

CABINET MEETING – 12 OCTOBER 2021

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Second Revenue Budget Review 2021/2022

Author(s):

Executive Director of Corporate Services

Purpose of Report:

To report details of the outcome of the Revenue Budget Second Review for 2021/2022

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 2021/2022 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

SECOND REVENUE BUDGET REVIEW FOR 2021/2022**Executive Director of Corporate Services****1. Purpose of Report**

- 1.1 This report advises Members of the overall Revenue Budget position following the second review for 2021/2022 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 2021/2022

- 3.1 Overall Position

- 3.1.1 The budgets for 2021/2022 are as approved by Council in March 2021. A full review has been undertaken for each Portfolio, together with contingency allocations proposed for the second quarter.
- 3.1.2 At this stage in the financial year the forecast outturn position reflects the challenge the Council faces in delivering savings approved by Council in order to balance the budget, known areas of pressure, and the continued impact of the Covid-19 pandemic. A degree of caution should be noted at this stage in the financial year given the continued uncertainties arising from the pandemic and any future impact in to winter.
- 3.1.3 The overall forecast outturn position for 2021/2022 is a deficit £5.972m, 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	(18.380)
General Contingency	3.4	0.900
Covid Contingency	3.5	9.133
Treasury Management Savings	3.7	1.500
Grants	3.1.4	0.875
Forecast Outturn position		(5.972)

- 3.1.4 The Council's financial position continues to be significantly impacted by the Covid-19 pandemic and its wider economic consequences. Covid general support grant funding was provided by the Government for 2021/2022 of £8.914m, this was included within the approved budget and is held in the Covid-19 contingency along with other resource to mitigate the impact of the pandemic.

3.1.5 It should be noted that the financial impact of Covid-19 on the City's residents and businesses could result in a deficit position on the council tax and / or business rates collection funds. Any deficit will not impact on the current year's general fund position, but would need to be taken into account in the budget setting process for 2022/2023.

3.1.6 The Council, including through the likes of Association of North East Councils, Special Interest Group of Metropolitan Authorities and the Local Government Association, continue to make the case for additional funding to meet any shortfalls and equally a full and fair financial settlement to address the significant ongoing impact to the Council's wider finances.

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 a forecast net service pressure of £18.380m, inclusive of the savings plan position detailed at Section 3.3.2 below.

3.3.2 Progress in the implementation of the £6.267m approved savings plans for 2021/2022 has continued and overall shows positive progress. The position is positive for this stage of the financial year given the demands and pressures services are experiencing. 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.

- £3.268m (52%) of the savings have been fully realised to date.
- £2.020m (32%) of reductions where good progress is being made, with a good prospect that full savings will be achieved.
- £0.979m (16%) 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.

3.3.3 Transitional reserves continue to be held to meet any profiling delays in the implementation of the 2021/2022 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 continued impact of the Covid-19 pandemic.

3.4 General Contingency Transfers

3.4.1 Transfers from the general contingency fund take place on a quarterly basis to reflect expenditure actually incurred in respect of approved provisions. Second quarter contingency transfers, totalling a net £1.257m drawdown from contingencies have been enacted as follows;

- Adult Social Care Inflation £1.360m
Drawdown from provision to meet the impact of inflationary increases for 2021/2022 following agreement with service providers. Some contracts are still to be finalised so the inflationary uplift of these will be drawn down at a future review.
- NNDR Section 31 Grant £0.096m
Transfer to contingencies for increased inflationary uplift on NNDR Section 31 Grant beyond that assumed at the time of setting budget.
- Energy Budget £0.007m
Transfer to contingencies for energy savings arising from Salix funded energy efficiency investments.

3.4.2 Based on the forecast use of contingencies, at this stage in the financial year the general contingency provision is anticipated to show an underspend of £0.900m.

3.5 Covid Contingency

3.5.1 This contingency totals £13.583m, which was funded by; Covid general support grant funding £8.914m, Local Council Tax Support grant funding £3.669m and a £1.000m from Council resources for the Covid-19 Local Response fund. This budget will be used to support Covid Recovery initiatives, with the forecast balance of £9.133m held to mitigate the additional spend pressures within the Council's overall forecast deficit position.

