

NORTH DEVON COUNCIL

REPORT TO: STRATEGY AND RESOURCES
Date: 1st September 2020
TOPIC: PERFORMANCE and FINANCIAL MANAGEMENT
QUARTER 1 of 2020/21
REPORT BY: HEAD OF RESOURCES

1 INTRODUCTION

- 1.1 This is one of the series of regular quarterly reports on the council's overall operational and financial performance. The report covers financial as well as operational performance. It mainly covers the quarter from April to June 2020.
- 1.2 Section 4 deals with headline financial performance. More detailed performance information is available in Appendix E.

2 RECOMMENDATIONS

- 2.1 That the actions being taken to ensure that performance is at the desired level be noted.
- 2.2 That the contributions to/from earmarked reserves be approved (section 4.2)
- 2.3 That the movements on the Strategic Contingency Reserve (section 4.3) be noted.
- 2.4 That council approve the variations to the Capital Programme 2020/21 to 2022/23 (sections 4.4.3)
- 2.5 That funds are released for the capital schemes listed in section 4.4.11
- 2.6 That the sections dealing with Treasury Management (section 4.5), and Debt Management (sections 4.6 and 4.7) be noted.

3 REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that appropriate action is taken to allow the council to meet its objectives.
- 3.2 To inform Members of actual results compared to the approved Corporate Plan, as well as progress in delivering service within the revenue budget and Capital Programme

4 PRIORITY – RESOURCES

4.1 Revenue

- 4.1.1 The revenue budget for 2020/21 was approved at Council on 26th February 2020 at £13,380,000.

4.1.2 As at 30 June 2020, the latest forecast net budget is £13,765,000, which produces a forecast **budget deficit of £385,000**. Details are shown in “Appendix A – Variations in the Revenue Budget”

4.1.3 The original budget for 2020/21 included a forecast to achieve £200,000 worth of salary vacancy savings. The current position forecasts this will be achieved this financial year; of which £194,000 has already been identified at 30th June 2020.

4.1.4 There is much pressure on the 2020/21 budget due to the Covid-19 pandemic and the Council’s income streams have been greatly affected in the first quarter of 2020/21 and this is expected to continue through the financial year. Also additional costs have been incurred by the council in provision of temporary accommodation, additional agency staff for waste and recycling and in supporting the local community.

4.1.5 Central government have announced and paid local authorities 3 tranches of support funding totalling £1,189,000 for North Devon. We have also claimed £160,000 in respect of the job retention scheme and received £170,000 New Burdens grant for administering the business grants. Central government have announced they will help support local authorities for lost income by paying 75% of any lost income after Councils incur the first 5% variance, however we are awaiting final guidance on this scheme. The expected lost income and additional costs have been factored into the figures in Appendix A along with the anticipated government support.

4.1.6 It is anticipated that there will be a reduction in both Council Tax and Business Rates income during 2020/21 as a result of the pandemic. However, no reduction for income is being reported for 2020/21 year as the financial effect of any deficit on the Collection Fund income will not have an impact on NDC finances until later years as the Government also announced that deficits on this taxation income can be spread over the next 3 financial years.

4.1.7 It is difficult to quantify the full impact of Covid-19 at this stage with any certainty, however the financial pressure on the Council will be substantial through 2020-21 and beyond – even after taking into account the above mentioned emergency Covid-19 funding announced by the Government. The Council does have both general fund and earmarked reserve balances which it could call upon in 2020-21 to mitigate the economic impact being experienced but clearly this would have much longer term solvency implications for the authority.

4.1.8 Moving forwards, the Council will reset its Medium Term Financial Strategy in recognition of the impact of the pandemic and the refresh of the Council’s strategic objectives. The changing environment and ‘new normal’ in which we are likely to find ourselves will require the Council to review the services it provides, how these are delivered and the outcomes that are of the highest priority.

4.1.9 Regular financial monitoring will continue to ensure the Council takes all necessary remedial action where it can, with a continued focus on delivering key services to our communities against the financial backdrop of considerable reduced resources.

4.1.10 The recommended level of general fund balance is 5%-10% of the council’s net revenue budget (£669,000 to £1,338,000). The forecast general fund reserve at 31 March 2021 is £1,161,000 which is a level of 8.7%.

4.1.11 At the 30th June 2020 total external borrowing was £500,000. The timing of any future borrowing is dependent on how the authority manages its treasury activity and due to current low interest rates and reduced returns on investments it is prudent for the Council to 'internally borrow' and use these monies to fund the Capital Programme.

