

BUDGET MONITORING REPORT 2020/21 – PERIOD 6

Summary: This report summarises the budget monitoring position for the revenue account, capital programme and reserves statement to the end of September 2020. The report also provides an update on the financial impact of Covid-19 on the Council's Financial position.

Options considered: Not applicable.

Conclusions: The overall position at the end of September 2020 shows an £1,392,232 underspend for the current financial year on the revenue account, this is however currently expected to deliver a full year overspend of £421,435 which, as per the previous COVID update, is to be funded from reserves if required.

Recommendations: **It is recommended that Cabinet:**

- 1) **note the contents of the report and the current budget monitoring position;**
- 2) **recommend to Full Council the release of £247,083 capital receipts to increase the coastal adaption fund; reinvesting proceeds previously received from the sale of land.**

Reasons for Recommendations: To update Members on the current budget monitoring position for the Council.

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

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

System budget monitoring reports

Cabinet Member(s) Cllr Eric Seward	Ward(s) affected
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1. Introduction

- 1.1 This report compares the actual expenditure and income position at the end of September 2020 to the Updated budget for 2020/21. The original Base Budget as agreed by Full Council in February 2020 has been updated to reflect approved budget virements.
- 1.2 The report follows two previous COVID-19 financial updates provided to Members in May and August. At that time the anticipated year end deficit of c£1m was forecast to have reduced significantly from the previous May report to around £0.4m. It was however highlighted at that point that this projection was still based on a number of assumptions about future funding and income pressures and assumptions regarding further government support.
- 1.3 The report also provides an update on the impact of the Covid-19 pandemic on the council's financial position and likely outturn budget impact and provides a further update and follows the government announcement made on 2 July in respect of additional support towards lost income, the first claim for which has now been submitted.
- 1.4 The coronavirus COVID-19 pandemic continues to represent a significant challenge for the District Council which will continue to impact on the Council's resources and budget during 2020/21 and future years. This report sets out the current high level forecasts relating to the COVID-19 pandemic taking account of the latest central government support package.

2. Budget Monitoring Position – Summary

- 2.1 The detailed position for the various service areas is included later within the report, the table below highlights the current overall position and provides a summary of the full year projections for the service areas.

Table 1 - Summary of Full Year Effects 2020/21	Estimated Movement From Updated Budget
	£
Service Areas (Table 2) (non Covid-19)	121,606
Covid-19 Expenditure Impact	1,287,178
Covid-19 Income Impact	1,271,850
Investment Interest/Borrowing Interest	(222,021)
Business rates	0
First 3 tranches of Government support grant	(1,287,178)
First tranche of fees & charges support	(750,000)
Total	421,435

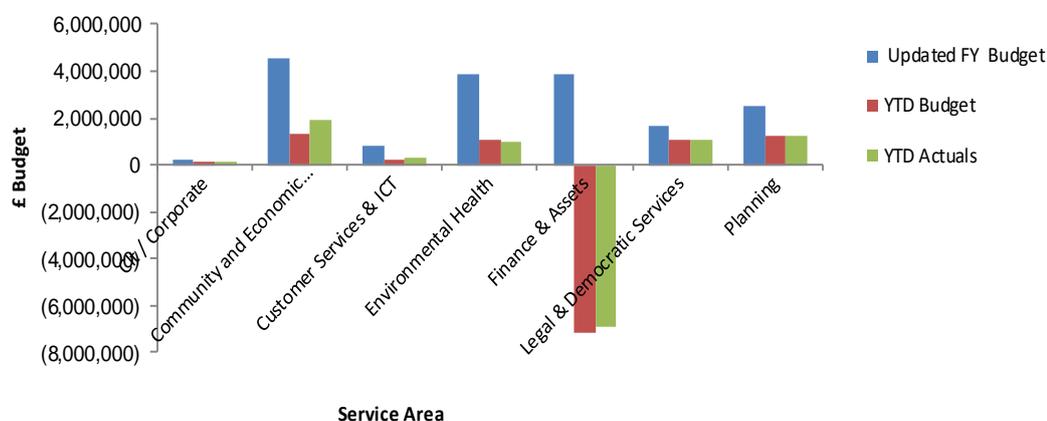
- 2.2 The table highlights that the current forecasts as at October 2020 are broadly in line with those reported back in August with a similar projected deficit of c£400k and as agreed within the last report is to be funded from reserves if further efficiencies cannot be found before the year end.
- 2.3 A fourth tranche of government support funding has recently been announced, we do not as yet have any idea what our individual allocation is likely to be but it is anticipated at the current time that it will be low as the focus has been identified as supporting those areas currently under third tier lockdown restrictions. At the present time therefore no additional income has been assumed from this funding source, if an

