested to 30 June 2020 | 14,694 |
| Remaining investment requirement | 3,853 |
| By 30/06/2020 | 0 |
| By 30/09/2020 | 0 |
| By 31/12/2020 | 338 |
| By 31/03/2021 | 1,321 |
| By 30/06/2021 | 881 |
| By 30/09/2021 | 703 |
| By 31/12/2021 | 211 |
| By 31/03/2022 | 0 |
| By 30/06/2022 | 0 |
| By 30/09/2022 | 343 |
| By 31/12/2022 | 0 |
| By 31/03/2023 | 8 |
| By 30/06/2023 | 48 |
| Total | 3,853 |

- 11.3 One of the key priorities of Arun's HRA Business Plan is a development programme to enable the delivery of an additional 250 new Council dwellings over a ten-year period. In July the first payment was made in respect of a scheme for 27 new homes and a number of other schemes are progressing well. However, it will be extremely challenging to match the phasing of the payments for these and any other schemes with the investment requirement set out above.
- 11.4 In order to protect the Council's investment in the provision of new social housing, exemption from capital receipt pooling has been obtained in respect of all Arun's new dwellings in the current investment programme.
- 11.5 Exemption from pooling will be sought for all future newly built or acquired dwellings. This will enable Arun to retain 100% of the receipts from any future right to buy disposals in respect of these new dwellings (although it's worth noting that these receipts will be net of any discount entitlement).
- 11.6 Expenditure required for the quarter to 30/06/2020 before the agreement was signed to extend this and the following quarter's deadline to 31 December 2020 was £669k. Total eligible expenditure in this quarter was £2.2m, mainly due to the completion of the purchase of 10 units at the Old Maltravers Social Club in Littlehampton.

12. Section 106 sums

- 12.1 Section 106 (s106) agreements, also known as planning obligations, are agreements between developers and Arun District Council as the local planning authority that are negotiated as part of a condition of planning consent. The Town and Country Planning Act 1990 enables Arun to negotiate contributions towards a range of infrastructure and services, such as community facilities, public open space, transport improvements and/or affordable housing.
- 12.2 The Council currently holds £8.507m on deposit for s106 agreements, plus £3.064m held on behalf of other organisations (e.g. the NHS and WSCC). The total held on deposit is £11.571m.
- 12.3 Most s106 sums are time limited in that the Council is required, under the terms of the agreement to spend the amount received on the project specified in the agreement within a set time scale. It should be noted that there are currently £18k of receipts that are required to be spent within the next 5 years.
- 12.4 Pagham Harbour is designated as a Special Protection Area and Ramsar site, meaning that it is recognised at an international level in terms of playing an important role linked to the movement of species, specifically waders and wildfowl. Arun and Chichester District Councils have jointly agreed that in order to provide mitigation measures they will jointly fund at least one Warden who will be employed by RSPB, who will help promote, protect and educate the community in relation to the birds in Pagham Harbour. Planning applications for new housing developments within the Pagham Harbour zone are required to pay a contribution under s106 towards this initiative. The first contributions from applications in the Arun District, in the sum of £339k have been paid to Chichester District Council towards the scheme.

13. Cash Flow and Treasury Management

- 13.1 The Council is not foreseeing any cashflow problems due to the significant grants that have been paid early or up front by the Government to aid Local Authority cash flow. However, the interest paid on new cash investments have dropped significantly since the start of the pandemic. Returns are mainly holding up due to investment decisions made in previous years and partly due to the significant cash injections by the government to aid cashflow. The estimated outturn is currently around £20k below original budget.

14. Risk Analysis

- 14.1 Corporate and Operational risk registers are reviewed and updated for financial implications as part of the Council's risk management process on the criteria of probability of occurrence and materiality of impact upon balances. The single most significant risk, which has been highlighted throughout the report is the additional service expenditure and loss of income and the effect on the Collection Fund (Council Tax and Retained Business Rates which will have significant effects from 2021/22) due to the Covid-19 pandemic.

14.2 Other risks which are inherent within the overall budget are analysed below.

14.3 Paragraph 11.2 above outlines the situation with regard to the additional receipts generated by the relaxation of the Right to Buy discount rules ("1 for 1" receipts). The key risk here is that failure to make the necessary level of investment within the required timescale will lead to the Council having to repay to the Government some or all of these "1 for 1" receipts, together with interest at a penalty rate of base rate (currently 0.10%) plus 4%. We are experiencing a significant reduction in new "1 for 1" receipts, the sums repaid might not be replaced by new receipts. If the programme slips, this might lead to Arun having to borrow a greater proportion than 70% of the total cost of the schemes, leading to increased loan servicing costs.

14.4 Housing Benefit claims are gradually being transferred to the Universal Credit scheme (approximately 100 per month) which will eventually level out. There will be claims handled by the local authority which will not transfer to the Universal Credit scheme. These will include pensioners and claimants who require supported accommodation.

Following legislation in 1989, supported accommodation costs assist vulnerable people who require additional help within the community. Unfortunately, the valuation office does not take this additional cost into account which is left to the local authority to fund.

Costs can vary widely, for example, a hostel could charge £300 per week for a single person to include 24-hour security and relevant medical care as well as accommodation. The valuation office will state that the local authority may only claim £100 per week for the accommodation in subsidy. This leaves the local authority to fund the remaining £200 per week for this individual. In certain circumstances, for example, if the individual is a pensioner or has a dependant, the local authority is sometimes able to reclaim 60% of the supported accommodation charges.

The cost to the local authority will largely depend on how many landlords provide this service in the area, however, at present the cost to Arun District Council is steadily increasing, £323k 2018-19, £452k 2019-20 and current estimate £561k 2020-21.

14.5 Retailers have been reducing their presence on the high street. This trend has been exacerbated by the C-19 pandemic and the switch to online shopping. The negative impact on Non- Domestic Rate collections will continue to be monitored closely.

14.6 The United Kingdom has now left the European Union as of 31 January 2020. Further negotiations are continuing, and this could impact on the overall economy, in particular money market, property markets and inflation.

14.7 Nightly paid accommodation remains a risk of overspend depending on presentations each month.

15. Conclusions and Recommendations

- 15.1 The significant financial effect of the Covid-19 pandemic to the end of July is detailed in the report. These financial pressures are likely to continue and get worse for the current financial year and future years. The Council will continue to monitor its financial position closely and update its forecasts as more and better quality information becomes available.