

Report to the Cabinet

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Portfolio: Finance and Economic Development – Cllr Philip
Subject: Quarter 1 Budget Monitoring Report (General Fund)
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

To note the content of this report and identify any actions.

1. Executive Summary

- 1.1. This report presents the first four month's (till the end July 2020) General Fund Budget Monitoring report for Epping Forest District Council.
- 1.2. The focus on Covid19 related activities and the impact this has had on the normal delivery of Council services has made the production process more complex. Hence, 4 months of performance is reported, as opposed to the normal 3 (one quarter) in order to provide a more up to date understanding of the position.
- 1.3. Covid19 has had a massive impact on the Council, in terms of its focus and in terms of generating cost pressures. Necessarily, the Council had to respond to the impact, but the consequence of this, in financial and service delivery terms, is large variances against the spend and income profiles which were anticipated when the budget was set.
- 1.4. As the majority of the impacts, response and variances have been associated with General Fund services, effort and focus has been focused on understanding the impact in this area for this report. An update on the Housing Revenue Account and Capital will be contained in the next monitoring report.
- 1.5. The ongoing development and spread of the virus and the national response creates considerable difficulty in forecasting an accurate outturn for the current year, as does the uncertainty around the total quantum of Government support that will be received before the 31st March 2021.
- 1.6. At this stage in the year it is highlighted that confidence is low in the forecast outturn and that the final position may vary significantly from that presented here.
- 1.7. However, the summary of the current position is that underspends associated with the restricted ability to deliver on some service areas are offsetting some the income losses associated with Covid19 services and thus the forecast overspend on the General Fund is lower at this stage than had predicted within the Covid19 update reports.

1.8. Finally, although confidence is low, as has previously been reported, the Council has comfortable levels of Balances and Reserves and this means that there is confidence that the Council could cover the in-year impacts on the budget from the Pandemic.

2. Detailed Report

2.1. The in Appendix A sets out;

- Full year Service Budgets for the current year,
- Profiled Budget up to Month 4,
- Actual Spend and Income up to Month 4
- Variance between Budget and Actual at Month 4
- Forecast Outturn for the full year
- Variance between the Original Budget and the Forecast Outturn

2.2. Although obvious, it is emphasised that the current year is 'non-standard' and this means there are massive differences in some areas between the action the Council had planned to take and what actually happened during the first 4 months of the year.

2.3. For example, the Council was unable to deliver some services because of restrictions, had to re-align resources in other areas to focus on the response effort, had new cost pressures associated with local response impacts but also the wider national economic, social and community impacts and saw significant reductions in income receipts from key income generating services.

2.4. The budgetary consequences of these are significant variances against the base budget in some areas.

2.5. This was a predictable consequence of the response effort and therefore it is important to consider and manage the variances within the broad envelope of the wider budget for this year. A redistribution of resources between budget heads is necessary in order to respond to the impacts of the Pandemic.

2.6. The table in **Appendix A** currently forecasts an overspend on Services of £3.75 million, although it is highlighted that in practice that this could vary significantly.

3. Explanation of key variances

3.1. For the reasons previously stated there are many variances at this stage in the year and it is expected that these are likely to continue. For this reason, only explanations on the most significant are provided below.

3.2. Business Support (£664,358 forecast Overspend) – the single largest factor, is an assumed requirement at this stage to provide an additional £500,000 towards the corporate Bad Debt Provision as the impact of the pandemic is likely to make general outstanding debts owed to the Council less collectable. Additional cost pressures have also been experienced due to the additional capacity required to manage Covid19 impacts, such as the ICT demands of homeworking and understanding the financial impact. Additional one-off costs are also anticipated on Legal Services as part of moving towards a fully shared service. However, the spending pressures in Business Support are being partially offset by savings in other areas.