award is subsequently made we will be able to update the next monitoring report to reflect the amount confirmed.

3. Budget Monitoring Position – Revenue

3.1 The General Fund Summary at Appendix A shows the high level budget monitoring position as at 30 September 2020 and highlights a year to date variance of £1,392,232 underspend against the profiled updated budget. There is an over spend of £614,893 in relation to the service variances with the remainder relating to non-service specific budgets. The chart below illustrates these variances per service area and Appendix B provides further details of the individual service variances. The updated budget and actuals for the Finance and Assets area have been updated to include the expenditure and funding relating to business support and discretionary grants to businesses. There is a net underspend of £2,007,131 relating to non-service expenditure against the profiled budget. Details of these variances are included below.

Variance by Service area



3.2 Variances are reported against the updated budget in the Council's General Fund Summary as shown in Appendix A. Any budgets and reserves affected will be updated accordingly.

3.3 The following table shows the over/underspend to date for the more significant variances; this is compared to the updated budget. The estimated full year variance is what the likely financial position will be at the end of the financial year. **The Full Year Effect (FYE) position does not take account of variances that are directly attributed to Covid-19, as they are considered in more detail later in the report.** Full year savings resulting from changes in working practises have not been included in full year variances but continue to be closely monitored.

Table 2 – Service Variances	Over/ (Under) Spend to Date against Updated Budget	Estimated Full Year Variance Against Updated Budget
	As Per General Fund Summary	(Excluding Covid-19 Impacts)
	£	£
CLT and Corporate		
Human Resources and Payroll – Employee related expenditure including new appointment advertising costs.	£13,539	£13,663
Registration Services – Costs associated with the running of the European & General Election - to be funded from the Electoral Claims Unit.	£77,250	0
Corporate Leadership Team – (£56,029) - Lower salaries and oncosts as a result of staff vacancies. Due to the restructure, no saving is anticipated. (£3,086) - Other professional fees. The balance consists of minor variances.	(£66,362)	0
Communications - (£8,558) - Staff vacancies, no full year saving - to be used as part of the restructure. (£6,951) - Marketing. (£2,850) - Digital promotion - to be used for promotion of social posts to boost engagement/audience.	(£18,974)	0
Economic and Community Development		
Car Parking – £63,943 - Higher NNDR costs as a result of an increase in the multiplier and loss of transitional relief. £16,610 - Higher income from credit cards leading to higher charges. (£129,164) - Invoice for management fees not yet received. (£11,002) - Lower costs as part of the cleansing contract. (£7,775) - Contribution towards costs in relation to setting up a new car park at Millars Walk, Fakenham. £514,994 - Car park income lower due to Covid-19.	£447,719	£63,943
Markets – Lower fee income from market rentals as a result of Covid-19 restrictions and social distancing measures.	14,862	0
Leisure Complexes – (£80,498) - Rent/Hire of Buildings - No invoices received for the hire of school halls. £162,739 - Higher management fees - these represent contributions towards key workers and furloughed staff. £5,000 - Consultancy costs.	£96,037	0
Other Sports – (£8,498) - Open Space Study / overarching Consultation from New Homes Bonus reserve. (£7,602) - Salaries and oncosts - no full year variance anticipated.	(£34,265)	0
Pier Pavilion - No profit share as a result of Covid-19 pandemic.	£20,957	0

