

## 2019/20 OUTTURN REPORT (PERIOD 12 BUDGET MONITORING REPORT)

- Summary: This report presents the provisional outturn position for the 2019/20 financial year which shows a General Fund underspend of £97,114. This includes a General Fund Net Operating overspend of £358,979 which includes a reduction in investment/borrowing interest of £124,683. There is a small deficit of £153,601 on the Collection Fund in respect of Council Tax. The total deficit of £512,580 has been offset by surplus Business rates income in respect of pilot gain of £609,694. It also provides an update in relation to the Council's capital programme. Details are included within the report of the more significant year-end variances compared to the current budget for 2019/20. The report also makes recommendations for contributions to reserves.
- Options considered: The report provides a final budget monitoring position for the 2019/20 financial year. Whilst there are options available for funding the overspend in the year, the report makes recommendations that provide funding for ongoing commitments and future projects.
- Conclusions: The revenue outturn position as at 31 March 2020 shows an overall underspend of £97,114. The final position allows for £276,660 from budget and grant underspends to be rolled forward within Earmarked Reserves to fund ongoing and identified commitments for which no budget has been allocated in 2020/21. The position as reported will be used to inform the production of the statutory accounts which will then be subject to audit by the Council's external auditors.
- Recommendations: **Members are asked to consider the report and recommend the following to Full Council:**
- a) The provisional outturn position for the General Fund revenue account for 2019/20;**
  - b) The transfers to and from reserves as detailed within the report (and appendix C) along with the corresponding updates to the 2020/21 budget;**
  - c) Allocate the surplus of £97,114 to the General Reserve;**
  - d) The financing of the 2019/20 capital programme as detailed within the report and at Appendix D;**
  - e) The balance on the General Reserve of £2.404 million (after allocation of the underspend per recommendation c);**
  - f) The updated capital programme for 2020/21 to 2023/24 and scheme financing as outlined within the report and detailed at Appendix E;**

**g) The outturn position in respect of the Prudential Indicators for 2019/20 as detailed in Appendix F and;**

**h) Agree the award of the new cleaning contract to Eco Clean Services Ltd.**

Reasons for Recommendations: To approve the outturn position on the revenue and capital accounts that will be used to produce the statutory accounts for 2019/20.

**LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW**

*(Papers relied on to write the report and which do not contain exempt information)*

|   |                      |
|---|----------------------|
| <i>Budget Monitoring Reports, NNDR returns</i>  |                      |
| Cabinet Member(s):<br>Cllr Eric Seward  | Ward(s) affected All |
| Contact Officer, telephone number and email: Duncan Ellis, 01263 516330,<br>Duncan.Ellis@north-norfolk.gov.uk |                      |

## Executive Summary

This report presents the provisional outturn position for the 2019/20 financial year and is essentially the period 12 budget monitoring position. This will be used to inform the production of the Council's statutory accounts which will then be subject to external audit review.

The outturn position as now reported shows a General Fund underspend of £97k. This includes a General Fund Net Operating overspend of £359k which includes a reduction in investment/borrowing interest of £125k. There is a small deficit of £154k on the Collection Fund in respect of Council Tax. The total deficit of £513k has been offset by surplus Business rates income in respect of pilot gain of £610k.

Due to the timing of the submission of some of the statutory returns the outturn position does include estimates for benefits and business rates – any variance on these to the final audited position will be managed through the respective earmarked reserves upon the completion of the audit.

The reported position allows for some underspends to be carried forward to the new financial year, for example where works or projects have not been completed and budget provision does not exist in 2020/21. Other roll forwards have been made, for example in relation to grants that were received but not spent in the year such as a number of the housing grants. Overall roll forwards total £277k.

Section 3 of the report highlights some of the more major variances, some of the positive variances include;

*Leisure complexes* – (£138k) Management fee lower than anticipated as capital funding provided for equipment purchases.

*Business Rates* – (£610k) Extra income received from the Business Rates Retention Scheme due to the Norfolk pilot of the 75% scheme.

*Unallocated grants* - (£347k) in areas such as Community and Localism, Housing and Homelessness, rolled forward where appropriate.

*Fee income* - (£536k) for Building Control along with additional income from bulky, garden and trade waste collections and additional income from recycling credits and sales of recyclable materials.

These are partly offset by things such as;

*Employee related costs* – £1.2m relating to pension costs. This does not have a bottom line impact within the General Fund but is reflected as an increase in the Council's long term liabilities on the Balance Sheet.

*Additional premises costs* - £308k. The majority of this relates to utility costs and repairs and maintenance across a number of the Council's key assets.

*Interest* – £125k difference compared to the budgeted position in respect of the Council's investment portfolio of £96k and slightly higher borrowing costs of £29k.

*Capital Programme* – the report also updates the current capital programme for slippage of capital budgets between financial years and capital projections for future years and highlights how the current programme is funded through a mixture of Council and external resources.

In preparation for the updated financial strategy and ahead of the 2021/22 budget process, all underspends from 2019/20 will be reviewed further to inform the financial projections. The General Reserve remains above the recommended balance.

