

## **Hambleton District Council**

**Report To:** Cabinet

**Date:** 1 December 2020

**Subject:** **2020/21 Q2 Revenue Monitoring Report**

**Portfolio Holder:** Economic Development and Finance  
Councillor P R Wilkinson

**Wards Affected:** All Wards

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### **1.0 Purpose and Background**

- 1.1 The purpose of this report is to update Members on the revenue budget position of the Council and the reserve funds at the end of September 2020.
- 1.2 The Quarter 2 monitoring for the Capital Programme and Treasury Management position is contained in a separate report on this Cabinet agenda.
- 1.3 This report focuses on three key areas:-
- (a) Changes to the revenue budget
  - (b) Additional grant income received
  - (c) Reserve funds

### **2.0 Revenue Budget**

- 2.1 The Council set its budget on 11 February 2020 for 2020/21 at £9,269,670 in line with the approved Financial Strategy 2020/21 to 2029/30.
- 2.2 At Cabinet on 8 September 2020, the Quarter 1 revenue monitoring report kept the budget at £9,269,670 but recognised that a £126,330 shortfall would be covered within the year from additional income or reduced expenditure. The approved budget at Quarter 1 in accordance with the Council portfolio themes is detailed below:

	<u>£</u>
Environment	4,081,290
Economy and Planning	2,072,400
Finance & Commercial	(69,450)
Leisure & Communities	1,698,030
Law and Governance	1,361,070
Drainage Board levies	<u>126,330</u>
<b>Net Revenue Expenditure</b>	<b><u>9,269,670</u></b>

2.3 The Quarter 1 revenue monitoring report also estimated a potential increase to the budget of £3,580,032 as a result of COVID-19. This was recorded prior to information on the Governments Loss of Income scheme was available and a further updated position is included within this report.

### 3.0 Budget position to September 2020

3.1 Since the budget for 2020/21 was set in February 2020, adjustments to the budget outlook have occurred. The table below details the changes that have been approved through separate reports to Cabinet and also those that have been identified and are recommended to this Cabinet for approval at budget monitoring Quarter 2:

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Budget Outlook approved at 11 February 2020	9,269,670	9,269,670	9,495,879	9,622,300
<b>Changes to budget outlook:</b>				
Inflation – salaries and contracts	-	323,604	579,027	336,006
Back funded pension (NYCC)	-	-	-	250,000
Insurance fund	-	25,000	27,000	29,000
Additional Costs	-	-	-	107,255
Future High Street Fund	-	106,000	-	-
Finance Costs	-	184,948	-	-
Route Optimisation	-	263,000	16,320	-
Fees & Charges	-	(136,350)	(139,077)	(141,858)
Other Income Streams	-	(327,248)	(309,880)	(215,387)
Savings Exercise	-	(212,745)	(46,969)	(300,638)
<b>Quarter 1 Variances:</b>				
Corporate Costs Increase	48,030	(48,030)	-	-
Departmental Increases	78,300	(78,300)	-	-
Unrealised Salary Savings	115,000	(115,000)	-	-
<b>Quarter 2 Variances:</b>				
Salary savings now realised	(123,450)	123,450	-	-
Corporate Costs	87,770	(87,770)	-	-
Departmental Savings	(7,860)	7,860	-	-
Shortfall - savings or additional income requirements in Quarters 3 and 4	(197,790)	197,790	-	-
<b>Budget Outlook Q2</b>	9,269,670	9,495,879	9,662,300	9,579,423
<b>Financial Strategy 11 Feb 2020</b>	9,269,670	9,495,879	9,662,300	9,579,423
<b>COVID-19 Costs</b>	1,689,510	(1,689,510)	-	-

3.2 In 2020/21 the budget started at £9,269,670 as stated in the Financial Strategy and illustrated in the table above. At the end of Quarter 1, the budget remained at £9,269,670 but recognised that a £126,330 shortfall would be covered within the year from additional income or reduced expenditure. In addition to the £126,330 budgeted increase at Quarter 1, unrealised salary savings of £115,000 was also required which means that the total savings to be found at Quarter 1 in 2020/21 was £241,330.

