

# East Herts Council Report

## Executive

**Date of Meeting:** 30th March 2021

**Report by:** Councillor Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

**Report title:** Quarterly Corporate Budget Monitor – Quarter 3 December 2020

**Ward(s) affected:** ALL

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## Summary

- To provide a report on financial monitoring for East Herts Council for 2020/21 as at 31<sup>st</sup> December 2020.
- The net revenue budget for 2020/21 is £10.667m as set out in table 1, this is funded by Council Tax. The forecast outturn as at 31st December 2020 predicts an overspend of £159k at the year end.
- The revised capital budget for 2020/21 is £64.323m, of which £27.401m is estimated to be carried forward to future years.

## RECOMMENDATIONS FOR EXECUTIVE COMMITTEE:

- a. The net revenue budget forecast overspend of £159k in 2020/21 be noted (table 1);**
- b. The revised capital budget for 2020/21 is £64.323m, of which £27.401m is estimated to be carried forward to future years be noted (paragraph 5.1.1);**

## 1.0 Proposal(s)

1.1 Not applicable

## 2.0 Background

- 2.1 This report sets out the financial position for the financial year 2020/21 to date and provides forecasts for the outturn position.
- 2.2 The Council's revenue budget is made up of 5 areas; these are shown in table 1. The report that follows provides details of the forecast outturn position against these areas.
- 2.3 The 2020/21 Budget was set by Council on 29<sup>th</sup> January 2020. The Council's income and expenditure has been impacted by the Covid-19 pandemic, as previously reported to Audit & Governance & the Executive. This report contains estimates of the Covid-19 income loss scheme funding from the government to support the loss of fees and charges income and also Local Authority support grant.
- 2.4 The income loss scheme will involve a 5% deductible rate, whereby councils will absorb losses up to 5% of their planned sales, fees and charges income, with the government compensating them for 75p in every pound of relevant loss thereafter.

Table 1 – 2020/21 Revenue Forecast Outturn

<b>Original Budget 2020/21</b>	<b>Forecast outturn</b>	<b>Variance</b>
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	£'000	£'000	£'000
Net Cost of Services	15,511	17,218	1,707
Corporate Budgets	830	830	-
Capitalising Salaries	(150)	(62)	88
Net Use of Reserves	732	899	167
Funding	(6,256)	(8,059)	(1,803)
<b>Net Revenue Spend</b>	<b>10,667</b>	<b>10,826</b>	<b>159</b>
Funded by Council Tax	(10,667)	(10,667)	-
<b>Overspend / (Underspend)</b>	<b>-</b>	<b>159</b>	<b>159</b>

2.5 The report contains the following sections and Appendices:

Background Report Sections	
2.6	Net Cost of Services
2.18	Corporate budgets
3.0	Reserves
4.0	Funding
5.0	Capital budgets
6.0	Debtors

Appendices	
A	Capital
B	Debtors

## 2.6 Net Cost of Services

2.7 The Councils net cost of services budget for 2020/21 is £15.511m. An overspend of £1.707m is forecast in 2020/21. Table 2 overleaf shows this current forecast outturn position broken down by service area.

Table 2 – Net Cost of Services

	<b>Original Budget 2020/21</b>	<b>Forecast outturn</b>	<b>Grant funding</b>	<b>Revised outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Chief Executive & Directors	383	390	-	390	7
Communications, Strategy & Policy	1,286	1,216	-	1,216	(70)
HR & Organisational Development	540	480	-	480	(60)
Strategic Finance & Property	1,595	1,955	-	1,955	360
Housing & Health	2,695	2,704	(40)	2,664	(31)
Democratic and Legal	1,269	1,218	-	1,218	(51)
Planning & Building Control	915	1,845	(422)	1,423	508
Operations	3,665	6,592	(1,975)	4,617	952
Shared Revenues & Benefits Service	1,683	1,683	-	1,683	-
Revenues & benefits retained costs	(386)	(402)	-	(402)	(16)
Housing Benefit Subsidy	(550)	(367)	-	(367)	183
Shared Business & Technology Services	2,417	2,341	-	2,341	(76)
<b>Total Net Cost of Services</b>	<b>15,511</b>	<b>19,655</b>	<b>(2,437)</b>	<b>17,218</b>	<b>1,707</b>

2.8 The use of reserves to fund Net Cost of Services expenditure is included in section 3.0.

2.9 Communications, Strategy & Policy

A forecast underspend of £70k is reported against this service. This is driven by salaries of vacant posts mostly from customer service roles whose recruitment has been put on hold since the pandemic as neither the Wallfields or Charrington's House reception is fully open meaning fewer staff are needed.