- 3.3. Commercial and Regulatory (£1,116,147 forecast Underspend) – the dominant factor is a positive variance of £1.3 million on Land and Property, driven by additional income from the Council’s acquisition of premises in Loughton High Street; this occurred after the budget had been prepared, so the income is in addition to the base budget. In contrast, a forecast overspend of £353,710 is expected on Regulatory Services, due to a shortfall in Building Control income as a consequence of the pandemic.
- 3.4. Contracts and Technical Services (£3,572,418 forecast Overspend) – the large projected overspend is due to two well documented financial pressures. Firstly, Car Parking (£835,794) with lower income resulting from lower demand for parking provision, due to changes in working and shopping habits as a result of the Pandemic. The introduction of a temporary 20 pence charge has helped increase take-up, but commuter long stay parking is still particularly low and will potentially remain so, for the foreseeable future. And secondly, Leisure Facilities (£2,867,030), which is the largest single Covid19 related cost. The viability of the Places for Leisure contracts has changed dramatically, both during lockdown and during the subsequent period of restriction in how these centres can be used. For now, the Council is working with the contractor to share the losses on an open book basis, pending clarity emerging on whether operations will return to normal and within what timeframe.
- 3.5. Customer Services (£247,955 forecast Underspend) – the single largest factor in the forecast underspend is a better than expected Subsidy recovery rate on Rent Allowances; a 99.04% recovery rate is now expected compared to an original budget assumption of 97.46% (impact £307,066). This is added to by savings on delayed elections and some staff vacancies, although there are some spending pressures on Housing Benefits (staffing) and Local Taxation due to the Pandemic.
- 3.6. Planning (£836,810 forecast Overspend) – the underlying pressure is dominated by the Development Control cost centre, which is anticipating an overspend of £716,050, driven by a major reduction in income from Planning Fees due to the Pandemic.
- 3.7. Qualis Income (£1,557,071 forecast Overspend) – forecast income from Qualis is now significantly lower than that assumed within the original budget. The Pandemic occurred at a critical time for the development of Qualis Business Plan as, necessarily, the organisation was required to focus on managing the impacts of the virus. The consequential delay in getting to a point where Qualis could implement its Business Plan, the Covid19 related impacts on property prices and the reductions in the capital financing costs have all had an impact on the base budget assumptions.

When the budget was developed the Qualis related income was flagged as being dependent on key actions taking place during the year in order to deliver this income stream. Prudently, contingency was built into the budget plans should any slippage occur. This included a large contingency provision and the central control over the release of funding for some service investment activities until there was confidence that the targeted income had been achieved. Given the unknown nature of the pandemic this caution has proved fortuitous and enables the Council to accommodate the reduced Qualis income associated with the Pandemic delays.

- 3.8. Government Support (£3,447,032 forecast Underspend) – the Government has introduced a range of funding support streams and continues to consider its position in relation to on-going support. However, as it stands, the amount of expected support is approximately half of the cost of the Pandemic on the Council. Thus far the Government has provided £1.577 million in general un-ringfenced support. It has also introduced an income loss compensation scheme, under which the Government has undertaken to cover 75% of council’s income losses, but only after councils meet the

first 5% of budgeted losses themselves. It is currently estimated that this will cover £1.87 million of Epping Forest District Council's income losses, but this may vary as actual income losses change. The Government continues to collect data on the actual costs of Covid19 to individual councils via monthly returns. Whilst not certain, it is hoped that the Government will use this information to provide further support to the sector.

4. Outlook and Financial Planning Implications

- 4.1. Including Qualis and the Government funding announced to date the net position on the General Fund before Council Tax, Business Rates and Financing costs, is a overspend of £1.862 million. This represents the cost of Covid19 in the current year, which is either not offset by service-related savings, or not met by the Government.
- 4.2. It is still expected that this number will vary significantly because of the challenges associated with predicting the true cost of the global event, the impact of which is continually changing.
- 4.3. It is expected that there will also be impacts on Council Tax, Business Rates and Financing costs which will add to the numbers presented above. The Government has indicated that there may be further assistance with these items, which could be contained in the Government's spending review announcement.
- 4.4. The Council started the current year with unallocated General Fund Balances of £7.759 million. It seems inevitable that there will be an unfunded impact in the current year and therefore the Council will need to call upon a proportion of these balances.
- 4.5. Through good financial planning, the Council is in a position where it has adequate balances and therefore expects it can accommodate the cost in the current year without the need for emergency actions.
- 4.6. However, a greater focus of budget management is a requirement of the current situation and all budget managers are being reminded to keep close control on spending.
- 4.7. Alongside managing the current budget, the development of the budget for 2021/22 and the medium-term financial plan is also underway. This is expected to be equally problematic, as this will require an understanding of the possible on-going impacts associated with the virus, the requirements placed on councils to manage the impacts and the extent to which the Government is able and prepared to continue to support councils financially.
- 4.8. These issues will be highlighted in more detail in future reports.

5. Resource Implications

- 5.1. These are contained within the body of this report.

6. Legal and Governance Implications

- 6.1. None contained within this report.

7. Safer, Cleaner and Greener Implications

7.1. None.

8. Consultation Undertaken

8.1. None.