3.6 Transitional costs

3.6.1 The potential need to utilise capital receipt flexibility to fund transitional costs arising in 2021/2022 will be confirmed at outturn, in light of the overall resources position at that time. At this stage, no unbudgeted transitional costs are forecast to be incurred during 2021/2022.

3.7 Treasury Management Savings

3.7.1 Net one-off savings on debt charges and interest on investments of £1.500m are anticipated at this stage. This reflects the position reported in the Capital Programme Second Review, elsewhere on the agenda, and investment income generated. It is proposed that any savings at outturn be utilised to support the overall Council position.

4. Review of Existing Reserves

4.1 Following a full review of planned usage, the Council's reserves are forecast to decrease by £52.326m in 2021/2022 to £150.522m as reserves are utilised for their agreed purpose, including in support of the capital programme and meeting the business rates collection fund 2020/2021 deficit (covid-related impact), which due to the required technical accounting treatment needs to be met in 2021/2022.

- 4.2 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 £24.881m. As previously reported further business rate reliefs in 2021/2022, have reduced the collectable business rates for 2021/2022. The Council will be compensated for this reduction through further Section 31 grant. Following a period of rates relief for eligible business for the period April to June 2021, eligible businesses will now benefit from a 66% relief for the remainder of the financial year. At present business rates collection is broadly as expected, but will be kept under review in line with the ongoing economic impact on businesses due to the Covid-19 pandemic.

5.2 Council Tax

The budget set out a Council Tax requirement of £108.165m. Based on current forecasts a balanced budget is anticipated. As with Business Rates, should a shortfall arise this would manifest itself as a deficit to be taken into account in setting the 2022/2023 budget. A further update will be provided at third review.

6. Reasons for Decision

- 6.1 To respond to variations in expenditure and income which have arisen in 2021/2022 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 2021/2022
Appendix B - Overall Position 2021/2022
Appendix C - Major Earmarked Reserves

11. Background Papers

None

**Cabinet Meeting 12th October 2021
Major Variations 2021/2022**

Portfolio	First Review Budget £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
Leader	4.957	0	(0.479)	4.478	4.515	(0.037)	<ul style="list-style-type: none"> • Net shortfall on budget primarily due to timing of restructure resulting in forecast overspend of £0.037m.
Deputy Leader	52.628	0	0.177	52.805	56.358	(3.553)	<ul style="list-style-type: none"> • Parking Services - a forecast shortfall against budgeted surplus of £1.084m due to the continued reduced car park usage and suspension of permit requirements. The position also reflects the reduced footfall in the City Centre. • Business and Investment (£0.468m overspend) – loss of income due to rental and room hire shortfalls arising from the impact of the pandemic on the business centres. • Building Services – a forecast shortfall against budgeted surplus of £0.563m, primary linked to the ability to achieve the additional income target. A restructure of the service is ongoing, to ensure maximisation of income earning opportunities. • Schools Meals - £0.190m forecast shortfall in income due to slow recovery from pandemic, resulting in lower school attendance in the summer term. • Waste Collection and Recycling – forecast overspend of £0.206m due to additional staff costs from Covid-19 workforce pressures. • Waste disposal – forecasts overspend of £0.533m due to increased forecast waste tonnage volumes during 2021/2022. • Civic Catering - £0.036m forecast loss of income due to reduced usage / temporary closure of 'The Social'.

Portfolio	First Review Budget £m	Contingency Transfers £m	Budget Adjustments £m	Current Revised Budget £m	Forecast Outturn £m	Forecast Variation Under / (Over Spend) £m	Reason for Variation
							<ul style="list-style-type: none"> Fleet – a forecast shortfall against budget of £0.128m, primary linked to the delay in the ability to achieve savings targets from reduced operational costs. The pending relocation of the service to the Parsons depot will allow savings to be realised at that point. Bereavement Services – forecast overspend of £0.097m linked to increased premises costs and cremator repairs. Net variations totalling £0.248m overspend on a number of service areas linked to additional staffing and cleaning costs.
Cabinet Secretary	12.128	(0.007)	0.005	12.126	12.348	(0.222)	<ul style="list-style-type: none"> Revenues – forecast net overspend of £0.487m from unachieved enforcement and court fee income as a result of reduced enforcement action and court hearings for Council Tax and Business Rate collection, partially offset by staff vacancies and new burdens grant funding. ICT- forecast underspend of £0.157m on MFD printers due to homeworking and contract underspends. Numerous variations totalling a net £0.108m underspend linked to staffing cost variations, premises costs and reductions in income.
Children, Learning and Skills	73.221	0	0	73.221	80.700	(7.479)	<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. The current forecast overspend is £6.900m, including those pressures as a result of the Covid-19 pandemic. Derwent Hill – net lost income of £0.528m as result of lost trade due to the pandemic. Minor overspends of £0.051m on other budgets areas.

