

CABINET MEETING – 14 JULY 2020

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

First Revenue Budget Review 2020/2021

Author(s):

Executive Director of Corporate Services

Purpose of Report:

To report details of the outcome of the Revenue Budget First Review for 2020/2021

Description of Decision:

Cabinet is recommended to:

- Note the contents of the report; and
- Approve the contingency transfers proposed at Section 3.4.

Is the decision consistent with the Budget/Policy Framework? Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

To respond to variations in expenditure and income which have arisen in 2020/2021 and enable effective budgetary control to be exercised.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed

Impacts analysed;

Equality Privacy Sustainability Crime and Disorder

Is the Decision consistent with the Council's co-operative values? Yes

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

FIRST REVENUE BUDGET REVIEW FOR 2020/2021**Executive Director of Corporate Services****1. Purpose of Report**

- 1.1 This report advises Members of the overall Revenue Budget position following the first review for 2020/2021 including proposed contingency transfers.

2. Description of Decision (Recommendations)

- 2.1 Cabinet is recommended to:

- Note the contents of the report; and
- Approve the contingency transfers proposed at Section 3.4.

3. Revenue Budget Monitoring 2020/2021

- 3.1 Overall Position

- 3.1.1 Budgets for 2020/2021 as approved by Council in March 2020 have been realigned to reflect new Portfolio responsibilities. A full review has been undertaken for each Portfolio, together with contingency allocations proposed for the first quarter.

- 3.1.2 At this early stage in the financial year the forecast outturn position reflects the continued challenge the Council faces in delivering savings approved by Council in order to balance the budget, known areas of pressure, and significantly the impact of the Covid-19 pandemic. The financial consequences of the latter are included within the report, but a degree of caution should be noted at this early stage in the financial year given the current working arrangements and additional pressures on staff resources in relation to budget monitoring across the organisation alongside all of the uncertainties arising from the Covid-19 pandemic.

- 3.1.3 The overall forecast outturn position is a deficit £10.552m, pending any further Covid-19 grant allocations from government, and is summarised in the table below, with further detail provided within Appendix A, Appendix B, and the remainder of Section 3 below.

Area of Variance	Para reference	Variance Overspend / (Underspend) £m
Delegated Forecast Outturn	3.3	32.423
Contingency Transfers	3.4	0.000
Transitional Costs	3.5	0.000
Treasury management Savings	3.6	(3.679)
Grants	3.1.4	(7.600)
Use of Covid-19 Reserve	3.1.4	(10.592)
Forecast Outturn position		10.552

3.1.4 The Council's forecast outturn position is significantly impacted by the Covid-19 pandemic and the wider economic consequences that are likely to entail. The government provided its first tranche of funding to support Local Authorities in response to the financial pressures arising from the pandemic on the 27th of March. This first tranche, distributed in the main to reflect social care responsibilities using factors that took into account factors such as deprivation and need, totalled £10.592m and was rolled forward in full as a reserve. A second tranche, allocated on a simple per capita (population) basis, resulted in a lower allocation of £7.600m in April, meaning that to date £18.192m of grant has been provided and is available to use during 2020/2021.

3.1.5 The government announced further further support measures for local government on 2nd July. These are:

- A further £500 million of funding to cover local authority spending pressures;
- A co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the government covering 75% of losses beyond 5% of planned income;
- Phased repayment of Collection Fund deficits over the next 3 years; and
- A commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review.

Allocations of the £500m funding are yet to be confirmed, however, government have indicated that they have developed a new formula that takes into account population, deprivation and the way that service costs vary across the country in arriving at the individual amounts to be received. Similarly further details are awaited in relation to sales, fees and charges lost income, including for example how any baselines are to be determined and whether there are specific categories of income that are excluded.

An update will be provided to Cabinet at the second revenue review.

3.1.6 Based on the return made to MHCLG on the 19th of June 2020, the current forecast impact on the Council is set out in the table below. The forecast Covid-19 position reflected in the MHCLG return reflects the assumption of a steady loosening of current restrictions over the course of the year, no second "lockdown" period and a broadly normal return to school from the Autumn term. Should these assumptions prove incorrect, then the forecast cost will likely increase as the position is ultimately largely dependent upon recovery and government policy. Cabinet will be updated as the year progresses.