2.10 HR & Organisational Development

A forecast underspend of £60k is reported. Most of this relates to an underspend on salary budgets due to having a lower number of apprentices than initially expected. As previously reported, recruitment was delayed initially due to the pandemic's impact on apprenticeship courses and whilst budgets were reviewed. Leadership Team have also reduced the number of apprentices, from 6 to 4, to ensure budget is maintained in years 1 and 2.

2.11 Strategic Finance & Property

A forecast shortfall in income of £360k is reported. As reported previously, this relates to:

- £41k reduced rental income from Charrington's House in relation to the current nationwide pandemic.
- £51k increase in service charge and business rates costs due to vacant space in building as

site is to be redeveloped.

- £200k underachievement of the financial sustainability saving target due to delays in acquisitions, again caused by the pandemic
- £54k reduction in income from Millstream relating to loan interests due to timing of property purchases.

#### 2.12 Housing & Health

A forecast underspend of £31k is reported for this service. This efficiency has primarily arisen from streamlining out-of-hours call-handling and proactively managing vacancies. This has offset reduced licence fee income due to Covid 19 net of government grants to cover losses.

#### 2.13 Democratic and Legal

A forecast underspend of £51k is reported. Of this, £38k relates to salary underspends in Democratic services and £13k savings identified in Elections services.

#### 2.14 Planning and Building Control

The service is forecast to be over budget by £508k as a result of reduced income and additional costs. Income is suppressed due to the impact of Covid-19 and the local impact of a national downward trend in application fee income and changes to the planning system. Figures in this report are net of anticipated grant income received to cover losses in fees and charges. Unbudgeted expenditure of £110k in relation to appeals costs in relation to Little Hadham and other sensitive planning and enforcement cases has been incurred in 2020/21. This also includes a number of judicial reviews against planning decisions that the Council has taken.

#### 2.15 Operations

A forecast overspend of £952k is reported against the Operations service as a result of the continued impact

of Covid-19 on income streams, particularly car parking income, and contract expenditure. This is net of anticipated grant income received to cover losses in fees and charges.

Not all income streams are eligible to receive government funding. Increased tonnages of waste as a result of national lockdowns and has impacted on both the income from sale of kerbside dry recyclables, where a loss of £239k is forecast, and also in a loss of income from the Alternative Finance Model (AFM) of £370k. The County Council uses the AFM to reward Districts and Boroughs for recycling rates by redistribution of recycling credit.

An increase in materials handling costs of £100k is also forecasted due to increased contract charges as a result of Covid-19.

#### 2.16 Revenues & Benefits Retained Costs

The revenues and benefits retained costs budget is forecast to overachieve by £16k. This is made up of a salary underspend of £68k, additional central government new burdens funding of £165k after expenses and a loss of income of £250k from summons costs due to lack of court dates in this financial year as a result of the pandemic.

#### 2.17 Shared Business & Technology Services

A forecast underspend of £76k is reported against this service. This primarily relates to the IT cloud investigation project being slipped into next financial year. £63k of this was due to be funded from reserves, the use of reserves have been adjusted in section 3 of this report.

#### 2.18 Corporate Budgets

Corporate budgets are costs and income received by the Council that are not service specific, these include

income from the Council's investments, pension deficit contributions and New Homes Bonus grants to Town and Parish Councils. Table 3 shows the forecast outturn position against the corporate budgets.

Table 3 – Corporate budgets 2020/21 forecast outturn

	<b>Original Budget 2020/21</b>	<b>Forecast outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
NHB Grants to Town & Parish Councils	708	708	-
Interest Payments	207	207	-
Interest & Investment Income	(800)	(800)	-
Pension Fund Deficit contribution	715	715	-
<b>Corporate Budget Total</b>	<b>830</b>	<b>830</b>	<b>-</b>

Since Quarter 2 reporting the rates of return on investments have improved and we are now forecasting to achieve £800k as budgeted.

### 3.0 Reserves

- 3.1.1 The Council holds earmarked reserves to fund unpredictable financial pressures and to smooth the effect of known spending over time. Table 4 reflects the forecast outturn position as at 31<sup>st</sup> December 2020.
- 3.1.2 In previous years the use of reserves to fund Net Cost of Services expenditure has been shown in table 2. A different presentation is being used in 2020/21, to aid transparency, and the use of reserves to fund Net Cost

of Services expenditure is now shown in table 4.