Appendix A (continued)

Portfolio	First Review Budget £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	5.189	0	0.110	5.299	5.281	0.018	<ul style="list-style-type: none"> • Access to Housing – overspend of £0.075m relating to additional homelessness provision due to the pandemic. • Building and Development Control – forecast underspend of £0.070m primarily in relation to additional planning regulation and inspection fee income. • Other minor staffing variations on a number of service areas has created an underspend of £0.023m.
Healthy City	91.183	1.360	0.187	92.730	99.740	(7.010)	<ul style="list-style-type: none"> • Adult Social Care - continued additional financial pressures of £6.269m in respect of Adult Social Care. This forecast overspend comprises a net £1.321m Covid-19 response cost pressure after taking account of anticipated contributions from the CCG, £5.035m general demand pressures on the ASC service, staffing underspend due to vacancies of £0.117m and minor overspends of £0.030m. • Adult Social Care / SCAS Strategic Commissioning – forecast overspend of £0.692m primarily linked to Covid-19 related workforce cost pressures (£0.400m) and income loss (£0.480m) partially offset by salary underspends in Integrated Commissioning and Strategic Advice (£0.188m). • Public Health - projected underspend of £0.740m primarily due to reduced take up of services and national shortage of stop smoking medication. This underspend is ringfenced to Public Health activity and as such is not included in the forecast outturn position. • Welfare Reform – minor forecast pandemic related overspends of £0.049m.

Appendix A (continued)

Portfolio	First Review Budget £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	14.094	0	0	14.094	14.094	(0.097)	<ul style="list-style-type: none"> Environmental Enforcement – forecast £0.084m shortfall on income due to the temporary suspense of the service and the reallocation of staff to support the pandemic. Sport and Leisure Facilities forecast overspend of £1.164m. Contribution of £1.946m to SLM operating costs and £0.194 joint venture contribution, arising from covid, offset by National Lottery Recovery Fund and contract budget totalling £0.976m. Forecast overspend to be fully met from contingencies. Other minor variations on a number of service areas has created an overspend of £0.013m.
Total Service (Delegated) Outturn	253.400	1.353	0	254.753	273.133	(18.380)	

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Overall Position 2021/2022

	First Review Budget £m	Contingency Transfers / Budget Adjustments £m	Current Budget £m	Forecast Outturn £m	Variance Under / (Over) Spend £m
Leader Portfolio	4.957	(0.479)	4.478	4.515	(0.037)
Deputy Leader Portfolio	52.628	0.177	52.805	56.358	(3.553)
Cabinet Secretary Portfolio	12.128	(0.002)	12.126	12.348	(0.222)
Children, Learning and Skills Portfolio	73.221	0.000	73.221	80.700	(7.479)
Dynamic City Portfolio	5.189	0.110	5.299	5.281	0.018
Healthy City Portfolio	91.183	1.547	92.730	99.740	(7.010)
Vibrant City Portfolio	14.094	0.000	14.094	14.191	(0.097)
Total Service (Delegated) Expenditure	253.400	1.353	254.753	273.133	(18.380)
Provision for General Contingencies and other Corporate Budgets	10.418	(1.257)	9.161	8.261	0.900
Covid Contingency	13.583	0.000	13.583	4.450	9.133
Capital Financing Costs	20.247	0.000	20.247	18.747	1.500
Transfer to/from Reserves	(19.915)	0.000	(19.915)	(19.915)	0.000
Technical Adjustments	(33.676)	0.000	(33.676)	(33.676)	0.000
Levies	15.169	0.000	15.169	15.169	0.000
Hetton Town Council	0.067	0.000	0.067	0.067	0.000
Less Grants	(54.413)	(0.096)	(54.509)	(55.384)	0.875
Total Net Expenditure	204.880	0.000	204.880	210.852	(5.972)
Revenue Support Grant	(28.110)	0.000	(28.110)	(28.110)	0.000
National Non-Domestic Rates/Retained Business Rates	(24.881)	0.000	(24.881)	(24.881)	0.000
Top Up Grant	(43.724)	0.000	(43.724)	(43.724)	0.000
Council Tax Requirement	(108.165)	0.000	(108.165)	(108.165)	0.000
Forecast Outturn Position	0.000	0.000	0.000	5.972	(5.972)