- 3.3 In addition to the shortfall in paragraph 3.2, there has been additional expenditure and loss of income estimated as a result of COVID-19 of £5,393,535. The Council has been allocated grants from the Government of £3,704,025 to support it during the pandemic resulting at Quarter 2 in an increased budget of £1,689,510. This is to be monitored during the year and if no further funding is received then the Council's reserves will be used.
- 3.4 At Quarter 2 monitoring numerous underspends and overspends for the year have been identified including salary savings of £123,450. This covers the 2020/21 budgeted salary savings that were previously unrealised of £115,000 and therefore provides an additional £8,450 underspend. In addition, overspends of £79,910 have been identified, which has resulted in a total shortfall of £71,460 at Quarter 2, increasing the shortfall to £197,790 for the year. The expected shortfall of £197,790 excludes any shortfall as a result of COVID-19. It is recommended that the budget remains at £9,269,670 as the table above shows. It will be closely monitored during Quarter 3 and Quarter 4 for reduced expenditure or additional income of £197,790.
- 3.5 An explanation of the Quarter 2 variances to be approved in this Cabinet report are detailed below where there are two main areas of change to the 2020/21 budget at Quarter 2, excluding COVID-19 costs, totalling increased expenditure of £71,460:
- a) Effect of salary savings offsetting unrealised salary savings of £8,450
  - b) Corporate Cost expenditure of £87,770.
  - c) Significant Departmental Movements resulting in an underspend of £7,860.
- 3.6 The Corporate Cost movements in the budget are:
- (i) A corporate Salary Savings exercise analysing vacant posts which has resulted in a £123,450 saving in Quarter 2.
  - (ii) The salary pay award has been agreed at 2.75% which is 0.25% above the budgeted 2.5% resulting in an overspend of £30,140.
  - (iii) An increase in the electricity contract will be applied from December 2020, resulting in a £2,130 overspend in 2020/21.
  - (iv) An additional budget of £55,500 is required to cover the added costs for holiday pay to Leisure and Waste and Street Scene Staff in relation to the Christmas shut down and additional holiday pay for staff working additional hours.
- 3.7 Significant Departmental movements of £7,860 underspend include the following:-
- (i) Environment – A saving of £57,600 relates to numerous areas including £42,840 savings in connection to a delay in acquiring new kerbside vehicles. This offsets new waste collection vehicles of £6,640. Additional income of £22,000 has been received compared to the budget for Green Waste Licences due to increased number of sales because of the Waste and Recycling Centre being closed due to COVID-19, however, this is partly offset by additional expenditure for the licences of £600.

- (ii) Economy & Planning – An underspend of £15,300 relates to numerous areas including an amount received of £28,630 from the Building Control Partnership to reduce the reserves of the Partnership to the maximum levels, however the annual contribution to the Partnership needs to be increased by £2,870. £10,560 of the Homelessness Prevention grant is not required to be paid to the One Off Fund, therefore there is an increase of income to the budget. Workspaces are hosting a reduced number of external meetings, therefore the amount of expenditure spent on refreshments is estimated to be £9,400 lower than budgeted. Additional increases of the budget include reduced income from Workspaces of £5,670, a £20,250 contribution to the Local Enterprise Partnership being required and increased costs of £4,500 for Planning adverts.
- (iii) Finance & Commercial – An overspend of £10,920 relates to a number of areas. £15,500 relates to an increase of IT maintenance in Customer Services for the various E-forms software. An additional £2,000 is required for the maintenance of an improved payment solution customers use on the website. An increase in the amount of salaries paid, has resulted in the amount required to be paid for the Apprenticeship levy increasing by an estimated £6,840. The updated effects relating to the budgets of Investment Interest, Commercial Portfolio and Treadmills is a total saving of £13,420. This is due to £10,500 less interest being earned compared to the budget because of very low interest rates being available for the Council to invest any surplus funds, these currently range from 0% to 0.045%. A loan of £1,000,000 to a Local Housing Association has been repaid to the Council, this loan was not renewed resulting in £16,110 of reduced interest income for 2020/21. Income from the Treadmills development has produced savings of £40,030 as well as offsetting the additional borrowing costs and the effects of the Commercial Portfolio being suspended which was agreed at Council in September 2020.
- (iv) Leisure & Communities – Increased costs of £39,470 have been identified in a number of areas including an additional £38,040 at the Leisure Centres to cover backdated staffing regrades. The termination of an office space rental contract at the Civic Centre has created a shortfall of £7,180 income for the year. This is partly offset by reduced expenditure relating to associated Mayfair costs of £5,750 due to the Mayfair event not taking place in 2020/21.
- (v) Law & Governance – Increased costs of £14,650 is as a result of a legal practice course of £12,750 and increased subscriptions for legal online resources of £1,900.