Table 4: Use of reserves 2020/21

	<b>2020/21 Budget</b>	<b>2020/21 Forecast Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions to reserves	42	69	27
Contributions from reserves	(817)	(677)	140
Use of General reserve	(96)	(96)	-
Contribution to Priority spend Reserve	1,603	1,603	-
<b>Use of Reserves:</b>	<b>732</b>	<b>899</b>	<b>167</b>

3.1.3 It is forecasted that there will be a contribution from reserves of £677k in 2020/21. This is made up of funding for items included in the Net Cost of Services such as Harlow Gilston Garden Town project costs, the smoothing of the leisure contract costs, and one off IT project funding approved as part of the 2020/21 budget setting.

3.1.4 There is a reduction in the amount of reserves due to be utilised in 2020/21 in part due to the slippage of the IT cloud investigation scheme 63k. Plus budgeted salary funding no longer required due to additional grant money received in year.

3.1.5 Additional amounts totalling £27k forecast to be transferred into reserves include £13k of grant received in respect of elections services and £14k relating to the flexible homelessness grant.

#### 4.0 Funding

These income budgets are general and non-service specific income sources. The table below shows the value and source of these funding streams as at 31<sup>st</sup> December 2020.

Table 5: 2020/21 funding

	<b>Original Budget 2020/21</b>	<b>Forecast Funding 2020/21</b>	<b>Variance</b>
Business Rates	(3,124)	(3,124)	-
(Surplus)/Deficit on collection fund	(300)	(300)	-
Government support grant	-	(1,803)	(1,803)
New Homes Bonus	(2,832)	(2,832)	-
<b>Total Funding</b>	<b>(6,256)</b>	<b>(8,059)</b>	<b>(1,803)</b>

4.1.1 The impact on collection rates for both Council Tax and Business Rates as a result of Covid-19 is being closely monitored by officers. The council is

required to submit a Form NNDR1 to MHCLG by the end of January each year. The form contains the estimated outturn position and a forecast for business rates for the 2021/22 financial year. Based on this work there is an estimated deficit for Business Rates of £18.4 million as a result of changes in reliefs mandated by government as a result of the pandemic, increasing the provision for appeals by £3.4 million and the provision for bad debts by £1.03 million. Of the £18.4 million deficit the government has or will fund £13.6 million in section 31 grants direct to the General Fund or as part of the central share (the 50% of business rates that is paid over to MHCLG). Of the remaining £4.8 million, £0.2 million is Hertfordshire County Council's share leaving £4.6 million as the council's share. Usually this is recovered in the next financial year. The Government will instead fund this deficit through an Irrecoverable Losses grant which will be paid in January 2022 into the General Fund. The government has also mandated that the deficit must be spread over the next 3 financial years. In addition a contribution to the Collection fund reserve of £2.554m was made in 2019/20. This can be utilised in this and future years to mitigate the impact of reduced collection in year should it be required.

4.1.2 The Council has received £1.803m grant from central government, as Local Authority support grant to enable us to manage increased expenditure as a result of Covid-19.

## 5.0 Capital Programme

5.1.1 The revised capital budget for 2020/21 is £64.323m, this includes £30.898m carried forward from 2019/20.

5.1.2 A review of the capital programme has been undertaken, with many budgets re-profiled due to covid-19 restrictions and delays. This has resulted in £27.401m of the 2020/21 budget, now forecast to be carried forward to future years. Appendix A provides an analysis of the projects and their budgets.

5.1.3 Members will recall that as part of the MTFP process the capital programme reporting has been overhauled and scheme budgets profiled over financial years. During the next financial year Members will see monitoring against that year's budget and the scheme total budget. Commentary will be provided for major in-year variances and if there is the need to carry forward budgets, as a result of slippage or re-phasing then the amounts will be much smaller. Members will therefore find monitoring and scrutinising the capital programme much easier and going forward.

## 6.0 Debtors

6.1.1 The total outstanding debt as at 31<sup>st</sup> December 2020 is £2.217m, an increase of £22k since Quarter 2.

6.1.2 The outstanding debt over 120 days totals £1.278m, an increase of £36k from the position reported at Quarter 2.

6.1.3 As reported previously there has been an increase in aged debt due to the current nationwide pandemic. However officers have been proactively working with debtors in agreeing payment plans/deferrals in order to pursue the debt.