	2019/2020 Cost £m	2020/2021 Forecast Cost £m
General Fund Expenditure	0.6	16.5
General Fund Income	0.7	12.1
Business Rates Collection Fund	0	2.0
Council Tax Collection Fund	0	8.7
Total Forecast Gross Impact	1.3	39.3
MHCLG Grants (including reserve b/fwd)	0	(18.2)
Total Forecast Net Impact by year	1.3	21.1
Total Forecast Net Impact as per MHCLG returns	22.4	

- 3.1.7 It should be noted that the financial impact of Covid-19 will likely result in a deficit position on the collection funds. These deficits will not impact on current year general fund activity, but will need to be taken into account in the budget set for 2021/2022. Therefore, the estimated net impact on general fund activity for 2020/2021, after taking into account the specific Covid-19 grant funding of £18.2m, is £10.4m which is reflected in the overall budget position presented.
- 3.1.8 The Medium Term Financial Plan (MTFP) will require updating to reflect the forecast deficit and the likely ongoing negative impact on the collection fund in 2021/2022 and beyond. Taken together with the anticipated additional costs and lost service income, the current budget gap within the MTFP, as agreed at Council in March 2020, of £9m for 2021/2022 is expected to significantly increase.
- 3.1.9 The Council, including through the likes of ANEC, SIGOMA and the LGA, continue to make the case for additional funding to meet the current shortfalls and equally a full and fair financial settlement to address the significant ongoing impact to the Council's finances this crisis will create.

3.2 Budget Transfers

- 3.2.1 Budget transfers undertaken at the first review primarily reflect the need to realign budgets to ensure correct accountability of the approved budget. These are set out in Appendix A.

3.3 Portfolio Budgets – Overall Summary

- 3.3.1 Details of the forecast major variations for each portfolio, are set out at Appendix A. In overall terms there is currently forecast a net service pressure of £32.423m, inclusive of the savings plan position detailed at Section 3.3.2 below.

- 3.3.2 Progress in the implementation of the £3.225m approved savings plans for 2020/2021 has continued and overall shows positive progress. The position is positive for this stage of the financial year and reflects the limited savings plans in place for 2020/2021 in comparison to previous years. Portfolio holders and Executive Directors continue to take the necessary action to mitigate any delays in implementation and, as such, the position is expected to improve as the year progresses.

- £1.379m (43%) of the savings have been fully realised to date.
- £0.813m (25%) of reductions where good progress is being made, with a good prospect that full savings will be achieved.
- £0.890m (28%) is in respect of areas where delays and issues have been encountered, hence where corrective actions or alternative options are being considered, which require close attention to ensure a positive outcome and timely delivery of savings. For budget monitoring purposes these are included as a forecast outturn pressure within the delegated budgets if appropriate.
- £0.143m (4%) of savings are no longer anticipated to be delivered as originally planned. For budget monitoring purposes these are included as a forecast outturn pressure within the delegated budgets.

- 3.3.3 Transitional reserves continue to be held to meet any profiling delays in the implementation of the 2020/2021 savings plans and any additional pressures arising.

3.3.4 The forecast position for the Local Authority Controlled Companies is included within the delegated budget outturn within the relevant portfolio at Appendix A, and budgetary issues highlighted as required. This includes the impact of the Covid-19 pandemic.

3.4 Contingency Transfers

3.4.1 Transfers from the contingency fund take place on a quarterly basis to reflect expenditure actually incurred in respect of approved provisions. First quarter contingency transfers, totalling £0.552m have been enacted as follows;

- Allotment Fees Review (£0.075m)
Pending a review of tenancy arrangements for allotments within the city, rentals have reverted to the 2018/2019 levels with income budgets realigned accordingly.
- TfC Ofsted Support (£0.470m)
One off provision to provide additional capacity to Together for Children in preparation for the Ofsted inspection scheduled for the current year.
- Saving Plan Development (£0.046m)
As previously reported, the Council are working with external consultancy support to develop savings plans within the MTFP. Costs incurred to date are being met through a drawdown from general contingencies.
- Energy Savings (£0.039m return to contingencies)
Known energy savings arising from energy efficiency measures undertaken using the Salix recurring investment funding.