3.8 The revised changes to the budget at Quarter 2 result in a salary saving of £123,450 which will offset the £115,000 budgeted unrealised saving and offset £8,450 of the £80,610 overspends in Quarter 2. These are listed above and can be added to the £126,330 overspend in Quarter 1. Therefore in the recommendations section of this report for approval by Cabinet and Council, the original budget set at £9,269,670 will remain and the shortfall of £197,790, excluding COVID-19 costs, will be closely monitored in Quarters 3 and 4 for any additional income or reduced expenditure.

## 4.0 COVID-19

- 4.1 The current COVID-19 pandemic has had a huge effect on the Council's finances where additional expenditure and loss of income has occurred. Government measures have assisted the Council as well as the Hambleton residents and businesses via various grants and reliefs.
- 4.2 The Council has had a wide range of increased expenditure as a result of COVID-19; this includes IT costs so that members of staff are able to work from home, adjustments to Leisure Centres and Offices to comply with social distancing advice, Personal Protective Equipment for the staff and increased staffing in areas that have the requirements. The total cost is estimated to be £1,160,688 at the end of the financial year and Covid-19 support grant has been provided from Government in 4 allocations over the last 8 months. Further expenditure has been incurred relating to the administration of business grants, self-isolation payments, re-opening of house streets, work done in Environmental Health for contained outbreak management and planning is underway for compliance and enforcement. In future costs will also be incurred for capital developments in housing accommodation.
- 4.3 The Council has received the following grant allocations from the Government in relation to COVID-19 at Quarter 2, where some grants have been received, some grants will be claimed in relation to expenditure and some grants will be distributed from North Yorkshire County Council:

<b>COVID-19 Grants:</b>	<b>Amount</b>
COVID-19 Support Grant	1,160,688
Admin Support for Business Grants	170,000
Admin Support for Self-isolation payments	24,166
Re-opening High Streets	80,700
Contain Outbreak Management	62,600
Compliance & Enforcement	34,157
Next Steps Accommodation	186,714
<b>Total</b>	<b>1,719,025</b>

- 4.4 As part of the Governments Small Business Grants and the Retail, Hospitality and Leisure Grant Scheme, the Council received £30,866,000. The Council has awarded grants of £10,000 and £25,000 to businesses across Hambleton since 1 April 2020. The scheme completed on 30 September 2020 £29,280,000 was paid out to 2,542 businesses in Hambleton which is 93% of those eligible.
- 4.5 The Discretionary Grants scheme was set up to accommodate certain small businesses previously outside the scope of the Small Business Grants and the Retail, Hospitality and Leisure Grant Schemes. The scheme ran twice with the second scheme closing on 12 July 2020 and businesses receiving grants on 24 July 2020. In total, 188 organisations received funding from the money provided by Government at £1,420,000. Grants were awarded to market traders, shared flexible workspace businesses, charities, Bed & Breakfast establishments, micro and other small businesses. Of the £30,866,000 provided by Government for the Business Grants Scheme the reconciliation shows that £166,000 is due to be returned.

