

Corporate Financial Monitoring

Report of the Finance Portfolio Holder

Recommended:

That the financial position for each Portfolio and the key revenue areas contained in the Annex to the report be noted.

SUMMARY:

- This report reviews the Council's revenue spending for the first four months of the 2020/21 financial year.
- It also examines the main differences between the original estimate for 2020/21 and actual spend to 31 July 2020 and provides explanations for significant variances.
- Overall, net expenditure to 31 July 2020 was £544,000 more than budgeted at this stage of the year. This adverse variance comprises additional expenditure of £496,000 due to service related expenditure and £48,000 less income from the Council's investing and borrowing activities.
- This report should be read in conjunction with the report that was presented to the Special Council meeting on 5 August, 2020, as there are a number of exempt contractual matters that are not included in this report, but which take the overall adverse variance to just over £1M for the first four months of the year to 31 July, 2020.

1 Introduction

- 1.1 As part of responsible financial stewardship, it is recommended that the financial performance of the Council should be reviewed regularly.
- 1.2 Revenue budget monitoring is carried out every month for all Services and presented to Cabinet regularly throughout the year.
- 1.3 This report examines the income and expenditure of each portfolio over the first four months of the year. The Annex shows the financial summaries of each portfolio to 31 July 2020 together with an explanation of any significant variances.
- 1.4 Several key areas of income and expenditure, not all apparent within individual portfolios have also been analysed and are also shown in the Annex.

2 Background

Profiling of Income and Expenditure

- 2.1 Not all income and expenditure is incurred equally over the year. For example, some costs (e.g. lease costs) are allocated at the end of the year, and others are stepped throughout the year (e.g. rental income is invoiced quarterly in advance). The manner that income or expenditure is received or incurred over the course of the year is referred to as its profile.
- 2.2 In order to make the analysis more relevant, the actual income and expenditure to 31 July is being compared against its profiled position at this time.

Analysis of income and expenditure

- 2.3 The Annex shows, by portfolio, an analysis of original budget, profiled budget to date, actual expenditure to date and the variance between profiled budget and actual income / expenditure.
- 2.4 The Annex also shows an analysis of key areas of income and expenditure within the budget that are traditionally subject to variations in the year.

3 Analysis of Financial Performance

3.1 Leader's Portfolio

The Leader's portfolio shows net expenditure to the end of July of £620,000 against a profiled budget of £665,000. This represents a favourable variance of £45,000 to date.

This is due mainly to government grants for Brexit brought forward from 2019/20.

3.2 Deputy Leader & Planning Portfolio

The Deputy Leader & Planning Portfolio shows net expenditure of £929,000 compared with a profiled net expenditure estimate of £211,000 – an adverse variance of £718,000.

Due to the Covid-19 pandemic, free car parking was introduced across the Borough until 22 June, followed by two hours free for a further month. The estimated net loss of income from this after savings in collection costs is £610,000.

Covid-19 has also impacted on income from planning application fees and building control fees which are less than expected by an estimated £159,000.

These are partly offset by savings in employee costs due to vacancies.

3.3 Community & Leisure Portfolio

The Community & Leisure portfolio shows net expenditure to the end of July of £151,000 against a profiled estimate of £100,000. This is an adverse variance of £51,000.

This is mainly due to the impact of Covid-19 on income due to the closure of The Lights theatre and outdoor sports facilities, partly offset by savings on cleaning and promotional budgets.

3.4 Corporate Portfolio

The Corporate portfolio shows net expenditure to the end of July of £1.212M against a profiled budget of £1.205M. This represents an adverse variance of £7,000 to date.

Covid-19 has impacted on income from land charges and licensing and there are additional costs in IT for three months of video conferencing required for home working.

There are savings which partially offset these from lower travel claims due to meetings being held remotely, no mayor making ceremony and an unbudgeted government grant.

3.5 Economic Development & Tourism Portfolio

The Economic Development & Tourism Portfolio shows net expenditure of £102,000 against a profiled estimate of £134,000. This represents a favourable variance of £32,000.

This is due to reductions in grant payments due to Covid-19.

3.6 Environmental Portfolio

The Environmental portfolio shows net expenditure of £962,000 against a profiled estimate to the end of July of £946,000 – an adverse variance of £16,000.

Increased employee costs in waste and green waste due to covering for vacancies and sickness is offset by savings in grounds maintenance and street cleansing due to vacancies.