## **1. Introduction**

- 1.1 This report presents the provisional outturn position for the 2019/20 financial year, this will be used to inform the production of the Council's statutory accounts which will be subject to audit review ahead of presentation to the Governance, Risk and Audit Committee (GRAC) in December 2020.
- 1.2 Due to the impact of the Coronavirus the deadlines for the statutory annual accounts have been extended. The draft statements now have to be published by the 31 August, with public inspection commencing before 1 September. The audit is scheduled for October prior to the audited version being signed off by GRAC in December.
- 1.3 Commentary on the more significant year-end variances is included within the report with further supporting information provided within the appendices.
- 1.4 The report also includes a current forecast position statement on the level of reserves along with the outturn and financing position for the 2019/20 capital programme. The capital programme for the period 2020/21 to 2023/24 has been updated to take account of the outturn position and is included within this report and appendices.
- 1.5 All budgets have been monitored during the year by Service and Finance Officers with regular reports being presented to Cabinet and Overview and Scrutiny. The period 10 budget monitoring report was presented to Cabinet in February which covered the first 10 months of the year up to the end of January 2020. At the time this report was forecasting a General Fund underspend of £1,847.
- 1.6 The outturn position for the year ending 31 March 2020 is a net £97,114 surplus. This report now presents the final budget monitoring position for the year. The contents of this report will be considered by the Overview and Scrutiny Committee on 16<sup>th</sup> September 2020.
- 1.7 There is a separate report elsewhere on the agenda which considers the ongoing impact of COVID-19 on the 2020/21 budget and the future year forecasts.

## **2. Revenue Account – Outturn 2019/20**

- 2.1 The revenue account position for the year shows a total surplus of £97,114 as detailed at Appendix A. This is after allowing for transfers to Earmarked Reserves for current and known commitments. The transfers to and from reserves in the year are made in line with the Council's policy framework for Earmarked Reserves as approved as part of the annual budget setting process. Earmarked Reserves are typically used to set aside funds for known or specific liabilities. Transfers to Earmarked Reserves have been made for the following:
  - a) Where an underspend has occurred within a service, mainly due to the timing of work not being completed as planned (by 31 March 2020), and also where no future budget exists or where there is a one-off commitment that continues into the 2020/21 financial year;
  - b) Where external funding has been received in 2019/20 for which the expenditure has not yet been incurred;

- c) Where the 2019/20 budget allowed for expenditure to be funded from an Earmarked Reserve, but the spend has not yet been incurred as planned and therefore the funds remain in the Earmarked Reserve until 2019/20.

### **Estimates Included in the Accounts**

- 2.2 Due to having additional time to prepare the 2019/20 financial statements there has been a reduced requirement to include estimates within the figures. However, the provisional outturn position still includes some significant figures which are subject to external audit, these are in relation to Benefit Subsidy and Business Rates Retention.
- 2.3 **Benefit Subsidy** - The benefit subsidy return was completed and submitted by 23 June 2020 and will be subject to external audit review later in the year. Depending on the outcome from the external audit review there could be an impact on the overall financial position, for example should subsidy be due to the Department for Work and Pensions. It is for this reason that the Council holds a Benefits Earmarked Reserve to mitigate any such impact.
- 2.4 **Business Rates** - Under the current system an element of the business rates is retained locally (split between the County (10%) and Districts (40%)) with the balance (50%) being returned to Central Government. The budget for the year was informed by the baseline funding and the NNDR1 position. The outturn position is based on the National Non Domestic Rates (NNDR3) Return which is submitted annually, in a normal year the deadline for this return is April but due to the impact of COVID-19 has been slipped this year to 31 July 2020.

In the same way that council tax operates a 'Collection Fund' which distributes the precepts/shares of council tax collected to the respective authorities, the business rates collection fund distributes the respective shares of business rates based on the NNDR return. Should the actual income collected from business rates exceed or not meet the anticipated amounts there would be a surplus or deficit on the fund. As with the benefits subsidy above, the Council operates a Business Rates Earmarked Reserve to help mitigate against any potentially negative impacts of these arrangements.

The gain for the 2019/20 financial year includes the results of the countywide business rates pilot also.

- 2.5 Table 1 shows the main variances across the standard expenditure headings which comprise the Net Cost of Services. Details of the variances at the service level are provided at section 3.

| Table 1 - 2019/20 Subjective Analysis | 2019/20<br>Updated<br>Budget | 2019/20<br>Outturn | Variance       |             |
|---------------------------------------|------------------------------|--------------------|----------------|-------------|
|                                       | £                            | £                  | £              | %           |
| Employee Costs                        | 11,982,569                   | 13,533,234         | 1,550,665      | 12.94       |
| Premises                              | 2,553,496                    | 2,746,812          | 193,316        | 7.57        |
| Transport Related Expenditure         | 309,614                      | 323,072            | 13,458         | 4.35        |
| Supplies & Services                   | 10,861,777                   | 11,994,707         | 1,132,930      | 10.43       |
| Transfer Payments                     | 23,513,629                   | 23,036,699         | (476,930)      | (2.03)      |
| Support Services - Charges In         | 10,569,300                   | 13,700,050         | 3,130,750      | 29.62       |
| Support Services - Charges Out        | (10,864,102)                 | (14,092,923)       | (3,228,821)    | 29.72       |
| Capital Financing Costs               | 2,733,233                    | 1,951,410          | (781,823)      | (28.60)     |
| Income                                | (33,870,349)                 | (34,436,815)       | (566,466)      | 1.67        |
| <b>Total cost of services</b>         | <b>17,789,167</b>            | <b>18,756,245</b>  | <b>967,078</b> | <b>5.44</b> |

2.6 The reasons for some of the movements included in the summary above are as follows, further details are included at section 3:

- a) **Employee Costs** – of the total variance £1,502,420 relates to pension cost adjustments for current service costs. This adjustment reflects the difference between the cash contributions the Council has made in to the Pension Fund during the year and the value of pensions accumulated in the year calculated by the actuary.

These additional costs are reversed out under net operating expenditure and have no bottom line impact on the revenue outturn position although the increase is reflected in long term liabilities on the Balance Sheet.