Foreshore (Community) - £5,200 - Contract extension costs. (£37,844) - New cleansing contract costs which are subject to bills of quantity. (£5,384) - Lower cost of memorial seat repairs.	(£41,785)	0
Health and Communities - (£9,232) - Arts grants. (£10,766) - A new Service Level Agreement is currently being discussed with the Citizens Advice Bureau. £27,568 - Fixed term staff funded by grants. (£9,000) - Grants awarded by the Big Society panel during prior years not yet claimed.	(£37,381)	0
Coastal Management – Staffing costs - to be funded from Reserves and contributions at year end.	£18,928	0
Customer Services and ICT		
ICT – Support Services - £13,814 - Higher salaries and oncosts. Fixed term posts funded from the Invest to Save reserve. £7,381 - Computer Software Licences due to the removal of the Microsoft Government Framework which delivered significant cost reductions on our Microsoft software. We are attempting to mitigate the impact of this by removing unused software licences and accessing a discount framework. Current estimates are that the increase will be around £30,000. £10,054 - Computer maintenance and computer lines / modems - delay in delivery of network upgrade. £46,578.55 - Computer Purchases - much of this expenditure is directly in support of providing laptops etc. as a part of the requirement to work at home as a consequence of the Covid-19 Response. The total cost of Covid-19 is £64,063.	£72,562	£30,000
Homelessness – Additional costs associated with providing temporary accommodation - this is offset by recoverable income from client contributions and housing benefit. In addition rough sleepers have been targeted and placed in temporary accommodation as part of the response to the Covid-19 Pandemic - these costs have been off-set by the Central Government grant allocation.	(£23,027)	0
Customer Services Housing – Temporary staffing to be funded from Homelessness Prevention grant.	£32,670	0
Environmental Health		
Public Protection – Licence fee income is down as a result of restrictions in place during the Covid-19 lockdown.	£50,888	0
Combined Enforcement Team – Vacant Team Leader post currently being used to fund temporary staffing within the department.	(£19,970)	0
Waste Collection and Disposal – (£58,461) Outstanding accruals from 2019/20 for services provided and no invoices yet received. (£70,297) Waste collection costs lower than budgeted - awaiting invoices from contractor. These savings are offset against contract extension costs of £26,998 to Kier. £8,830 Higher contract payments for recycling. Predicted shortfall in Trade Waste fees as a result of business closures during lockdown - currently estimated to be £150,000.	(£98,346)	

Finance and Assets		
<p>Revenue Services – Repaid Business Support grants. These repaid grants will be included in any unallocated balance of funding returned to Central government.</p> <p>Although not highlighting as a variance at P6 there is an estimated reduction in income from costs awarded of £100,000. This is as a result of reduced recovery action being taken during the pandemic</p>	(£59,011)	0
<p>Property Services – (£17,127) Vacant post held in the service offset by costs for advertising and Covid-19 related overtime. £7,872 Works in default to be funded from the Enforcement Board. £114,410 Repair and maintenance and purchase of equipment/consumables relating to Covid-19 and Return to the High Street Safely Fund (RHSSF).</p>	£117,722	0
<p>Public Conveniences – £29,250 - Higher repair and maintenance expenditure associated with Legionella risk assessments and corrective works, emergency lighting and fixed wire testing and repairs. (£18,990) Underspend in running costs for water and electricity (facilities closed during the pandemic) and offset by higher NNDR and cleansing costs.</p>	£18,999	£15,000
<p>Investment Properties – Option appraisals and structural surveys. Outstanding debtor accruals - invoices yet to be raised for recharge of insurance premiums and utility charges.</p>	£21,022	£20,000
<p>Corporate and Democratic Core – (£18,238) Staff costs as a result of Planning vacancies - this will be offset by temporary agency staff required to manage work load. £7,413 Payment to Local Enterprise Partnership (LEP) re Enterprise Zones. £7,623 Prior year's external audit costs. £46,671 Additional Covid-19 costs funded from the Central Government Grant. These include a Countywide mailshot and Community foodbank contribution.</p>	£30,073	£15,000
Legal and Democratic Services		
<p>Members Services – Year to date savings in training and travel costs as a result of the pandemic and changes in working practices. Underspend In Chairman's Civic expenditure. These savings are predicted to deliver a Full Year Effect of £16,000.</p>	(£21,834)	(£16,000)
<p>Legal Services – £9,970 Employee Costs. £14,537 Income generated from legal fees. No full year is anticipated as the net position will be funded from the legal earmarked reserve.</p>	£22,717	0
Planning		
<p>Development Management – The variance at period 6 relates predominantly to Planning fee income. During the initial lockdown period planning income drastically reduced, although there are signs that this is starting to improve - a full year variance of £150,000 is still predicted.</p>	£99,391	0
<p>Planning Policy – (£24,030) Staff turnover savings resulting from a vacant post. (£47,446) Delays in Local Plan profiled expenditure.</p>	(£73,153)	(£20,000)