- 4.6 COVID-19 has affected the ability for the Council to maintain its budgeted level of income. At Quarter 2 loss in Fees and Charges received is estimated to be £3,674,510; the main areas are the four Leisure Centres with the closure and reduced capacity resulting in an estimated loss of £2,610,850 for the year. Free parking and reduced visitors has resulted in an estimated £443,920 loss of Car Parking income for the year.
- 4.7 The Governments Loss of Income Scheme will provide some support for certain income streams where the Council is experiencing a loss. At Quarter 2, the Council is predicting that it will be able to reclaim £1,985,000 of the estimated total loss of income of £3,674,510 for the full year. The £1,689,510 shortfall will be monitored and will be funded by reserves if required.
- 4.8 In addition, in 2021/22 there will be a further cost to the Council from Covid-19 in relation to the estimated loss of funding from a reduction in receipts from Council Tax, Council Tax Reduction Scheme and Business rates from 2020/21. This position will become clearer the next few months as the Government polices around COVID-19 change and the impact is better understood across the UK.

## 5.0 Community Infrastructure Levy (CIL) Reserve

- 5.1 The Community Infrastructure Levy (CIL) balance as at 30 September 2020 is £3,302,086. The Council is committed to using money received on new developments in the area from developers to fund infrastructure which will support development and growth proposed within the Hambleton Local Development Framework (LDF). This funding is not included in the budget or Financial Strategy of the Council because the Council only administers the scheme and does not have ownership of the reserve.

The receipts are earmarked for priority schemes and to distribute to parishes. The movements in 2020/21 can be seen in the table below.

	<b>Amount</b>
<b>2020/21 Opening Balance</b>	<b>4,301,881</b>
Add in-year income	293,833
Less in-year payments to parishes	(86,667)
Less in-year transfers to the Capital Programme	(1,206,961)
<b>2020/21 Closing Balance Quarter 2</b>	<b>3,302,086</b>

## 6.0 Other Matters - Grants

- 6.1 The following grants and contributions have been allocated to the Council and paid into the One Off Fund Reserve during Quarter 2 of 2020/21.

<b>Description</b>	<b>Amount £</b>
Ministry of Housing, Communities and Local Government (MHCLG)	1,471
Cabinet Office	7,532
Department of Works & Pensions	966
<b>Total</b>	<b>9,969</b>

## 7.0 Sensitivity Analysis

7.1 Further to the recommendations for changes to the budget in this Quarter 2 monitoring report, this report also highlights where there are areas of budget uncertainty. This can give Members early warning of possible issues in the future. All areas will be monitored closely and an update provided for Quarter 3 as at this time there is uncertainty surrounding these figures to include them as an adjustment to the budget. Annex A attached details the sensitivity analysis.

## 8.0 Reserve Funding

8.1 The table below shows the position on the revenue reserves at Quarter 2 if the recommendations are approved in this Cabinet report. Further information is also described below.

Reserve Fund	Balance at 30 June 2020 £	Q2 Movement (from) / to Reserves £	Balance at 30 Sept 2020 £
General Fund	2,000,000	-	2,000,000
Council Taxpayers Reserve	5,860,693	-	5,860,693
Grants Fund	45,734	-	45,734
Economic Development Fund	591,566	-	591,566
One Off Fund	482,146	51,969	534,115
Computer Fund	790,162	19,665	809,827
Repairs & Renewal Fund	947,066	-	947,066
Community Safety Partnership	12,544	-	12,544
Local Plan Reserve	95,270	(35,406)	59,864
Make a Difference Fund	131,000	-	131,000
Community Housing Fund	97,830	-	97,830
Community Infrastructure Levy (CIL) 5% Admin Reserve	38,026	-	38,026
Income Generating Fund	169,178	-	169,178
<b>Total Revenue Reserves</b>	<b>11,261,215</b>	<b>36,228</b>	<b>11,297,443</b>

8.2 Economic Development Fund – The opening balance of the fund was £591,566 and there have been no further changes during Quarter 2, therefore the balance of the Economic Development Fund at year end is estimated to be £591,566.