Employee budgets assume 2% turnover per annum. Although turnover savings were achieved in a number of service areas, some of these underspends have been offset by overtime and new appointment advertising costs which are not normally budgeted for separately.

Additional costs were incurred as a result of staff restructuring, these one-off costs have been funded from the Restructuring/Invest to Save reserve.

- b) **Premises** – additional premises costs of £207,899. Of this, there has been an increase in expenditure of £160,886 which relates to repairs and maintenance both programmed and reactive across a number of the Council's key assets including car parks, parks and open spaces, Admin Buildings, investment properties and a number of public conveniences together with higher premises running costs of £119,113 - this includes rents, business rates, water and energy costs. There is a saving within Coast Protection of (£72,358) but this has been requested to be rolled forward into the Coastal Reserve for use in revenue schemes in 2020/21.

*Office cleaning contract* – Members may recall that the office cleaning contract was awarded at the Cabinet meeting in March but, due to the COVID pandemic, the contractor was no longer able to deliver the contract.

Officers have therefore retendered the opportunity. A total of 12 organisations expressed an interest, the preferred supplier is Eco Clean Services Ltd. The Contract is for a total of 5 years with the option to extend for a further 2 years, 1 year at a time. The total contract value over the potential 7-year period is around £330,000 which is within the current budget envelope and is almost exactly the same as the previous bid submission in terms of cost. The recommendation is therefore to award the new cleaning contract to Eco Clean Services Ltd, with a contract start date at the beginning of October 2020.

c) **Supplies and Services** – additional supplies and services costs of £1,130,095. The significant movements against these budgets includes expenditure relating to consultancy fees, computer and printing costs, grants and temporary accommodation charges. However, in a number of areas this is offset by grant or fee income, client contributions and funding from reserves.

d) **Transfer Payments** - Reduced payments to benefit claimants. This has been offset by a reduction in subsidy income claimed from the Department for Works and pensions (DWP).

In 2019/20 the decision was taken to not proceed with two large capital schemes. Expenditure incurred up to this point was transferred to revenue and has been financed from earmarked reserves.

In addition to this other smaller items of expenditure previously capitalised were written back to revenue under this heading.

e) **Capital Financing Costs** – The main variance relates to additional depreciation and payments in relation to Disabled Facilities Grants (DFG) which are treated as revenue expenditure funded from capital under statute (REFCUS) above what had been budgeted. Other minor variances relate to slippage and re-profiling of the capital programme.

f) **Income** – The most significant income variances for the year are represented by the following items.

- Reduced benefits subsidy income, this is partially offset by reduced benefits payments (included under the transfer payments heading) and recovered benefits overpayments. The net position reflects the increased expenditure associated with providing temporary accommodation which does not attract 100% recoverable subsidy.
- Various additional grants were received at the end of the financial year including sums to cover the cost of the General and European elections. When they could not be allocated to additional service provision these included Homelessness prevention grant and a number of New Burdens grants. These have been rolled forward within the councils earmarked reserves for spend in 2020/21.
- Fee Income - Planning and Building Control income, additional fee income from bulky, garden and trade waste collections and additional income from recycling credits and sales of recyclable materials.

- Charges Income – This includes recovered rent allowance overpayments, shared fees relating to the procurement of the new waste contract and the HIA admin fee.

### **3. Revenue Account – Detailed Commentary 2019/20**

- 3.1 The outturn position for the year ending 31 March 2020 is a net £97,114 surplus. This includes a General Fund Net Operating overspend of £358,979 which includes a reduction in investment/borrowing interest of £124,683. There is a small deficit of £153,601 on the Collection Fund in respect of Council Tax. The total deficit of £512,580 has been offset by surplus Business rates income in respect of pilot gain of £609,694. This is after allowing for a number of underspends identified at the service level which have been rolled forward within reserves to fund one-off commitments in 2019/20 where there is no annual budget. The report is recommending that the 2019/20 surplus is allocated to the General Reserve.
- 3.2 This section of the report highlights the more significant direct cost and income variances compared to the current budget. Further commentary on some of the smaller variances is also included within Appendix B which accompanies this report. Accounting standards require a number of notional charges to be made to service accounts. Notional charges include transactions in relation to capital charges, revenue expenditure funded from capital under statute (REFCUS) and pension costs, and whilst they do not have an impact on the 'bottom line' i.e. the surplus or deficit for the year, they are included for reporting purposes. Appendix A shows the overall revenue position including notional charges; however, to assist reporting and explaining 'real cash' variances, Table 2 provides a summary of the position excluding notional charges.