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Major Earmarked Reserves

Reserves	Purpose of the Reserve	Opening Balance 01.04.2021 £m	Forecast Movement in Year £m	Closing Balance 31.03.2022 £m
General Fund	General Fund of the Council	12.000	0.000	12.000
School Balances	Balances held by schools under a scheme of delegation	10.742	(2.380)	8.362
Earmarked General Fund Reserves – Capital				
Riverside Transfer	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	9.041	(0.393)	8.648
Capital Priorities Reserve	A reserve established to address some of the Council's key capital developments and strategic priorities.	8.192	(0.593)	7.599
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.	7.995	(0.391)	7.604
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	3.782	(3.096)	0.686
Commercial and Economic Development Activity	Reserve established to take advantage of commercial and economic development opportunities that will meet priorities of the Council.	1.007	(0.700)	0.307
Strategic Investment Plan Reserve	This reserve is necessary to fund part of the Council's contribution to its Strategic Investment Plan	0.162	(0.162)	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.358	(0.533)	0.825

Appendix C (continued)

Earmarked General Fund Reserves – Revenue				
NNDR Covid Retail, Hospitality and Leisure Relief Grant Reserve	Reserve established to manage the requirement to fund Collection Fund deficits in the proceeding financial year. Section 31 Retail, Hospitality and Leisure Relief Grant held to offset deficit in 2021/2022.	19.874	(19.874)	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.	17.861	(2.248)	15.613
Service Reduction Reserve	This reserve is to provide temporary transitional funding relating to the implementation of planned service reductions.	12.145	0.000	12.145
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.	9.997	0.000	9.997
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	5.749	(2.291)	3.458
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.600	0.000	5.600
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.	4.281	(0.166)	4.115
SIB Reserve	A reserve held to fund future allocations through the Strategic Initiatives Budget.	4.179	(0.500)	3.679
Smart Cities	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless connectivity within the city.	4.000	0.000	4.000
Streetscene and Open Space	A reserve to enhance the city's recovery from the covid pandemic and ensure that the full benefit can be made of the regeneration activities across the city. This reserve will fund a range of streetscene and open space projects.	3.500	(0.750)	2.750
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
Transformation Reserve	To support the changes that are likely to be required over the next 12-18 months to address financial pressures as the city emerges from the pandemic and MTFP challenges.	3.000	(1.500)	1.500

Appendix C (continued)

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
Public Health Grant	Ringfenced Public Health grant funding, to deliver future public health initiatives.	4.142	(1.100)	3.042
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	(0.167)	1.984
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.125	0.267	2.392
Low Level Family Support	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	2.000	(0.600)	1.400
Children and Young People Recovery	The reserve was established for TfC to deliver a range of activities that will support covid-recovery activities.	1.700	(1.700)	0.000
Collection Fund Surplus Reserve	Reserve established as part of 2018/19 budget setting to smooth the collection fund surplus benefit into future years.	1.533	0.000	1.533
Covid-19	A reserve established from the Government grant to fund the immediate costs and lost income associated with the Covid-19 pandemic.	1.512	(1.512)	0.000
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.	1.298	(0.250)	1.048
Airport Smoothing Reserve	Reserve established to smooth any delayed airport loan interest payment that may arise.	1.253	0.000	1.253
Triathlon	Reserve established to support a bid to secure a multi-year arrangement with British Triathlon to host triathlon events in the City.	1.200	0.000	1.200
Riverside Transfer	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	1.197	(0.105)	1.092
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.	1.020	0.000	1.020
Other Earmarked Revenue Reserves	Numerous small revenue reserves less than £1m which are set up for specific purposes.	17.657	(6.486)	11.171
Total General Fund Reserves		189.362	(47.230)	142.132
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	9.401	(2.899)	6.502
Capital Grants Unapplied	Balance of capital grants held pending expenditure on capital programme.	4.085	(2.197)	1.888
Total Usable Reserves		202.848	(52.326)	150.522