



REPORT of DIRECTOR OF RESOURCES

to
STRATEGY AND RESOURCES COMMITTEE
19 NOVEMBER 2020

BUDGETARY CONTROL (APRIL – SEPTEMBER 2020)

1. PURPOSE OF THE REPORT

- 1.1 To provide the Committee with information in relation to financial performance over the period 1 April 2020 to 30 September 2020.

2. RECOMMENDATION

That Members note the contents of this report.

3. SUMMARY OF KEY ISSUES

- 3.1 This report sets out the financial position and performance of some of the key areas of the Council's services / activities for the first six months of the financial year.
- 3.2 The basis of identifying the variance is against the profiled budgets based on budget manager's knowledge of expenditure and income patterns over the financial year.

4. REVENUE BUDGETS

- 4.1 The following table is an overview of current service forecast budget variances for the whole Council. It shows that employee costs make up just over half of Maldon District Council's (MDC's) gross expenditure and that there is a total current forecast overspend of £2.7m. Additional non-ringfenced government grants have been received to offset some of the service impact of COVID-19 and these are shown in Table 5.

Table 1 – Gross Service Income and Expenditure

Spend Type	Budget £000	% of Gross Exp	Forecast Variance £000
Employee Costs	7,940	53	50
Non-Employee Costs	7,112	47	826
Gross Expenditure	15,052	100	876
Income	7,400		1,672
Net Service Expenditure	7,652		2,548

Note – Excludes Housing Benefit payments and Bradwell B which are cost neutral.

- 4.2 The next table shows the top eight expenditure areas for MDC, along with their respective percentages of total expenditure and forecast variances.

Table 2 – Top Expenditure Areas

Expenditure	Budget £000	% of Exp	Forecast £000	Forecast Variance £000	Actuals to end Sep £000
1. Refuse and Recycling	3,090	43%	3,260	170	1,144
2. IT Software and Hardware	616	9%	675	59	330
3. Street Cleansing	492	7%	492	0	211
4. Business Rates	286	4%	286	0	283
5. Homelessness Accommodation	184	3%	184	0	43
6. Housing Benefit Overpayments	160	2%	120	-40	58
7. Leisure Centre Management Fee	143	2%	637	494	230
8. Insurance	136	2%	136	0	68
Total	5,107	72%	5,781	683	2,367

4.3 Variance Analysis

4.3.1 The forecast overspend of £170,000 for refuse and recycling due to domestic waste increasing significantly due to more people working from home, and increased gardening activities during furlough since the advent of the pandemic. As this budget is 43% of MDC's total expenditure budget, a detailed break-down of refuse, recycling and street cleansing is shown in **APPENDIX 2**.

4.3.2 The forecast IT overspend of £59,000 is due to the upgrades on the Revenues and Benefits Academy system required to process the business grants and other government support packages. A detailed break-down of ICT expenditure is shown in **APPENDIX 4**.

4.3.3 Street Cleansing has continued as normal this year and is expected to finish on budget.

4.3.4 The Council needs to pay Business Rates on its own premises. These have already been charged for the financial year and reflect their budget.

4.3.5 Homelessness Accommodation shows no variance as grant income will either be fully spent or carried to future years.

4.3.6 Housing Benefit Overpayment cases are reducing due to ongoing migration to Universal Credit, therefore a net underspend of £40,000 on overpayments is expected.

4.3.7 Compensation payments have been incurred by MDC due to the leisure service provider not being able to meet its income targets during and after the Covid-19 lockdown. Negotiations with the provider have mitigated this, however an overspend of £494,000 is still forecast.

4.3.8 We have an annual contract with Zurich valued at £136,000 for Insurance which the budget and forecast reflect, so there is no expected variance.

4.3.9 In addition, a further £133,000 was included in the budget as a central saving to be achieved. Due to the pandemic, identification of how £133,000 of saving will be delivered has not been possible in the year and is included as a budget variance.