Building Control – £19,854 Building Control fee income down due to Covid-19 restrictions, The full year effect of the pandemic is estimated to have a 10% reduction in full year fee income. This equates to £38,000.	£10,339	0
Property Information – (£13,309) Increase in Land Charge income currently unaffected by the pandemic. No full year variance has been reported as this is a self-financing service and net surplus/deficit will be transferred to the earmarked reserve.	(£15,641)	0
TOTALS	£655,926	£121,606

4. Covid-19 Position – Impact on Budget Monitoring Position P6

4.1 Covid-19 Grants and Additional Expenditure

4.2 In response to the pandemic, the council has received a number of grants from Central Government, many of these are targeted at providing direct support to local businesses in sectors greatly affected by the Covid-19 restrictions but it has also acknowledged the ongoing service delivery pressures facing district councils.

4.3 North Norfolk District Council has received three tranches of support grant from the Ministry for Housing Communities and Local Government (MHCLG) totaling £1,287,178. The expenditure allocated against this grant is closely monitored and monthly updates are submitted to MHCLG. The grant has not currently been allocated to service budgets and therefore the expenditure is currently showing as a variance at net cost of service level. A high level breakdown of this expenditure is shown in table 3 below, along with the projected Full Year Effect (FYE). The support grant income is identified on the General Fund Summary under Local Taxation and Government Grant, which also includes £330,029 successfully drawn down to support the tourism sector, and a package of support measures are being devised to allocate this funding.

Table 3 – Covid-19 Expenditure included in the Net Cost of Services

Category of Spend	YTD	
	Actuals P6 2020/21 £	Estimated FYE 2020/21 £
Additional Publicity Communications with Residents and Community	35,619	35,610
Additional Contractor support - Leisure	172,582	526,944
Additional Homelessness Support	77,163	78,231
Additional IT Costs, including laptops for homeworking and service specific software	76,125	105,026
Additional Banking Costs	861	861
Changes to assets	81,532	80,000
Delayed schemes/ cancelled events	1,200	2,200
Finance and Corporate other	4,179	4,179
Food banks and Community support	11,773	11,773
Extrenal Resource Support - Agency/ Civica on Demand		38,000
PPE and Public Safety	15,654	20,000
Staffing /Overtime	72,507	81,280
Support to affiliated companies - VNN	9,000	18,000
Borrowing Costs		15,000
Unallocated Grant		270,074
Grand Total	558,196	1,287,178

4.4 Covid-19 Update on Income Variances

4.5 As highlighted at Period 3, the greatest financial impact that faces the council is income reductions, the position at Period 6 shows a deficit of £470,681 against the year to date profiled budget. This position has greatly improved on earlier predictions largely due to a significant recovery in car park income after lockdown restrictions were lightened in the summer.

4.6 At Period 3 it was noted that the government had announced a support package relating to losses from fees and charges income, although there were some areas specifically excluded such as commercial rents and investment income.

4.7 The first MHCLG income (fees and charges) claim was submitted on 8 October for £435k and has been calculated as per below. The lost income for the period from April through to July for qualifying areas was £766k.