| <b>Table 2 - 2019/20 Revenue Account<br/>(Excluding Notional Charges)</b>                 | <b>Updated<br/>Budget</b> | <b>Outturn</b>      | <b>Variance</b>  |
|---|---------------------------|---------------------|------------------|
|   | <b>£</b>                  | <b>£</b>            | <b>£</b>         |
| <b>Service Area:</b>  |                           |                     |                  |
| Corporate and CLT   | 440,608                   | 274,462             | (166,146)        |
| Community, Economic Development & Leisure   | 3,088,767                 | 3,691,543           | 602,776          |
| Customer Services and ICT   | 502,170                   | 243,876             | (258,294)        |
| Democratic and Legal Services   | 1,522,056                 | 1,564,395           | 42,339           |
| Environmental Health  | 4,373,472                 | 4,316,050           | (57,422)         |
| Finance and Assets  | 3,312,239                 | 3,379,211           | 66,972           |
| Planning  | 2,152,582                 | 2,457,202           | 304,620          |
| Digital Transformation Savings  | (83,750)                  | 0                   | 83,750           |
| <b>Net Cost of Services</b>   | <b>15,308,144</b>         | <b>15,926,739</b>   | <b>618,595</b>   |
| Parish Precepts   | 2,390,634                 | 2,390,634           | 0                |
| Net Interest Receivable/ Payable  | (1,320,685)               | (1,196,002)         | 124,683          |
| Capital Financing   | 3,233,455                 | 2,656,177           | (577,278)        |
| Contribution to /(from) Earmarked Reserves  | (4,323,918)               | (4,113,903)         | 210,015          |
| Contribution to /(from) General Reserve   | (59,619)                  | (43,275)            | 16,344           |
| <b>Net Service Expenditure/Income to be met<br/>from government Grant &amp; Taxpayers</b> | <b>15,228,011</b>         | <b>15,620,370</b>   | <b>392,359</b>   |
| <b>Government Grants and Council Tax</b>  | <b>(15,228,011)</b>       | <b>(15,717,484)</b> | <b>(489,473)</b> |
| <b>Net (Surplus)/Deficit for the year</b>   | <b>0</b>                  | <b>(97,114)</b>     | <b>(97,114)</b>  |

- 3.3 **Service Variances** – The following provides commentary of the more significant variances (over/under £30,000) across the seven service groupings, more detailed variance explanations are provided within the detailed appendices. These figures represent service variances before any additional contributions to/ (from) reserves and revenue contributions to capital.

| <b>Service and Details</b>   | <b>Net<br/>(Under)/Overspend<br/>(Direct Cost and<br/>Income Only)</b> |
|--|--|
| <b>Corporate And CLT</b>   |  |
| <b>Corporate Leadership Team</b> – Staffing costs some of which are one-off and funded from earmarked reserves. Additional external professional fees.   | 139,797  |
| <b>Community, Economic Development and Leisure</b>   |  |
| <b>Car Parking</b> - General Repairs and Maintenance on various car parks. Consultancy work in relation to establishing Electrical vehicle charging points and Hornbeam road. Purchase of new car park machines. | 48,843   |

| Service and Details   | Net<br>(Under)/Overspend<br>(Direct Cost and<br>Income Only) |
|---|--|
| <p><b>Sports Centre's</b> - £626,760 previously capitalised expenditure in relation to the Sports Hub project which has now been transferred to revenue as the scheme has been cancelled. This has been funded from earmarked reserves. (£51,159) Management fee and hall hire costs. £26,854 Cabbell Park Cromer Repairs and Maintenance, electricity costs.</p>   | 616,453  |
| <p><b>Leisure Complexes</b> - (£138,028) - Management fee lower than anticipated as capital funding provided for equipment purchases which have helped reduce the revenue contract costs.</p>   | (138,146)  |
| <p><b>Economic Growth</b> - £185,550 previously capitalised expenditure in relation to the Egmore project which has now been transferred to revenue as the scheme has been cancelled. This has been funded from earmarked reserves.</p>   | 181,142  |
| <p><b>Coastal Management</b> – (£72,598) Sea Defences budgets not spent - priority was focussed on the Walcott Landscaping scheme leaving the planned revenue maintenance works not fully taken forward. A roll forward request has been made to carry this budget into the next financial year.</p>  | (69,913)   |
| <p><b>Housing Health and Wellbeing</b> – (£61,243) Surplus Home Improvement Agency fee income transferred to the Housing reserve, to fund service improvements and support additional staffing.</p>   | (59,971)   |
| <p><b>Housing Strategy</b> – (£46,840) Final year of VAT shelter agreement with Victory/Flagship housing association, the net receipt has been transferred to the Capital Projects reserve.</p>   | (52,072)   |
| <p><b>Community and Localism</b> – Unallocated grants budget of which (£124,328) relates to Big Society and (£14,457) Arts Grants. These have been rolled forward to be allocated in 2020/21. (£24,500) Government Grant in respect of Pocket parks, this will be utilised in 2020/21.</p>  | (157,482)  |
| <b>Customer Services and ICT</b>  |  |
| <p><b>Homelessness</b> – Additional costs associated with providing temporary accommodation offset by subsidy and client contributions. The real cost of this increasing requirement is within the Housing Benefit subsidy where not all costs paid out on Temporary accommodation are recoverable from the Department for Works and Pensions (DWP). (£68,548) Additional grant funded expenditure not incurred, this has been rolled forward to offset future spending commitments. This has been earmarked within the roll forward process for spend in future financial years.</p> | (77,936)   |
| <p><b>Digital Transformation</b> – Lower salaries and oncosts due to staff vacancies.</p>   | (36,048)   |