4.2 Earmarked Reserves 2020/21

4.2.1 "Appendix B – Movement in reserves and Balances" details the movements to and from earmarked reserves in 2020/21.

4.3 Strategic Contingency Reserve

4.3.1 Full details of the Strategic Contingency Reserve movements and commitments are attached as "Appendix C – Strategic Contingency Reserve"

4.4 Capital

4.4.1 The 2020/21 to 2022/23 Capital Programme is attached as "Appendix D – Capital Programme"

4.4.2 The Budget and Financial Framework report to Full Council 26th February 2020 outlined the Capital Programme for the 2020/21 financial year of £12,622,028. Project under spends of £2,673,332 were brought forward from 2019/20 year and further variations of (£1,978,093) were approved as part of the performance and financial management report to Strategy and Resources on 3rd August 2020 to produce a revised 2020/21 Capital Programme of £13,317,267.

4.4.3 Overall variations of (£378,331) are proposed to the 2020/21 Capital Programme as follows:

▪ **Other variations (+ and -) to 2020/21 Capital Programme – £41,465**

Scheme	Amount (£)	Notes
S106 Bickington - Play area at Babbages	23,816	Strategy and Resources committee 3 rd August '20
S106 South Molton – Enhancement of footpaths, recreational grounds and community woodlands	17,649	Strategy and Resources committee 3 rd August '20

▪ **Budget virement (transfer) between projects 2020/21**

Scheme	Amount (£)	Notes
S106 Various Projects	(30,000)	Move to new code, keep separate from Public Open Space S106 schemes
S106 Fremington Quay repair – Phase 1	30,000	Move to new code, keep separate from Public Open Space S106 schemes

▪ **Project movements (to)/from future years – (£419,796)**

Scheme	Amount (£)	Notes
Marine Drive Car Park	(£65,000)	Slip spend from 20/21 to 21/22
Resurfacing to Various Car Parks	(£54,796)	Slip spend from 20/21 to 21/22
Water Sports Centre	(£300,000)	Re-profile of spend from 20/21 to 21/22

4.4.4 The revised Capital Programme for 2020/21 taking into account the budget variations above is £12,938,936.

4.4.5 Actual spend on the 2020/21 Capital Programme, as at 30 June 2020 is £692,000. A number of the larger schemes are due to start shortly.

4.4.6 The overall Capital Programme for 2020/21 to 2022/23 is £29,544,997 and is broken down as follows:

- 2020/21 £12,938,936
- 2021/22 £13,804,491

- 2022/23 £2,801,570

4.4.7 The Programme of £29,544,997 is funded by Capital Receipts / Borrowing (£14,844,331), External Grants and Contributions (£12,128,337) and Reserves (£2,572,329).

4.4.8 The timing and realisation of capital receipts can be impacted by events beyond the control of the Council and we have been able to manage cash flows for projects through internal borrowing.

4.4.9 We also have authority to borrow from the Public Works Loan Board (PWLB) as outlined in the Treasury Management Annual Investment Strategy and the Council currently has external borrowing of £1.250m.

4.4.10 Release of Funds – 2020/21 Capital Programme

4.4.11 Once funds have been included in the Capital Programme the Constitution requires a separate decision to release those funds. There are no release of funds for this quarter.

4.5 Treasury Management

4.5.1 Bank Rate remained at 0.10% during the quarter.

4.5.2 The average 7 day LIBID (inter-bank bid rate), the Council's benchmark rate at 30th June 2020, was -0.04% (previous year 0.57%).

4.5.3 The return earned on the Council's investments was 0.32% (previous year 0.65%).

4.5.4 £30,294 investment interest was earned during the quarter. (The 2020/21 interest receivable budget is £50,000)

4.5.5 As at 30th June 2020, the Council had total external borrowing of £500,000.

4.5.6 £3,537 interest was paid at an average rate of 1.80% on the PWLB loans during the quarter. (2020/21 interest payable budget is £74,000)

4.6 Debt Management

4.6.1 The three major areas of credit income are Council Tax, Business Rates and General Debtors.

4.6.2 As billing authority, the Council annually raises the bills for Council Tax (£69,000,000) and Business Rates (£32,000,000).