	£000
Calculation of 5% deductible	
Total budgeted income 2020/21 for qualifying areas	3,782
5% deductible calculation	(189)
Calculation of MHCLG support	
Lost income (Apr – July)	769
Less 5% deductible	(189)
Gross income	580
75% MHCLG support	435

4.8 In terms of the overall claims position we are estimating that the total potential eligible claim for 2020/21 will amount to c£1m which would mean grant income of £0.75m based on the intervention rate of 75%.

4.9 A breakdown of variances by main income streams is shown below. It is still anticipated that the full impact on 2020/21 budgets will be a shortfall of £1,271,850. A breakdown of this variance is detailed in chart 3 below.

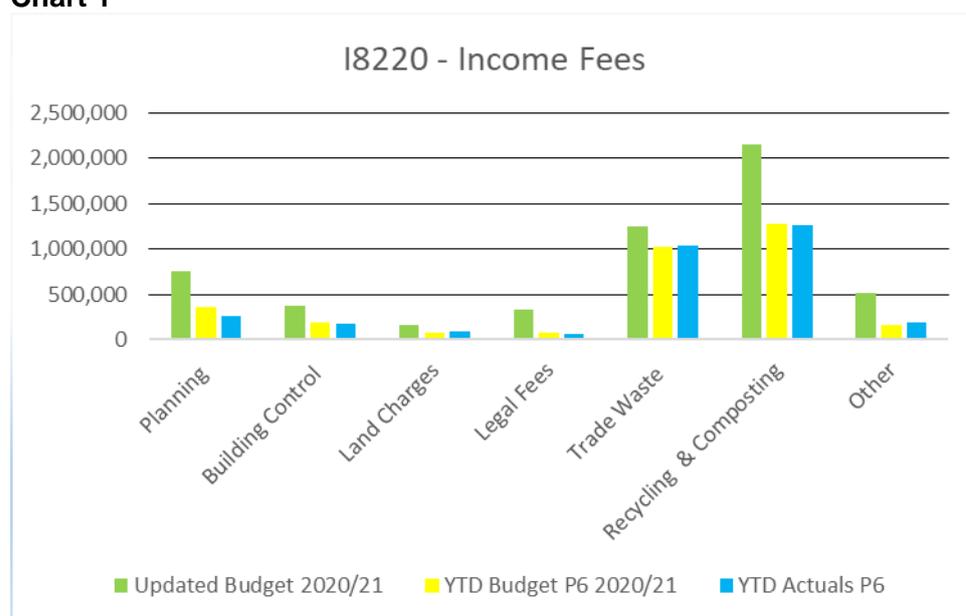
I822 - Income Fees and Charges

I8220 - Fees

Income - Fees

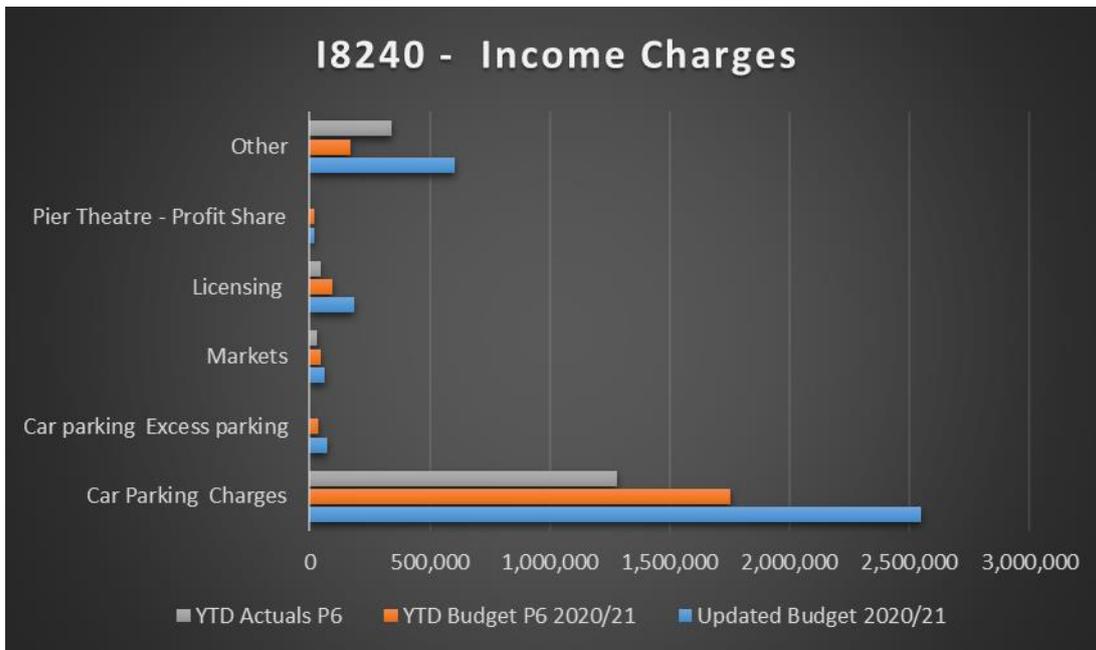
	YTD			YTD Variance
	Updated Budget 2020/21	Budget P6 2020/21	YTD Actuals P6	
Planning	(751,500)	(365,748)	(267,129)	98,619
Building Control	(380,000)	(189,996)	(170,086)	19,910
Land Charges	(162,190)	(81,096)	(93,099)	(12,003)
Legal Fees	(329,896)	(77,544)	(63,182)	14,362
Trade Waste	(1,255,000)	(1,026,250)	(1,030,382)	(4,132)
Recycling & Composting	(2,144,861)	(1,270,800)	(1,267,276)	3,524
Other	(508,278)	(164,197)	(194,591)	(30,394)
	(5,531,725)	(3,175,631)	(3,085,745)	89,886