Lower than expected income from glass recycling and the costs of bulk buying glass banks is partly offset by additional net income from increased subscriptions to the garden waste scheme.

3.7 Finance Portfolio

The Finance portfolio has generated net income of £2.629M against a profiled estimate of £2.430M to the end of July. This is a favourable variance of £199,000.

This is due mainly to lower than expected staffing costs to date, prior year credits for the Chantry service charge and savings on office accommodation costs due to Covid-19.

3.8 Housing & Environmental Health Portfolio

3.9 The Housing & Environmental Health portfolio shows expenditure of £360,000 compared with the profiled estimate of £382,000. This is a favourable variance of £22,000.

Covid-19 has led to reductions in income from pest control, enabling fees and DFG administration fees and additional bed and breakfast charges. These are offset in part by savings in employee costs due to vacancies and an unbudgeted government grant.

3.10 Key areas of income and expenditure

The Annex also shows an analysis of significant items in the Council's budget. These can be spread across several Services or cost centres so may be included in more than one portfolio.

While not necessarily under the direct control of one budget manager it is important that these items are reviewed regularly in total as they provide a good indication of the overall variances within the budget.

3.11 Investment Funds and borrowing costs

Net investment income to 31 July 2020 was £161,000 compared with a profiled estimate of £209,000 – this represents an adverse variance of £48,000.

This is due to the reduction in the base rate to 0.10% in response to the Covid-19 pandemic.

4 Other Issues

4.1 Bad and doubtful debts/ rent deferrals

As part of the budget setting process in February, 2020, the Council included a provision for bad debts based on historic evidence and data. The financial effects of the Covid-19 pandemic have been severe and unprecedented especially in relation to third parties' ability to pay amounts owed to the Council. It is not clear at this stage of the year how much of the accumulating bad debts and rents will actually be collected as we move into a recovery phase. However, it is almost certain that the bad debt provision in the 2020/21 budget will prove to be inadequate and will need to be reviewed later in the year. Any increase in the provision will add to the in-year budget gap shown in this report.

4.2 Mitigating factors

- (a) Furlough Scheme – The Council has received £116,000 in Furlough Grants for the period April to June 2020 and this is reflected in this report. A further claim for £27,700 has been submitted to HMRC for July, but this has not yet been approved and so is not included in this report.
- (b) Government Covid-19 Emergency Grants – The Council has received emergency funding from MHCLG totalling £1,470,855 to address coronavirus pressures. Currently, this is being held in reserves to offset cashflow impacts and is not included in the figures in this report.
- (c) Income Compensation Scheme – The Government is introducing a new scheme that will “compensate councils for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020-21”. The key principle is that if councils budgeted for something as income (sales, fees and charges), and has suffered losses to that income, then compensation will be payable. Authorities will have to absorb the initial 5% of losses (the 5% deductible), with central government compensating 75% of losses above this threshold. A final version of the guidance was published on 24th August 2020: <https://www.gov.uk/guidance/local-government-income-compensation-scheme-for-lost-sales-fees-and-charges>.
- (d) Losses in Council Tax and Business Rates Scheme - At last month’s Communities and Local Government Select Committee, ministers indicated that they were considering a scheme to fund Collection Fund losses. The secretary of state said, “When information is clearer about the scale of the losses of income with respect to council tax and business rates, if necessary, we will implement a similar mechanism to the one we have seen with respect to income losses”. According to the local government minister, “the principle has been accepted by the Treasury and I think that should reassure authorities that are concerned about council tax or business rates losses that there is serious protection on offer and that will be becoming fully clear in short order”.

5 **Risk Management**

- 5.1 This report is for information purposes so the Council’s Risk Management approach does not need to be applied.

6 **Resource Implications**

- 6.1 An adverse variance of £544,000 in the first four months of the year has been identified in this report. There is a mixture of adverse and favourable variances across the portfolios and these will continue to be monitored and reviewed as part of the Budget process.

7 **Equality Issues**

- 7.1 This report is for information purposes, so the Council’s EQIA process does not need to be applied.

8 Conclusion and reasons for recommendation

- 8.1 Overall, net expenditure is £544,000 higher than forecast at 31 July. There are a number of areas with large variances between the profiled budget and the actual income / expenditure to date due to the impact of the Covid-19 pandemic.
- 8.2 The report does not make any recommendations for changes to budgets at this stage in the year and therefore the recommendation is that the current budget position be noted.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
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