3.4.2 Based on the forecast use of specific contingencies, at this stage in the financial year the use of the full contingency provision is anticipated.

3.5 Transitional costs

3.5.1 As set out as part of the budget setting process, no transitional costs are currently anticipated through workforce planning arrangements in 2020/2021, however, as work progresses to address the current and future years budget position, transformational costs may arise. The potential need to utilise capital receipt flexibility to fund transitional costs arising in 2020/2021 was highlighted in the budget setting process, with the final decision to be made at outturn 2020/2021 in light of the overall resources position at that time.

3.5.2 At this stage, no unbudgeted transitional costs are forecast to be incurred during 2020/2021. To date no capital receipts have been received in 2020/2021.

3.6 Treasury Management Savings

3.6.1 Net one-off savings on debt charges and interest on investments of £3.679m are anticipated at this stage. This reflects the position reported in the Capital Programme First Review, elsewhere on the agenda, and investment income generated. It is proposed that any savings at outturn be utilised to support the overall corporate position.

4 Review of Existing Reserves

- 4.1 During the finalisation of the Statement of Accounts, a small number of amendments between reserves was enacted to comply with technical requirements. These amendments had no impact on the overall balance of reserves. The opening balance at Appendix C reflects the position as reported in the Statement of Accounts.
- 4.2 Following a full review of planned usage, the Council's reserves are forecast to decrease by £36.869m in 2020/2021 to £131.816m as reserves are utilised for their agreed purpose, including in support of the capital programme.
- 4.3 With the exception of the General Fund, useable reserves are earmarked for specific purposes and commitments, and are subject to regular review.

5. Collection Fund

5.1 Business Rates

The budget sets out a Local Business Rate requirement of £46.400m. Following the award of a number of reliefs, particularly in respect of retail premises, the collectable business rates for 2020/2021 has fallen significantly. However, the Council will be compensated for this reduction through Section 31 grant. Of the remaining collectable business rates, at this stage a shortfall of £2m is forecast for the year which would manifest itself as a deficit to be taken into account in setting the 2021/2022 budget. A further update will be provided at the second revenue review.

5.2 Council Tax

The budget sets out a Council Tax requirement of element of £104.926m. Based on current forecasts the shortfall is anticipated to be £8.7m against this requirement. This has arisen due to a marked increase in the number of working age Council Tax support claimants of over 15% since the start of the year (thereby reducing the amount of council tax that is payable), reduced collection rates, and an anticipated reduction in the forecast housebuilding for the year resulting in less council tax to be generated. As with Business Rates, this forecast shortfall would manifest itself as a deficit to be taken into account in setting the 2021/2022 budget. A further update will be provided at second review.

- 5.3 As set out in paragraph 3.1.5, government have announced measures that will impact on the Collection Fund. Whilst the phased repayment of Collection Fund deficits is helpful, the phasing is yet to be confirmed and ultimately any deficits will still need to be repaid. Government also confirmed a commitment to determine what support is needed in relation to irrecoverable tax income, again whilst helpful, it is unclear if and at what level any support will be provided. Earlier confirmation ahead of the Spending Review would also assist with the Council's financial planning for next year and then medium term.

6. Reasons for Decision

- 6.1 To respond to variations in expenditure and income which have arisen in 2020/2021 and enable effective budgetary control to be exercised.

7. Alternative Options

- 7.1 No alternative options are proposed.

8. Impact Analysis

- 8.1 Impact assessments of Directorate actions to ensure the achievement of savings targets and a balanced budget position will be undertaken within Directorates as each action is developed.

9. Other Relevant Considerations / Consultations

- 9.1 None

10. List of Appendices

- Appendix A - Major Variations 2020/2021
- Appendix B - Overall Position 2020/2021
- Appendix C - Major Earmarked Reserves