| Service and Details   | Net<br>(Under)/Overspend<br>(Direct Cost and<br>Income Only) |
|---|--|
| <b>Democratic and Legal Services</b>  |  |
| <p><b>Benefits Administration</b> – Employee inflation due to re-gradings. (£69,627) relates to various one-off grants received from the department for Works and Pensions (DWP) to support additional service requirements- some of which have been offset by additional expenditure in the year. The balance has been earmarked to fund service improvements in 2020/21.</p>  | (53,490)   |
| <p><b>Legal Services</b> – (£9,554) Staff Turnover savings offset by Locum costs. (£68,472) Higher Legal fee income. Net income has been transferred to the legal services earmarked reserve to support future investment in the service.</p>   | (66,247)   |
| <b>Environmental Health</b>   |  |
| <p><b>Commercial Services</b> – Higher employee costs due to changes in staffing. Reduction in income from chargeable works including food hygiene courses and re-rating visits.</p>  | 32,368   |
| <p><b>Waste Collection and Disposal</b> – The main reasons for this significant variance are outlined below;</p> <p>£117,553 Procurement costs associated with the new waste contract. £170,902 Kier contractor costs.</p> <p>(£243,414) Commercial waste fee income; (£82,245) Garden bin fee income; (£16,401) Bulky collections; (£18,336) Smoothing Mechanism. (£94,045) Shared procurement fees. (£77,720) Additional recycling credit income.</p> <p>£114,095 of this underspend has been earmarked to fund some in-year capital expenditure (RCCO) relating to the purchase of bins.</p> | (261,443)  |
| <b>Finance and Assets</b>   |  |
| <p><b>Revenue Services</b> – Employee inflation due to staff re-gradings. £37,801 Reduction in court costs awarded.</p>   | 46,399   |
| <p><b>Benefits Subsidy</b> – £13,890 Movement in the provision for bad and doubtful debts not budgeted for at service level. £128,636 Movement in the total debt figure held on the Civica system. £263,985 Shortfall in subsidy - £226,758 of which relates to unrecoverable Temporary Accommodation costs. (£334,036) Recovered overpayment income.</p>   | 72,475   |
| <p><b>Administrative Buildings</b> – £9,640 Additional staffing costs; £37,712 Repair and Maintenance costs and higher utility costs. £5,756 Management fees. £11,904 Bad debt provision.</p>   | 67,636   |

| Service and Details   | Net<br>(Under)/Overspend<br>(Direct Cost and<br>Income Only) |
|---|--|
| <p>(£10,718) Contribution to capital costs. £3,675 Lower service charges. £4,505 Lower rental income. £5,640 Insurance claim written off.</p>   |  |
| <p><b>Property Services – (£7,427)</b> Lower insurance premiums - now allocated to specific services. £9,056 Vertas electricity MOP agreement. £106,686 Professional fees, which includes £52,000 for Asset Condition Surveys, £11,250 for Energy Management Contract, £20,900 contract for feasibility studies at North Walsham and Stalham hubs and £12,998 for tree and enforcement works. The balance relates to various fees relating to valuation reports, E-tendering, commercial agency work and building cost information services.</p> <p>(£38,151) Funding from Norfolk County Council for One Public Estate grant claims.</p> | 81,304   |
| <p><b>Investment Properties – £33,860</b> Repair and maintenance; £45,633 Running costs (these include costs relating to the installation of a new septic tank, management fees, electricity and council tax). £5,250 Feasibility study. £4,500 bad debt provision. £24,294 Scaffolding costs - to be funded from the Enforcement Board Reserve.</p> <p>£15,564 Capital expenditure transferred to Revenue as the schemes are now cancelled.</p> <p>£8,248 Lower rental income; (£27,516) Higher recovery of utility recharges and service charges.</p>   | 115,600  |
| <p><b>Corporate &amp; Democratic Core - £8,653</b> Higher bank charges. (£12,384) - Other professional fees. (£26,369) - Lower Planning salaries and oncosts due to staff vacancies, this has been offset by agency staff within the Development Management service area. (£8,830) – Contributions.</p> <p>(£43,783) - Grant towards preparation for exiting the EU. (£5,040) – Refund re public sector audit.</p>  | (92,036)   |
| <b>Planning</b>   |  |
| <p><b>Development Management – (£23,232)</b> Employee turnover savings to be used to fund agency post, previously budgeted from reserves. £26,460 Professional fees in relation to planning appeals and costs awarded.</p> <p>£96,658 Reduction in Planning fee income offset by increased income pre-application advice (£30,883).</p>   | 68,271   |
| <p><b>Planning Policy – (£6,817)</b> Slippage in profiled spend associated with the Local Plan, this has been offset by a reduced contribution from the New Homes Bonus Reserve. Staff vacancies.</p>   | (30,949)   |

| Service and Details  | Net<br>(Under)/Overspend<br>(Direct Cost and<br>Income Only) |
|--|--|
| <p>(£17,521) New Burdens grants received from the Ministry for Housing Communities and Local Government (MHCLG) in relation to maintaining Custom Build and Brown site registers, these have been earmarked as part of the roll forward request process.</p>   |  |
| <p><b>Building Control</b> - Additional income from Building Control fees partially offset by increased employee costs. As this service operates on a cost recovery basis the net position will be reflected in a transfer to the earmarked reserve and taken into account in setting future fee levels.</p>   | (23,980)   |
| <p><b>Property Information</b> – (£21,862) Norfolk County Council Search fees, of which (£10,600) relates to 2018/19. (£1,985) Income from Street Naming and Numbering. (£17,671) Land Charge fee income. Land charge fee income is set on a cost recovery basis therefore in year surpluses are ring-fenced and reflected in future year fee setting.</p> | (43,511)   |

### Non Service Expenditure and Income

- 3.4 The non-service expenditure and income predominantly relates to investment income. The original income budget for 2019/20 anticipated £1,344,000 would be earned in interest from an average balance of £38.4m at a rate of 3.5%. A total of £1,234,678 was earned from investments over the year from an average balance of £40.7m at an average rate of interest of 3.03%. This resulted in an adverse variance against the budget of £109,322 in respect of investment income. There are other minor variances in relation to things such as grassed area deposits and car loans which had a favourable variance of £13,470 which give an overall variance of £95,852 when compared to the original budget.
- 3.5 Investment balances were at times higher than anticipated in the budget although the overall rate of interest earned was slightly lower than budget. Uncertainty around timings of payments resulted in some of this cash being kept in shorter term investments, affecting the overall rate of return but positively impacting on the level of income received. The Council's strategy of keeping liquid cash low, while instead borrowing short term rolling loans was carried out successfully during the year.
- 3.6 The Council has taken a strategic decision to continue to invest in pooled funds using balances which are not anticipated to be required in the medium to long-term (three to five years). These pooled funds are anticipated to provide a higher income return than alternative financial instruments and achieved an average interest rate of 3.37% in the year. Due to the COVID pandemic, market uncertainty has been high, and the capital values of these pooled funds have fluctuated as the value of underlying assets (such as equity and corporate bonds) have changed. At the end of the year, there is a large unrealised capital loss on these funds, however, this will not be charged to the general fund unless holdings in the funds are sold. The Council does not intend to do this, and will instead borrow short term cash should it be required, rather than redeem investments at this time.