4.6.3 Collection rates are controlled through monitoring:

- the level of write offs
- levels of previous years' outstanding debt
- the level of income collection in the year against the annual sums due to be collected.

4.6.4 The council's budget is based on the assumption that eventually 97.5% of sums due will be collected. To ensure this level is achieved, year on year levels of write offs approved are controlled against a ceiling of 2.5% of annual debt.

4.6.5 The outstanding amounts at 30th June 2020 are as set out below:

Age in Years	Council Tax		Business Rates	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
1 – 2	1,487	1,851	156	765
2 – 3	761	852	72	219
3 – 4	418	512	47	80
4 – 5	267	305	17	56
5 – 6	162	201	32	27
Over 6	231	295	45	75

4.6.6 Irrecoverable debts from previous years not exceeding £1,500 can be written off with the authorisation of the Chief Financial Officer. Decisions on whether to write off debts over £1,500 rest with the Chief Financial Officer, in consultation with the Leader of the Council. As at 30th June 2020 the amount of accounts written off was as follows:

Less than £1,500			More than £1,500	
No. of accounts	Amount		No. of accounts	Amount
34	£766	Council Tax	0	£0*
1	£3	Business Rates	0	£0**
46	£9,266	Housing Benefits	0	£0

* £0 due to bankruptcy (see section 4.6.8)

** £0 due to bankruptcy and company insolvency (see section 4.6.8)

Due to the uncertainty that Covid-19 caused, normal debt recovery procedures during Quarter 1 were suspended and more recently "soft" reminder letters have been issued to customers.

4.6.7 The monitoring of in year collection is carried out against national performance indicators targets of sums collected in year as a percentage of the Net Sums Due for that year.

4.6.8 The majority of the write offs are individual bankruptcy and company insolvency and in a number of cases include liabilities for previous years. In these cases we are unable to recover the debt. However, if at a later date a dividend is paid, the money is allocated to the account and the relevant amount written back on.

4.6.9 The other main reason for write offs is where the person has gone away (no trace). However, write offs are reviewed and where we find the persons contact address the write off is reversed and recovery action continues.

4.6.10 The levels of collection are:

	Achieved 2019/20	Achieved 2020/21
Council tax	28.59%	27.47%
Business rates	31.96%	21.07%

4.6.11 Council tax collection rates are just over 1% lower in the first quarter compared to last year due mainly to the impact of the pandemic on customer's ability to pay and we have made payment arrangements with a number of customers to spread their 10-month instalments later to now pay June 2020 to March 2021. This undoubtedly has a cash flow impact on the collection rates for the first quarter as indicated.

4.6.12 Business rate collection rates are currently showing a 10% lower rate compared to last year; however in the first quarter the internal transfer for NDC owned property business rates value of £703,000 had not been processed until quarter 2, when normally this is transferred in April annually, like it was in April 2019. Having been paid would take the collection rate up to 26.21%, a reduction on the previous year of just under 6%.

4.6.13 As stated earlier in section 4.1.6 reductions in council tax and business rate collection will impact upon future financial years (and not 2020/21) and will need to be closely monitored to enable this Council to build into its financial plans as these will be a cost impact in the 2021/22 to 2023/24 years.

4.7 General Debtors

4.7.1 The level of general invoices raised was £2,130,000 at 30th June 2020 (previous year £4,000,000).

4.7.2 A summary of outstanding debt, by age, is set out below with comparison to the previous year.

Age of debt	30 Jun 2019	30 Jun 2020
	£'000	£'000
3 weeks to 6 months	799	349
6 months to 1 year	195	294
1 to 2 years	58	316
2 to 6 years	301	301
Over 6 years	24	50
TOTAL	1,377	1,310

4.7.3 In accordance with the Constitution, irrecoverable debts not exceeding £1,500 can be written off with the authorisation of the Head of Financial Services. The Chief Financial Officer, in consultation with the Leader of the Council, must authorise write off of debts over £1,500.

4.7.4 As at 30th June 2020, the amounts written off were as follows:

Number of Invoices	Written offs - £1,500 & under	Number of Invoices	Written offs - over £1,500
0	£0	0	£0

5 Constitutional context

Article and paragraph	Appendix and paragraph	Referred or delegated power?	A key decision?	In the Forward Plan?
7.12	13, para 4.7	Delegated power	No	No

6 Statement of Internal Advice

6.1 The authors (below) confirm that advice has been taken from all appropriate Councillors and officers.

7 Background Papers

None

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