6.1.4 As part of the year end closedown all services will be asked to review the £1.431 million of debt that is 90 days or more old and assess its collectability. It is important that debt on the ledgers is collectible so that credit control performance can be monitored. Having debt that cannot be realistically collected on the systems hides performance and does not help to see trends or issues. It also reduces the effectiveness of credit control measures on current collectible debts because too much time is taken up reviewing old and uncollectable debt. It is also demotivating to look at debt list which never seems to move because it is skewed by the old uncollectible debt.

6.1.5 All the proposed write offs will be submitted to Executive for approval as the sum is likely to be significant and otherwise would involve delegations to 10 officers with multiple officer delegated decision sheets being published simultaneously and a time lag until the Executive following to report the total. This, it could be argued, hampers transparency and scrutiny of write offs that Members feel they should undertake. Therefore for the purposes of this year end review only officers will forego delegation.

6.1.6 From the 2021/22 financial year debt write offs will be reported to Audit & Governance Committee then Executive quarterly. The Head of Strategic Finance & Property proposes to report write offs against standard classifications as follows:

- a) **Bankruptcy/IVA** - debts from those individuals declared bankrupt or under an Individual Voluntary Arrangement;
- b) **Company ceased trading** - where the company has been wound up by the Official Receiver and there are insufficient funds from the liquidation to pay the bill or the

company has been voluntarily wound up and liquidated before the council could undertake further recovery.

- c) **Deceased** - debts of deceased persons where there are insufficient funds in the estate;
- d) **absconded with no trace**; these are cases where we cannot trace a debtor who has moved with no forwarding address. Tracing is attempted via credit reference agencies or tracing agencies.
- e) **insufficient means to pay the invoice**, even by instalments, without causing hardship (the courts would remit debts where enforcement would result in hardship);
- f) **Charging Order** – in cases where the council has secured the debt by way of a charge on the property. In these cases any transfer or ownership cannot complete before the charge has been paid to the council. As there is no way to realistically estimate when that could occur the correct accounting treatment is to write off the debt in the ledger and then be written back onto the ledger when the cash is received to extinguish the charge.
- g) **Liability inconclusive** (which covers debts that Legal Services decide that the Council could not prove in court were due from the debtor); and
- h) **Statute of limitations** i.e. debts become statute barred after 6 years if the debtor has not made a payment or admitted the debt and if the council has not secured a County Court judgment (CCJ) against the debtor then all further routes through the courts are closed.

6.1.7 Appendix B analyses the profile of aged debtors.

## **7.0 Reason(s)**

7.1 Section 28 of the Local Government Act 2003 requires the Council to monitor the budget and monitor and assess the adequacy of reserves and balances during the year. East Herts Council's financial management framework requires quarterly reports to Audit & Governance Committee and the Executive with expenditure forecasts to the year end.

7.2 The Executive must consider the budget forecasts and ensure that action is taken in relation to any expenditure over spends or any underachievement of income so that the Council's financial resources are not exceeded.

## **8.0 Options**

8.1 Not applicable

## **9.0 Risks**

9.1 Not applicable

## **10.0 Implications/Consultations**

Consultation was undertaken with budget managers/finance contacts to assist in writing this report.

### **Community Safety**

No

### **Data Protection**

No

### **Equalities**

No

## **Environmental Sustainability**

No

## **Financial**

All financial implications are included in this report.

## **Health and Safety**

No

## **Human Resources**

No

## **Human Rights**

No

## **Legal**

Section 28 of the Local Government Act 2003 requires the Council to monitor the budget and monitor and assess the adequacy of reserves and balances during the year. East Herts Council's financial management framework requires quarterly reports to Audit & Governance Committee and the Executive with expenditure forecasts to the year end.

The Executive considers the budget forecasts and ensures that action is taken in relation to any expenditure over spends or any underachievement of income so that the Council's financial resources are not exceeded.

## **Specific Wards**

None

## **11.0 Background papers, appendices and other relevant material**

Appendix A: Capital

Appendix B: Debtors

## **Contact Member**

Councillor Geoffrey Williamson, Deputy Leader  
& Executive Member for Financial Sustainability

[geoffrey.williamson@eastherts.gov.uk](mailto:geoffrey.williamson@eastherts.gov.uk)

## **Contact Officer**

Steven Linnett, Head of Strategic Finance and  
Property

[steven.linnett@eastherts.gov.uk](mailto:steven.linnett@eastherts.gov.uk)

## **Report Authors**

Alison Street, Financial Planning Manager

[alison.street@eastherts.gov.uk](mailto:alison.street@eastherts.gov.uk)

Nasir Miah, Finance Business Advisor

[nasir.miah@eastherts.gov.uk](mailto:nasir.miah@eastherts.gov.uk)