8.3 The Economic Development fund has previously allocated funding to future years, there have been no further adjustments during Quarter 2 resulting in the balance of £481,316 remaining for future projects.

8.4 Council Tax Payers Reserve – the balance of the Council Tax Payer Reserve has not changed in Quarter 2 and is available to be allocated for future projects.

8.5 One Off Fund - In Quarter 2, the initial balance is £482,146. Additional income of £9,969 was received which can be seen in paragraph 5.1 above. Further expenditure to be allocated from the One Off Fund is detailed in the table below at £231,000. An allocation of £23,000 for expenditure relating to the IT system IDOX

is to be returned to the One Off Fund as it is COVID-19 related expenditure. £250,000 is to be returned to the fund relating to the anticipated costs of creating an external company which after detailed consideration is not going ahead; further information is available in paragraph 10.0. The balance on the One Off Fund at Quarter 2 increased by £51,969 to £534,115.

<b>Expenditure in 2020/21 from the One Off Fund</b>	<b>Amount</b>
Operation Panther – Additional Costs	9,000
Operation Panther – Phase 3	2,000
Set up costs for the Crematorium	70,000
Dalton Bridge – Phase 2 – additional remedial works	150,000
<b>Total expenditure recommended for approval at Q2</b>	<b>231,000</b>

- 8.6 At Quarter 2, is it recommended to Cabinet and Council that the allocation from the One Off Fund at £231,000 is approved.
- 8.7 Computer Fund – The opening balance at Quarter 2 was £790,162 during the period there has been a net movement of £19,665. £26,400 is requested to be moved from capital to revenue which has a nil effect on the Computer Fund. A total of £31,165 is to be returned to the fund, this includes £24,000 in relation to Public Lighting software no longer being required. CRM telephony integration of £7,000 to be rolled forward to 2021/22 and £165 is to be returned to the fund for the Northgate upgrade. £11,500 is requested for the Finance system project due to increased costs of archiving the previous system.
- 8.8 Repairs & Renewal Fund – £947,066 has been brought forward from 2019/20 to fund Repairs and Renewal projects to ensure that the Council’s assets are maintained to an acceptable standard.
- 8.9 Local Plan Reserve – Expenditure allocated in Quarter 2 totals £35,406, leaving a balance of £59,864. If insufficient funding exists within the year to support the local plan then funding in the first instance will be utilised from the one off fund to be replaced in future years from income received from applications.
- 8.10 Make a Difference Fund – Successful awards will invest in worthy local community projects which help improve life in neighbourhoods and which support the work of the voluntary sector and will be expended by 31 March 2021.
- 8.11 Income Generating Fund: The reserve is used during the year to financially support projects in the initial stages of development which will generate revenue income to contribute to the future funding of the Council. At Council in September 2020, the Commercial Investment Strategy was suspended. The costs associated with this Commercial Investment Property Portfolio total £113,510, which relate to £27,243 legal and £10,000 financial advice to set up the commercial investment company structure and also £76,267 for the external property investment advisers to develop the Commercial Investment Strategy and review potential property in which to invest. These costs have been funded from the Income Generating Fund in 2018/19, 2019/20 and 2020/21, where £30,628 relates to 2020/21.

8.12 Other Reserves - There has been no movement on other reserves held by the Council at Quarter 2 2020/21. These revenue reserves will be monitored on an ongoing basis and any changes will be reported at Quarter 2.

## **9.0 2020/21 and 2021/22 Business Rates Pool**

9.1 The Council was part of a one year, North and West Yorkshire Business Rates Pilot scheme during 2019/20 with other councils in the two Yorkshire areas, this ended on 31 March 2020. As a result, in 2020/21 the Council is a member of the North and West Yorkshire Business Rate Pool where the calculation of the financial position has reverted back to be the arrangements of the North Yorkshire Pool that existed prior to 2019/20. It has been agreed that in 2021/22 the Council will no longer be part of any Business Rates Pool or Pilot scheme due to the uncertainty of the impact of the COVID-19 pandemic.