- 3.7 Borrowing Interest shows a variance of £28,831 against the original budget of £10,000. The additional borrowing is as a result of timing differences on significant inflows and outflows associated with large capital schemes.
- 3.8 The Treasury Management Annual Report is included as a separate item on this Agenda and provides more details on the performance of the Treasury Management activity for the year.

#### **Retained Business Rate Income**

- 3.9 The Council successfully applied to be a pilot authority for the new 75% Business Rates Retention Scheme as part of the Norfolk Business Rates Pool for the 2019/20 financial year. This involved the Council's share of above baseline growth of Business Rates increasing from 40% to 42.5%, in exchange for forgoing Rural Services Delivery Grant and Revenue Support Grant in the year.
- 3.10 Although the levy was formally abolished as part of the piloting arrangements, the Council still contributed a share of its Business Rates growth to the Norfolk Business Rates Pool pot for economic growth projects. After adjustments for the levy, enterprise zone relief, renewable energy disregards and section 31 grants, the gain from piloting was approximately £600,000.

#### **4. Reserves**

- 4.1 The Council holds a General Reserve for which the recommended balance for 2019/20 is £1.9 million. The purpose of holding a General Reserve is to provide a working balance to help cushion the impact of uneven cash flows and to provide a contingency to help cushion the impact of unexpected events or emergencies.
- 4.2 In addition to the General Reserve the Council holds a number of Earmarked Reserves that are held to meet known or predicted liabilities. The Earmarked Reserves also provides a means at the year-end for carrying funds forward to the new financial year to fund ongoing commitments and known liabilities for which no separate revenue budget exists.
- 4.3 There are a number of Earmarked Reserves that have balances, yet the timing of the use of the reserve is yet to be agreed. For example, the Business Rates reserve which is held to negate any negative impacts on the General fund resulting from business rates appeals awarded and pilot gains or losses.
- 4.4 Section 3 of the report has highlighted a number of service areas where an underspend has occurred in the year and a transfer to reserves had been made to ensure funds are available to meet future spending commitments. Unlike capital budgets, underspends on revenue budgets in the year are not automatically rolled forward at the year-end where there is an annual budget provision. Where the underspend represents a grant received which has not yet been fully utilised or there has been a delay in the planned use, the unspent grant has been rolled forward.
- 4.5 The transfers to and from reserves (general and earmarked) are included within the reserves statement as detailed at Appendix C. This appendix outlines the purpose of each reserve and shows the planned use over the current four-year budget period. The updated budget projections were forecasting a movement of £4,383,537 out of earmarked reserves. At outturn the final transfer made

was £4,076,514 resulting in a variance of (£307,023), the most significant of which were as follows;

- Capital Projects Reserve – (£430,139) it was originally anticipated that capital costs associated with the Shannoeks Hotel, Sheringham would be incurred however this has now slipped and is anticipated to be spent in 2020/21;
- Business Rates reserve – £312,209 is to be released from the Business Rates reserve to fund a cancelled capital project;
- Communities – (£134,763) unallocated funding in relation to Big Society fund grant and;
- LSVT – £435,000 is to be released from the LSVT reserve to fund a cancelled capital project.

4.6 The General Reserve balance at 31 March 2020 stands at is £2.307 million, this will increase to £2.404m after allocation of the net surplus for 2019/20 to this reserve. All reserves will be reviewed as part of the upcoming work on the Medium Term Financial Strategy which will be presented to Members later in the year.

## **5. Capital Programme 2019/20**

5.1 This section of the report presents the financing of the capital programme for 2019/20, together with the updated programme for the financial years 2020/21 to 2022/23. Appendix D provides the detail of the outturn on the 2019/20 capital programme, together with the financing for all schemes. The updated capital programme for 2020/21 to 2022/23 is attached at Appendix E.

5.2 The outturn position for the 2019/20 capital programme at Appendix D highlights where schemes have reprofiled between years. The reasons for reprofiling include where schemes have not progressed as originally planned, and the funding is requested to be carried forward to the new financial year, or where scheme have progressed ahead of schedule and there is a requirement to bring back funding from the 2020/21 budgets.

5.3 In total the expenditure on the capital programme for the year was £29,009,381 compared to an updated budget of £28,635,284 which resulted in a variance of £374,097. The variance was due to overspends on various schemes, offset by reprofiling as a result of projects not progressing as originally budgeted. Significant variances are detailed in the tables below.

5.4 There has been a requirement to reprofile from the 2020/21 budgets where schemes have either progressed slightly earlier than anticipated or where the level of expenditure has been higher than that profiled to be incurred during the financial year (see Table 3 for significant variances). The updated programme for 2020/21 onward (Appendix E) reflects these adjustments.