4.4 The table below shows the top income areas for MDC, along with their respective percentages of total income and forecast variances.

Table 3 – Top Income Areas

Income	Budget £000	% of Income	Forecast £000	Forecast Variance £000	Actuals to end Sept. £000
1. Refuse and Recycling	2,021	27%	2,171	(150)	861
2. Car Parking (including Promenade Park)	1,280	17%	608	672	472
3. Development Control Fees	823	11%	841	(18)	306
4. Blackwater Leisure Centre	629	9%	0	629	0
5. Essex County Council (ECC) Council Tax Sharing Grant	207	3%	138	69	103
6. Homelessness Grant	178	2%	112	66	114
7. Building Control Fees	144	2%	130	14	75
8. Cemeteries	140	2%	121	19	46
9. Housing Admin Benefit Grant	130	2%	118	12	54
10. Properties / Leases	129	2%	129	0	76
11. Land Charges	124	2%	106	18	39
12. Springfield Industrial Estate	115	2%	115	0	69
13. Splash Park Income	110	1%	0	110	0
Total	6,030	82%	4,589	1,441	2,215

4.4.1 Variance Analysis

4.4.1.1 Refuse and recycling income has increased significantly due to additional recycling credits payment and new garden waste customers. However, the income share from recycle paid by Suez has reduced due to market prices. As this budget is 27% of MDC's total income budget, a detailed break-down of refuse, recycling and street cleansing is shown in **APPENDIX 3**.

4.4.1.2 Income from car parking in the town centres and Promenade Park was reduced greatly due to the pandemic lockdown. Even after the high street and some of the Promenade Park attractions have reopened, car parking hasn't returned to normal levels. Hence an income underachievement of £672,000 has been forecasted.

4.4.1.3 The Development Control forecast overachievement of £18,000 is based on indications of what will be processed after the delay during lockdown.

4.4.1.4 The Blackwater Leisure Centre contract includes income to MDC of £629,000, as budgeted. As the service provider has not earned the income they will not be able to pay the Council this financial year.

- 4.4.1.5 ECC Council Tax Sharing Grant - due to the impact of Coronavirus a loss of 50% of additional income from precept adjustment is anticipated, although losses are being mitigated by government support of £150 per Local Council Tax Support (LCTS) case. Hence the forecast underachievement of £69,000.
- 4.4.1.6 It is uncertain whether further homelessness grant will be received with year.
- 4.4.1.7 The Building Control forecast underachievement of £14,000 is based on indications of what will be processed after the delay during lockdown.
- 4.4.1.8 There was a discount on burial fees during lock-down so Cemetery income is forecast to underachieve this year by £19,000.
- 4.4.1.9 Housing Benefit Administration Grant was reduced this year by the Department for Work and Pensions (DWP) causing a £12,000 budget underachievement.
- 4.4.1.10 MDC is invoicing for property leases as usual this year and indications are that these are being paid. Hence no variance from the budget.
- 4.4.1.11 There were a low number of land charges incurred during lockdown and this is not expected to fully recover by the end of this financial year, leaving a forecast underachievement of £18,000.
- 4.4.1.12 The Council is invoicing for ground rent for the Springfield Industrial Estate as usual this year and indications are that these are being paid. Hence no variance from the budget.
- 4.4.1.13 The splash park in Promenade Park was not opened this year due to Coronavirus.
- 4.4.1.14 Loss of income from various events (£81,000), including those at Promenade Park, and beach hut hire (£36,000) makes up most of the remaining income variance.

4.5 **APPENDIX 1 – Salary Monitor as at 30/09/20**

- 4.5.1 The final national pay award gave staff a 2.75% pay-rise, although only an estimated 2% pay-rise was budgeted for. This has been mitigated by services holding some vacancies and therefore a small underspend is forecast.
- 4.5.2 The forecast on **APPENDIX 1** shows an expected salary overspend of £50k due to the additional efforts needed to manage the coronavirus crisis.
- 4.5.3 The next table sets out the Council’s total anticipated overspend, less mitigating Covid-19 grants from Central Government.