Chart 1



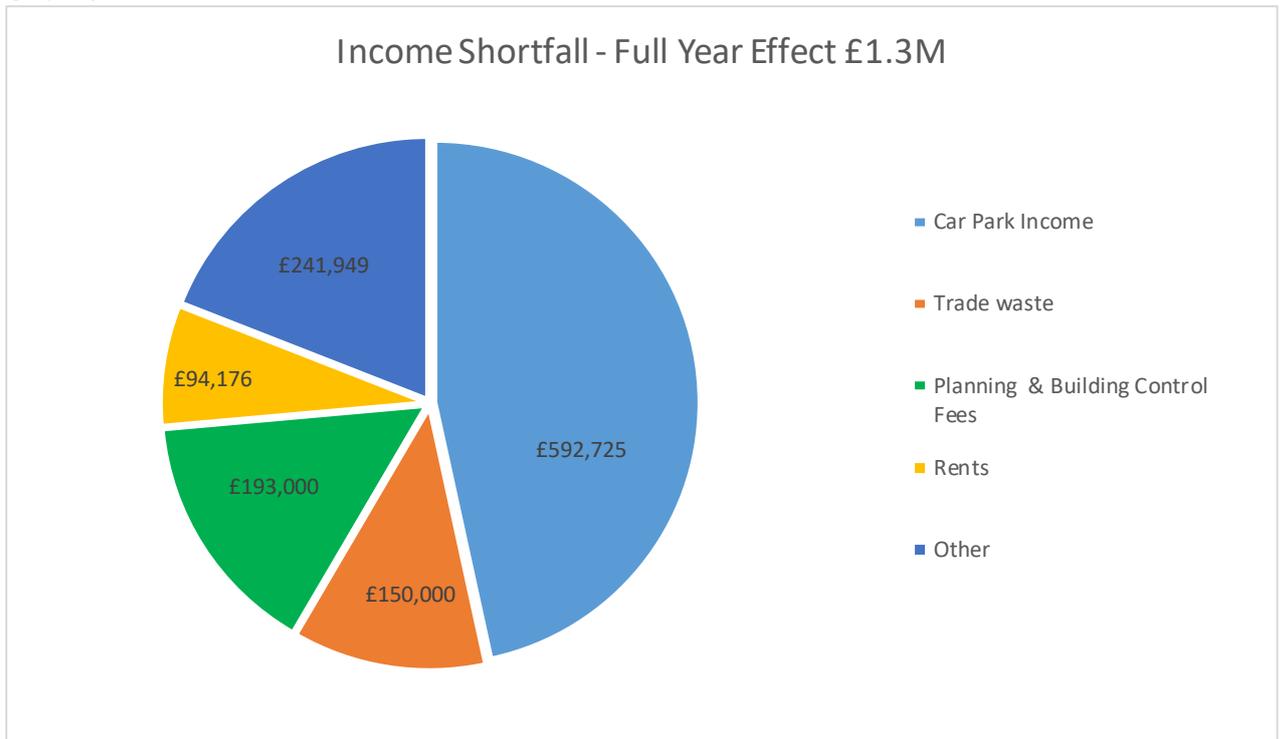
I8240- Income - Charges

	YTD			YTD Variance
	Updated Budget 2020/21	Budget P6 2020/21	YTD Actuals P6	
Car Parking Charges	(2,544,900)	(1,750,414)	(1,295,456)	454,958
Car parking Excess parking	(70,490)	(35,244)	28	35,272
Markets	(63,654)	(45,534)	(30,230)	15,304
Licensing	(187,000)	(92,250)	(45,357)	46,893
Pier Theatre - Profit Share	(20,000)	(20,000)	0	20,000
Other	(605,610)	(167,839)	(343,219)	(175,380)
	(3,491,654)	(2,111,281)	(1,714,234)	397,047



The balance that makes up the year to date income variance of £470,681 is in relation to rent of land and buildings and has a favorable variance of £16,252 at P6.

Chart 3



4. Non Service Variances to Period 6 2020/21

4.1 Investment Interest

The interest budget for 2020/21 anticipates that a total of £1,323,300 will be earned from treasury investments and a loan for service purposes to Broadland Housing Association. Overall an average balance of £41.2m is assumed, at an average interest rate of 3.5%.

At the end of period 6, a total of £697,870 has been earned, resulting in a favourable variance against the year to date budget of £36,222. The average rate of interest achieved was 2.35% from an average balance available for investment of £59.5m. At the end of the year a favourable variance against the budget of £58,464 is anticipated. The investment balance is forecast to be above budget due to additional payments received from central government in response to Covid-19. However, against this the interest rate achieved will be below the budget figure due to current market conditions. There are significant risks to this forecast in the current uncertain economic environment, where negative interest rates are a potential future possibility.

A total of £32m has been invested in pooled funds which are valued at £31.3m at the end of period 6. The reduction due to the impact of the global pandemic on equity funds. This is however, an improvement of £1.2m from the 31st March 2020, where pooled funds were valued at £30.1m.