**Table 3 - Capital Schemes where re-profiling is required from 2020/21 Budget over £100,000**

| <b>Capital Scheme</b>                | <b>Re-profiled Amount<br/>£</b> |
|--------------------------------------|---------------------------------|
| Provision of Temporary Accommodation | 173,613                         |
| Fakenham Extra Care                  | 171,024                         |
| Splash Leisure Centre Re-provision   | 157,910                         |
|                                      |                                 |

- 5.5 Schemes completed in 2019/20 – In total there were eleven schemes within the capital programme which were identified as being completed during the financial year. Table 4 provides a summary of the schemes along with any final project variance, and commentary on financing implications where necessary.

**Table 4 - Capital Schemes Completed within the 2019/20 Financial Year**

| <b>Capital Scheme</b>                  | <b>Variance<br/>£<br/>( Under) /<br/>Over</b> | <b>Financing Commentary</b>  |
|--|---|--|
| Better Broadband for Norfolk           | 0   | This scheme is complete and on budget.   |
| Cabbell Park Car Park                  | (2,112)                                       | This scheme is complete with a small underspend.   |
| Purchase of Property Services Vehicle  | 17,525  | Additional vehicle purchased, funded by a revenue contribution.  |
| Splash Roof Repairs                    | 120,306                                       | Emergency roof repairs were required due to inclement weather. The scheme budget for 20/21 has been reprofiled, with the overspend funded by capital receipts. |
| Cromer Sports Hall                     | (894)   | This scheme is complete with a small underspend.   |
| Uniform Planning System                | 8,675   | Residual scheme costs met by capital receipts.   |
| Car Park Refurbishment                 | 2,546   | Residual scheme costs met by capital receipts.   |
| Document and Records Management System | 6,579   | This scheme is complete and the overspend is to be financed by capital receipts.   |
| Management Information Systems         | 58,040  | Residual scheme costs met by capital receipts.   |
| Planning System (Scanning Old Files)   | 46,556  | Residual scheme costs met by capital receipts.   |
| Multi-Functional Devices               | 15,074  | Residual scheme costs met by capital receipts.   |

- 5.6 Schemes which did not complete in 2019/20 and underspent their allocation for the year had their budget reprofiled into 2020/21. There were three schemes

with slippage in excess of £100,000 at outturn in the 2019/20 financial year as shown within table 5.

**Table 5 - Capital Schemes where re-profiling is required from 2018/19 Budget over £100,000**

| Capital Scheme                                    | Re-profiled Amount<br>£ |
|---|-------------------------|
| Compulsory Purchase of Long Term Empty Properties | 184,283                 |
| Shannoeks Hotel                                   | 424,735                 |
| Laundry Loke – Victory Housing                    | 100,000                 |

- 5.7 There were four schemes which did not complete in 2019/20, with overspends that could not be met by reprofiled approved budget from 2020/21. Table 6 details these variances, with funding implications. Any further budget requirement to complete the schemes in 2020/21 is detailed in section 6.

**Table 6 – On-going Capital Schemes with overspends 2019/20 Financial Year**

|   |         |   |
|---|---------|---|
| Deep History Coast  | 66,124  | The overspend related to the refurbishment of North Norfolk Information Centre due to higher than expected rewiring, heating and plumbing costs. Additional scheme costs have been met by capital receipts. |
| Cromer Pier – Steelworks and Improvements to Pavilion Theatre | 71,929  | Structural repair costs have been higher than expected, funded by the capital project reserve.  |
| Bacton and Walcott Coastal Management Scheme                  | 376,122 | The scheme spend to date is higher than the projected £21m. The overspend has been fully met by contributions and grant payments.   |
| Administrative Buildings                                      | 213,108 | Glulam and glazing repair costs have been higher than expected due to additional unforeseen works required, funded by capital receipts.   |

## 6 Capital Programme – 2020/21 Update

- 6.1 Appendix E shows the updated capital programme for the period 2020/21 to 2022/23. The capital programme has been updated to reflect the slippage identified within this report, together with the capital outturn position. It also included those schemes which received formal approval as part of the 2020/21 budget report and P10 monitoring report which went to Full Council in March.

- 6.2 Appendix E has been updated to include additional budget requested to complete current approved schemes in 2020/21. Table 7 details the budget required with funding implications for approval.

**Table 7 – Additional budget for approved schemes Capital Programme 2020/21**

| <b>Capital Scheme</b>   | <b>Additional Budget Requested 2020/21<br/>£</b> | <b>Financing Commentary</b>  |
|---|--|--|
| Deep History Coast  | 15,000   | Additional budget required for implementation of the final DHC point, to be met by capital receipts. |
| Cromer Pier – Steelworks and Improvements to Pavilion Theatre | 100,000  | Projected scheme completion costs, to be funded by the capital project reserve.                      |
| Bacton and Walcott Coastal Management Scheme                  | 408,744  | Grants unapplied 2019/20 to be used to fund final project spend.                                     |
| Administrative Buildings                                      | 50,000   | Anticipated scheme completion costs, funded by capital receipts.                                     |

- 6.3 The Holway Road Roundabout scheme has been cancelled since the budget 2020/21 was set. Therefore, the approved £100,000 budget has been removed from the updated budget in Appendix E.

- 6.4 The outturn position in respect of the Prudential indicators is also included for information within Appendix F.

## **7. 2020/21 Budget Implications and Financial Forecast 2021/22 Onwards**

- 7.1 The budget for 2020/21 was approved in February 2020. At the same time financial projections for the following three years to 2023/24 were also reported.