Table 5 – Total Budget Variance

	Variance £000
Net Service Expenditure	2,710
Council Tax and Business Rates	200
Investment Returns	72

	Variance £000
Pension Adjustment	(380)
COVID Grant	(899)
Income Compensation Scheme	(1,000)
Total Budget Variance	703

- 4.5.4 Income from local taxation is estimated to reduce by £200,000 following a decrease in council tax collection by 1.5% and 3.5% for business rates compared to last year.
- 4.5.5 Interest rates have decreased significantly since the pandemic and the Council's external treasury advisors have updated their forecast with a £72,000 reduction in returns.
- 4.5.6 Following the budget review as part of the COVID-19 response, it was identified that an increase in the statutory adjustment was required in relation to the pension interest costs and expected net return on assets. This recognises the adjustment required between accounting basis and funding basis under regulations.
- 4.5.7 The Government has paid the Council a grant totalling £899,000 to provide financial support for the costs incurred because of the pandemic. In addition to this, government have launched an income compensation scheme to reimburse Council's for the loss of fees and charges.
- 4.5.8 Reimbursement is offered at a rate of 75% on 95% of losses below budget on eligible income. Compensation is yet to be confirmed but it is estimated c£1m of compensation will be received by the Council. Losses of investment income aren't eligible therefore none of the £72,000 investment returns losses will be reimbursed.

4.6 **Table 6 – Predicted General Fund Balance**

	£000
Opening General Fund Balance	5,481
Budgeted Use of Reserve	(872)
Variance	(703)
Closing General Fund Balance	3,906

- 4.6.1 This table shows that the general fund balance would remain above the minimum recommended level of £2.6m. A minimum level of reserve is set to ensure the Council has the financial resilience to respond to emergencies and unforeseen events such as the current pandemic. However, if it did fall below the minimum level it would need to be replenished in future years.

4.7 **APPENDIX 5 – Capital Projects Monitor as at 30/09/20**

- 4.7.1 This appendix lists the capital projects in progress this year. Despite low spend so far, many projects are still in the procurement process, so expenditure will rapidly increase during the second half of this financial year. All capital projects are expected to be completed by 31 March 2021.

5. CONCLUSION

- 5.1 The advent of the Coronavirus Pandemic has had a direct impact on the Council's ability to operate within its budget. It has resulted in huge income shortfalls and large overspends. Government grants have mitigated but not fully compensated MDC for this, leaving a large budget shortfall to come out of the General Fund.
- 5.2 Ongoing responsible Budget Control is required not to exacerbate this position. It is worth noting the level of Government grant is dependent on the Council's ability to measure its losses in the various government returns. E.g. whether a budget relates to income or expenditure attracts differing reliefs. This has required and still requires careful analysis, conscientious pursuit of income and spending discipline as Covid grants do not cover 100% of Covid losses.
- 5.3 It is also important to note that some expenditure and income items are accounted for at the end of the year, whilst not all income due to the Council for chargeable work or services performed by the Council or payments by the Council for work or services it has purchased / received as at 30 September 2020 will be included in the figures above due to process lags. The information within this report is that which is recorded in the Council's financial management system up to 30 September 2020.

6. IMPACT ON CORPORATE GOALS

- 6.1 This report links to the corporate goal of 'delivering good quality, cost effective and valued services'.

7. IMPLICATIONS

- (i) **Impact on Customers** – None directly.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – No corporate risk issues associated with this report.
- (iv) **Impact on Resources (financial)** – Variances from the budget will impact upon the level of balances and/or reserves available in the future.
- (v) **Impact on Resources (human)** – None.
- (vi) **Impact on the Environment** – None.

Background Papers: None.

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