The Council has a balanced portfolio with a diverse range of funds investing in different instruments. The Council can expect the valuation of its pooled investments to continue to be volatile, but this is in line with expectations when the investments were placed. The risks inherent in the volatile nature of these investments are mitigated as the Council intends to hold them for the long term.

4.2 Borrowing Interest

The budget for 2020/21 anticipates that £10,000 would be paid in interest for short-term borrowing for cash flow purposes.

At period 6, a total of £1,447 has been paid resulting in a favourable variance against the budget of £3,553. There has been a lower requirement for short-term borrowing due to increased cash inflows associated with Covid-19 related central government payments. At the end of the year a favourable variance against the budget of £7,107 is anticipated.

Interest for long-term borrowing has been budgeted for £348,100 for financing the re-provision of Splash Leisure Centre and purchase of waste vehicles.

At period 6, there had been no commitments to long-term borrowing for capital purposes. At end of the year, if long-term borrowing is not undertaken a favourable variance of £312,900 against budget is forecast, although at the present time we are only assuming 50% of this (£156,450). This may change dependent on future cash inflows and the timing of the repayment of excess grant funding from central government. The decision to undertake short-term or long-term borrowing will be made in line with our borrowing strategy.

4.3 Retained Business Rates

There is currently no variance showing against Non Domestic Rates income for the financial year. Any unspent allocation from the Section 31 grant used to reimburse the authority for new reliefs announced by the Government to support businesses with the effect of COVID will have to be repaid at the end of the year, having been paid to councils in advance to support with cash flow requirements. The final variance will not be known until the NNDR3 form is completed at the end of the year and the grant actually due to the authority has been determined.