- 7.2 The forward financial projections from 2021/22 onwards make assumptions around the future funding from government support and known commitments and changes to service expenditure. Table 8 below provides a summary of the current forecast gaps for the next three years. The forecast for the next financial year has been updated recently as part of the COVID-19 Financial Implications report which went to Cabinet in July. The forecasts for the following two years are as per the forecasts contained within the February 2020 budget setting report. These forecasts will all be updated as part of the review of the Council's Medium Term Financial Strategy.

| <b>Table 8 – Current Reported Funding Forecast</b> |   |                               |                               |
|--|---|-------------------------------|-------------------------------|
|  | <b>2021/22</b><br><b>£000</b><br><b>(UPDATED)</b> | <b>2022/23</b><br><b>£000</b> | <b>2023/24</b><br><b>£000</b> |
| Current Funding Gap/(surplus) <sup>1</sup>         | 1,524   | 1,912                         | 2,209                         |

7.3 The forward projections of expenditure and income will be updated to take account of the outturn position and also other spending/income pressures that have been identified outside of the budget process. These will be reported to Members in the coming months as part of the Financial Strategy update to enable early preparation for the 2021/22 budget process. There is also an update on this agenda in relation to the impact of COVID-19 on the current 2020/21 budget and future years' position.

7.4 In addition, as part of the work on the financial strategy a review of all reserve balances will be carried out.

## **8 Financial Implications and Risks**

8.1 There is still considerable uncertainty around future years funding forecasts and this position will not improve until the outcome from the Fair Funding Review, which will set new baseline funding allocations and responding to spending pressures and changes in service demand, and the review of the Local Retention of Business Rates, are concluded. The Comprehensive Spending Review, which sets out the expenditure limits over the coming years has also been delayed due to the COVID pandemic. The more significant risks in relation to the outturn position for 2019/20 and the ongoing financial position are summarised below, all of which will now be impacted by COVID-19 in some way.

8.2 **Under and Overspends** - This outturn report has identified a number of underspends at the service level; some have occurred due to factors outside of the Council's control which has meant that expenditure has not been incurred as planned. Where applicable service underspends have been carried forward within Earmarked Reserves to fund one-off costs or where projects have been delayed until the 2020/21 financial year. Similarly, there have been some areas of overspending. Some of the underspends from 2019/20 which are in relation to ongoing savings have already been factored into the 2020/21 base budget and will be further reviewed as part of the production of the Medium Term Financial Strategy later this year along with any pressures on budget increases.

8.3 **Housing Benefit Subsidy** – as mentioned earlier in the report the outturn position includes the unaudited benefits subsidy position. Expenditure of £22.078 million has been incurred in the year to be recovered from subsidy payable by the Department for Work and Pensions (DWP). The final position will not be confirmed until the claim has been audited by the Council's external auditors and signed off by the DWP later in the year. Much of the risk around changes to the claim and subsidy recoverable is reduced by the Benefits Earmarked Reserve which is maintained to help mitigate the impact of any claw back from the DWP following the final audited subsidy claim. The nationwide

economic impact of COVID-19 has caused a spike in claimant numbers, the impact of which is considered elsewhere on this agenda.

- 8.4 **Temporary accommodation** – the Council saw a shortfall in housing benefit subsidy in 2019/20 of £263,985 of which £226,758 related to unrecoverable Temporary Accommodation costs. The Council is currently acquiring local properties to use directly to help manage the cost of this provision. This cost is however still increasing year on year at an alarming rate and will be closely monitored during the next financial year as the impact of COVID will undoubtedly cause this cost to increase further.
- 8.5 **Business Rates Retention Scheme** – Local Authority funding from business rates is open to risks around funding fluctuations due to increases and decreases in the rateable values (RV) of non-domestic properties and successful appeals against the RV. The NNDR 3 return is due to be submitted slightly later this year at the end of July (rather than April) as a result of COVID-19 and will be subject to external audit review as part of the final accounts audit work. Any changes to the figures included in the outturn position could have an impact on the General Fund balance. Furthermore, there is a risk of business rates appeals and whilst the NNDR returns do include assumptions around provisions for appeals and backdating, these elements could be subject to fluctuations. The Valuation Office Agency (VOA), who hear the appeals, currently have a backlog and are slow to clear outstanding appeals increasing the risk of the Council needing to pay out large refunds in rates. There is also an ongoing application from NHS Trusts for mandatory relief for their properties on the basis that they are used for non-profit making services. While the initial case ruled in favour of local authorities the NHS have appealed and the outcome of this is still not known. If the appeal were to be successful and the relief backdated, this would result in hundreds of millions of pounds across the country being refunded to the NHS from Councils. NNDC is exposed to this risk through the local pooling of business rates through the Norfolk Business Rates Pool. These risks are again however mitigated by the Business Rates Earmarked Reserve.
- 8.6 **Waste contract** – following the joint procurement exercise undertaken with Breckland District Council and Kings Lynn and West Norfolk Borough Council a new waste contract commenced with Serco in April 2020. Contract monitoring will be in place throughout the year to ensure that any efficiencies proposed within the new contract are realised and this will be supported by the budget monitoring process.
- 8.7 **Recycling costs** – The market for recyclate (such as glass and paper) remains volatile at the current time with many prices at historical lows which has caused, and looks set to continue to cause, significant losses for the contractor (NEWS). The contractor has signalled a risk to the continued viability of the contract if the position does not change and has approached the Councils regarding a contract change to share a larger proportion of the financial risk, primarily through a higher gate fee for the tonnage delivered. Discussions are ongoing between the Council members of the NWP and the contractor, and the position continues to be monitored and will be considered as part of the budget monitoring process for 2021/22, the MTFS and future year's budget as we progress through the year.
- 9 **Sustainability** – None as a direct consequence of this report.
- 10 **Equality and Diversity** – None as a direct consequence of this report.

11 **Section 17 Crime and Disorder considerations** – None as a direct consequence of this report.