11. Background Papers

None

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Major Variations 2020/2021

Portfolio	Re-cast Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Leader	4.841	0.000	(0.049)	4.792	4.751	0.041	<ul style="list-style-type: none"> Minor variations of £0.041m underspend across a number of services, as a result of held vacant posts and reduction in staffing hours.
Deputy Leader	50.221	0.075	(0.326)	49.970	54.186	(4.216)	<ul style="list-style-type: none"> Overspend across a number of services, primarily due to the current Covid-19 pandemic, including: <ul style="list-style-type: none"> Business and Investment (£0.277m overspend) – loss of income due to rental and room hire shortfalls arising from the closure of the business centres. The position will be kept under review and could deteriorate as the year progresses. Parking Services – a shortfall against budgeted surplus of £1.600m following closure of car parks, introduction of free parking and suspension of permit requirements. The position reflects the expectation of a slow improvement in car parking income as the year progresses and the economic position improves, however, there could well be a permanent or sustained impact due to changes in working and shopping habits. Bereavement – a forecast overspend of £0.322m mainly in respect of temporary storage facilities and associated costs. Waste Collection and Recycling – shortfall of £0.391m primarily in relation to loss of income in respect of trade and garden waste, collection. Variations totalling £1.626m on a number of service areas following suspension of works, loss of income, additional staffing costs and additional deep clean costs.

Appendix A (continued)

Portfolio	Re-cast Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Cabinet Secretary	11.107	0.007	(0.019)	11.095	10.991	0.104	<ul style="list-style-type: none"> Various over and underspends across a number of services, including costs and lost income in respect of the Covid-19 pandemic, offset by savings elsewhere, particularly in respect of vacant posts and reduced hours.
Children, Learning and Skills	73.858	0.470	(0.069)	74.259	85.085	(10.826)	<ul style="list-style-type: none"> Together for Children (TfC) - The TfC Board is responsible for monitoring the financial position of the company, with updates provided to the Council through the established contract performance monitoring arrangements. At this early stage in the financial year £8.600m of pressures have been identified. It should be noted that this includes £2.3m of forecast pressures as a direct result of the Covid-19 pandemic. The position will be subject to continuous monitoring and an updated provided at second review. Additional costs of £1.549m in respect of school's lost income and additional costs relating to the current crisis. Whilst normally the Council would not meet such costs, pending clarification from the MHCLG / DfE these costs are included within the overall Council's return of Covid-19 costs that require central government funding, and as such are included within the budget monitoring position. Derwent Hill – forecast lost income of £0.677m in respect of the current crisis and the likely continued impact during the rest of the financial year.

Appendix A (continued)

Portfolio	Re-cast Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Dynamic City	3.449	0.000	(0.012)	3.437	5.806	(2.369)	<ul style="list-style-type: none"> Overspend across a number of services, primarily due to the current Covid-19 pandemic, including; Miscellaneous Land and Property (£1.397m overspend) – loss of income due to rental shortfalls following a short rent free period and forecast continued income pressure in this area, particularly in respect of the Bridges ground rent income. The position will be kept under review and could deteriorate as the year progresses. Access to Housing – a forecast overspend of £0.492m incurred to ensure additional homelessness provision during the crisis. Other income shortfalls (£0.480m) including within Development and Building control as fee earning income stalled, with the anticipation of a gradual return to normal over the remainder of the year.
Healthy City	84.507	0.000	0.061	84.568	99.252	(14.684)	<ul style="list-style-type: none"> Significant financial pressure of £15.757m in respect of Adult Social Care and commissioning attributable to increasing complexity of need, including as a consequence of the current Covid-19 crisis. These pressures include additional care home fees, PPE and workforce pressures. The budget will be kept under close scrutiny as the year progresses to understand any impact to the on-going budget position as the crisis subsides. Welfare Reform – a direct pressure of £0.103m as a result of Covid-19 increased demand, offset by salary slippage in this area. Public Health – a current forecast underspend of £1.176m on existing grant expenditure, in part due to lower take up of activity based contracts due to the Covid-19 pandemic.

Appendix A (continued)

Portfolio	Re-cast Original Budget (Budget Book) £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Vibrant City	13.020	0.000	0.414	13.434	13.907	(0.473)	<ul style="list-style-type: none"> Various over and underspends across all services. The overspends in the main relating to the Covid-19 pandemic, with these costs offset by savings within the events budget due to the postponement or cancellation of a number of Council organised events within the city.
Total Service (Delegated) Outturn	241.003	0.552	0	241.555	273.978	(32.423)	