The COVID pandemic is having adverse effects on collection rates for Non Domestic Rates, but this will not impact income recognised in the General Fund until next financial year. Due to the potential severity of this, MHCLG have confirmed that

authorities will be able to spread the surplus or deficit on the Collection Fund over three years. The accounting for this is still being worked out, and it is not possible at this time to say what the impact on NNDC will be. The sector is also lobbying central government to recognise the potential impact of this on next year's budgets with a view to providing additional financial support.

5 Budget Monitoring Position – Capital

5.1 Total Capital expenditure amounted to £2,874,627 across all projects in the first half of 2020/21. The Capital Programme has been updated to reflect changes agreed in the first half of 2020/21 and can be found at Appendix C. Since the last report to Cabinet the following changes have been made:

- HR Information System – £108,100 has been removed from the capital programme as associated costs are licences paid annually that will be met from the revenue budget.
- Revenues & Benefits Civica (Open Revenues) System - £100,000 has been removed from the capital programme as implementation costs included in the bid will not occur due to remaining with the current supplier.
- Bacton Car Park – £30,000 from the Asset Management Reserve was agreed under delegation to increase the budget to fund electrical supply and additional site costs.
- Concerto Asset Management System - £25,000 from the Asset Management Reserve was agreed under delegation for system acquisition costs required for the renewal of our current property software database.
- North Walsham Heritage Action Zone – £1,170,000 additional LEP funding has been secured for town centre place-making, increasing the scheme cost to £3,120,000. This was agreed by Cabinet in September. The original budget of £1,950,000 was approved to be met 50:50 by Historic England and Capital Receipts. The budget has been re-profiled to reflect the 4 year planned programme of works.
- The following budgets have been re-profiled into future years to reflect programme of work revisions, or known delays associated with further decision making or the impact of Covid-19:

Scheme	Budget Re-profiled
Rocket House	(£39,619)
Cornish Way	(£137,574)
North Walsham Heritage Action Zone	(£1,478,500)
Unit 1 & 2, Surf Lifesaving School, Cromer	(£55,000)
Cromer Coast Protection Scheme	(£1,742,878)
Mundesley – Refurbishment of Coastal Defences	(£1,545,843)
Steelwork Protection to Victory Pool and Fakenham Gym	(£27,467)
Cromer Office LED Lighting	(£60,000)

5.2 Further release of funds is requested at this time for the following Capital projects;

- Coastal Adaptions – £247,083 is requested from Capital Receipts to increase the coastal adaption fund; reinvesting proceeds previously received from the sale of land.

6 Reserves

The Council's current Reserve Statement is shown at Appendix D, this gives the latest position of amounts allocated to services and the capital programme and also includes known commitments that have not yet been allocated to services. A more detailed breakdown of the purpose of the current reserve allocations is included at Appendix D1. Projections for 2021/22 and beyond have not been updated but a reminder of what each allocation is for is included.

8 Conclusion

- 8.1 The revenue budget is showing an estimated full year overspend for the current financial year of £421,435. The overall financial position continues to be closely monitored and it is anticipated that the overall budget for the current year will be achieved.
- 8.2 The previous COVID finance report secured reserve funding to support with the anticipated £400k deficit which has only changed marginally based on current forecasts. The use of reserves will be a last resort, the Council will continue to try and address any forecast deficit by looking to make further savings and reallocate resources within the current budget as the reserves are already under pressure and only represent a one-off source of funding which is not sustainable in the medium term. Should the Council not be able to make these adjustments in year then reserves will be required to balance the budget.

9 Financial Implications and Risks

- 9.1 The detail within section 3 of the report highlights the more significant variances including those that are estimated to result in a full year impact.
- 9.2 The estimated outturn shown in Table 1 will continue to be monitored during the year.

10 Sustainability - None as a direct consequence from this report.

11 Equality and Diversity - None as a direct consequence from this report.

12 Section 17 Crime and Disorder considerations - None as a direct consequence from this report.