## **10.0 VAT Partial Exemption**

10.1 Further to the recommendations of the 28 July 2020 Cabinet report the Council continues to monitor the VAT Partial Exemption position for 2020/21 and the calculation currently shows the Council to be below the 5% de-minimis limit.

10.2 Following further consideration of potentially placing Leisure Centres into a vehicle due to the effects on VAT partial exemption, it is now considered that the position can be managed over the next two to three years. This is helped by the large schemes in the Capital Programme enabling future Leisure Centre expenditure to occur and not exceed the partial exemption limits. The partial exemption limit is being monitored over the next two to three year as further to that the Local Government Reorganisation is likely to have occurred and the partial exemption limit will no longer be in a potential position of breach due to these services that the Council provide being part of a larger organisation.

## **11.0 Link to Council Priorities**

11.1 The monitoring of the financial budget throughout the year and reporting the financial year end position assists in ensuring the Council's service requirements are met and contributes to the achievement of the priorities set out in the Council Plan.

## **12.0 Risk Assessment**

12.1 There are no major risks associated with this report.

## **13.0 Financial Implications**

13.1 The financial implications are dealt with in the body of the report.

## **14.0 Legal Implications**

14.1 It is a legal requirement under s25 of the Local Government Act 2003 to set a balance budget and monitor the financial position throughout the year.

## **15.0 Equality / Diversity Issues**

15.1 Equality and Diversity Issues have been considered however there are no issues associated with this report.

## **16.0 Recommendations**

16.1 That Cabinet approves and recommends to Council:

- (1) the budget remains at £9,269,670 as detailed in paragraph 3.8 of the report;
- (2) that reserves will be used to cover the shortfall created by the covid-19 pandemic if sufficient funds are not received from Government at the year-end as detailed in paragraph 4.6 of the report;
- (3) the allocation from the One Off Fund at paragraph 8.6 of the report of £231,000;
- (4) that it will not be part of a Business Rates Pool or Pilot Scheme in 2021/22 as detailed in paragraph 9.1 of the report; and
- (5) that a 'vehicle' is not to be set up as detailed in paragraph 10.0 of the report in relation to VAT partial exemption.

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**Background papers:** Budget Monitoring Q2 working papers

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**Budget 2020/21 Qtr 2 Sensitivity Analysis – potential savings / costs**

<b>Council Directorates</b>	<b>Area of Sensitivity</b>	<b>Commentary</b>
Economy and Planning	Planning Fees	This will continue to be closely monitored due to the estimated income being so high and the effects of COVID-19 being unknown.
	Workspace Management Income	This will continue to be closely monitored and the effects of any tenants leaving sites will be reported at Quarter 3.
Environment	Operational Services – Fuel Prices	This is being kept under review and any significant changes will be reported at Quarter 3.
	Kerbside Recycling Contract	Basket price changes will affect the budget, this will be closely monitored throughout the year.
Finance & Commercial	Housing Benefit Payments	Whilst any increase in Housing Benefit payments will be partly offset by subsidy, the budget is so large that a small increase in percentage terms can lead to a large amount in monetary terms.
	Borrowing Interest	Any additional borrowing made by the council will be an increase to the budget, any new borrowing costs will be reported at Quarter 3.
Leisure & Communities	Thirsk Swimming Pool	Due to improvement works, starting in January 2021, the Leisure Centre will have reduced capacity and parts may need to be closed. The effects on the budget will be estimated and reported at Quarter 3
Council Wide	COVID-19	The effects of COVID-19 is widespread throughout the Council however the full effects are unknown but are closely monitored and monthly returns are completed to the Ministry of Housing, Communities and Local Government.