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Overall Position 2020/2021

	Original Budget	Contingency Transfers / Budget Adjustments	Current Budget	Forecast Outturn	Variance Under / (Over) Spend
	£m	£m	£m	£m	£m
Leader Portfolio	4.841	(0.049)	4.792	4.751	0.041
Deputy Leader Portfolio	50.221	(0.251)	49.970	54.186	(4.216)
Cabinet Secretary Portfolio	11.107	(0.012)	11.095	10.991	0.104
Children, Learning and Skills Portfolio	73.858	0.401	74.259	85.085	(10.826)
Dynamic City Portfolio	3.449	(0.012)	3.437	5.806	(2.369)
Healthy City Portfolio	84.507	0.061	84.568	99.252	(14.684)
Vibrant City Portfolio	13.020	0.414	13.434	13.907	(0.473)
Total Service (Delegated) Expenditure	241.003	0.552	241.555	273.978	(32.423)
Provision for Contingencies and other Corporate Budgets	10.289	(0.552)	9.737	9.737	0.000
Capital Financing Costs	23.600	0.000	23.600	19.921	3.679
Transfer to/from Reserves	0.335	0.000	0.335	0.335	0.000
Technical Adjustments	(28.635)	0.000	(28.635)	(28.635)	0.000
Levies	15.210	0.000	15.210	15.210	0.000
Hetton Town Council	0.068	0.000	0.068	0.068	0.000
Less Grants	(38.028)	0.000	(38.028)	(45.628)	7.600
Total Net Expenditure	223.842	0.000	223.842	244.986	(21.144)
Revenue Support Grant	(27.956)	0.000	(27.956)	(27.956)	0.000
National Non-Domestic Rates/Retained Business Rates	(46.400)	0.000	(46.400)	(46.400)	0.000
Top Up Grant	(43.725)	0.000	(43.725)	(43.725)	0.000
Collection Fund Surplus	(0.835)	0.000	(0.835)	(0.835)	0.000
Council Tax Requirement	(104.926)	0.000	(104.926)	(104.926)	0.000
Draft Forecast Outturn	0.000	0.000	0.000	21.144	(21.144)
Drawdown of Covid-19 tranche 1 reserve	0.000	0.000	0.000	(10.592)	10.592
Final Forecast Outturn Position	0.000	0.000	0.000	10.552	(10.552)

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Major Earmarked Reserves**

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Forecast Balance 31.03.2021 £m
General Fund	General Fund of the Council	12.000	0	12.000
School Balances	Balances held by schools under a scheme of delegation	7.982	(0.015)	7.967
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.188	0	9.188
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	9.254	(4.400)	4.854
Section 106 Reserves	Under Section 106 of the Town and Country Planning Act 1990, developers make financial contributions to the Council relating to affordable housing, public open spaces including allotments and locally equipped play parks, educational facilities, highways and public transport improvements, sports and recreational facilities and environmental improvements.	7.280	(1.621)	5.659
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.545	(1.367)	3.178
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	1.194	(1.194)	0
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	1.153	(0.945)	0.208
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.737	(0.941)	0.796
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	11.769	(4.686)	7.083
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.000	(0.268)	9.732

Appendix C (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Forecast Balance 31.03.2021 £m
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.	12.146	0.000	12.146
COVID-19	A reserve established from government grant to fund the immediate costs and lost income associated with the COVID-19 pandemic.	10.592	(10.592)	0.000
Medium Term Planning Smoothing Reserve	This reserve has been established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government funding uncertainties.	6.528	0.000	6.528
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.677	0.000	5.677
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	4.280	(0.300)	3.980
HCA Stadium Park	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.109	0.000	3.109
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	3.303	0.000	3.303
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	2.151	(0.050)	2.101
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.577	(0.050)	1.527
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	1.916	0.299	2.215
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.334	(0.105)	1.229
House Sale Income	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.	1.236	0.000	1.236
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.198	0.335	1.533

Appendix C (continued)

Reserves	Purpose of the Reserve	Opening Balance 01.04.2020 £m	Forecast Movement in Year £m	Forecast Balance 31.03.2021 £m
Children's Social Care	A reserve to fund any one-off Children's Social Care costs that may arise in the future.	3.000	0.000	3.000
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	(0.036)	1.217
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	19.229	(7.326)	11.903
Total General Fund Reserves		154.631	(33.262)	121.369
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	9.062	(3.607)	5.455
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	4.992	0	4.992
Total Usable Reserves		168.685	(36.869)	131.816