

**CABINET
14 JULY 2020**

ITEM NO.

REVENUE BUDGET MONITORING 2020-21 – QUARTER 1

**Responsible Cabinet Member - Councillor Charles Johnson
Resources Portfolio**

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. To provide an early forecast of the 2020-21 revenue budget outturn as part of the Council's continuous financial management process.
2. To inform Cabinet of the budget rebasing exercise carried out following the 2019-20 outturn results.

Summary

3. This is the first revenue budget management report to Cabinet for 2020-21 and the impact of Covid-19 (CV19) on both expenditure and income levels is projected to be significant. To date the Government has provided a grant of £6.231m to assist with the pressures however there still remains a predicted CV19 deficit of £8.064m in the year.
4. On the 2 July 2020 the Government announced a further package of support to Councils to help address the financial pressures due to Covid-19. A further £500m will be distributed to respond to spending pressures and a new scheme to help reimburse lost income during the pandemic where 75p of every £1 lost over and above the initial 5% of planned income from sales, fees and charges will be covered. At the time of writing we do not have any detail on how funding will be allocated so no account of this has been taken into the figure presented in the report.
5. As in previous years, and following good financial management practice, a budget rebase exercise has been undertaken following the outturn position which has returned £0.897m into general fund reserves. The year-end projection, which takes into account the CV19 pressures, rebasing and the early indication of non Covid pressures and savings shows an overall reduction in the 2020/21 financial position of £6.484m.
6. Whilst there is still a significant amount of uncertainty in regard to future pressures, this early projection uses best estimates and assumptions based on the Governments recovery plan on reopening. There are however a number of areas where financial consideration has not been included in the projections due to

greater uncertainty and the subsequent ability in which to quantifying the financial impact, significantly home to school transport. The current budget is £1.6m and if social distancing measures remain into the autumn term and all pupils are to return the cost of the service could triple and would be clearly unaffordable. At this stage this has not been factored into the figures but needs to be highlighted as an ongoing risk concern.

7. The projected pressure is significant in the context of the Councils overall MTFP however at this stage the deficit in 2020/21 can be met from general fund reserves. It does however mean that if no further funding is received and if the impacts are prolonged and accumulated the Council's reserves will be fully utilised before 2023/24 and a full review of the plan will need to take place during 2021/22.

Recommendation

8. It is recommended that :-
- (a) The significant financial pressure in the forecast revenue outturn for 2020-21 be noted.
 - (b) Further regular reports be made to monitor progress and take prompt action if necessary.

Reasons

9. The recommendations are supported by the following reasons :-
- (a) To continue effective management of resources.
 - (b) To continue to deliver services to agreed levels.

**Paul Wildsmith
Managing Director**

Background Papers

No Background papers were used in the preparation of this report.

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S17 Crime and Disorder	There are no specific crime and disorder implications in this report.
Health and Well Being	There are no issues relating to health and wellbeing which this report needs to address.
Carbon Impact	There are no specific carbon impact issues in this report.
Diversity	The report does not contain any proposals that impact on diversity issues.

Wards Affected	All wards are affected.
Groups Affected	No specific groups are particularly affected.
Budget and Policy Framework	This decision does not represent a change to the budget and policy framework.
Key Decision	The report does not require a key decision.
Urgent Decision	The report does not require an urgent decision.
One Darlington: Perfectly Placed	The subject matter of the report, the Councils financial standing and financial management, is critical to delivery of the SCS, but this report does not contain new proposals.
Efficiency	The report contains updated information regarding efficiency savings contained in the MTFP.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

10. This is the first revenue budget management report to Cabinet for 2020-21 and provides an early forecast of the 2020-21 revenue position as part of the Council's continuous financial management process.
11. To enable timely information to be presented and in accordance with the report publication requirements, this report has been completed before the end of the first quarter. As the Council operates frequent, regular and predictive budget management processes, including quarterly reports to Cabinet, changes in projected outturn, which are inevitable in a large and complex organisation, will be reported to future meetings.
12. The information in this report has been taken from the financial records for May and managers' projections for the remainder of the year, using their knowledge of events affecting the services they manage.
13. As has been the case in the last few years a review of the 2020-21 budgets has been undertaken during April and May and managers have been proactive in scrutinising their budgets in light of the 2019-20 outturn position. In total managers have identified £0.897m of on-going savings which can be removed from budgets into reserves without impacting on service delivery. However, if pressures unknown at this time arise in this service area a reversal from reserves would be undertaken.
14. Overall the projected General Fund reserves position at 31st March 2021 is £12.879m, which is a reduction of £6.484m on the planned balances in the 2020-24 MTFP. Of this, £8.010m relates to the unmet CV19 pressure gap offset slightly by the improvement in the Council's 2019-20 financial results of £0.274m and £0.897m is being returned to reserves as a result of the rebasing exercise.

COVID - 19

15. The impact of CV19 has had a significant bearing on the Council's financial position and is reflected the year end projections. There is still a great deal of uncertainty about how, when and if services will return to normal and what the impact will be on our communities and the wider economy; the latter points are likely to have a subsequent impact on increased demand for services and council tax and business rate income reductions.
16. The Government has supported Local Authorities with £3.2bn in Covid funding, Darlington's allocation is £6.231m which is helping to offset some of the pressures however there is still anticipated to be a significant gap of over £8m in 2020/21 with further impact likely in future years. A summary of anticipated CV19 impact in 2020/21 is detailed in **Appendix 4**.
17. On the 2 July 2020 the Government announced a further package of support to Councils to help address the financial pressures due to Covid-19. A further £500m will be distributed to respond to spending pressures and a new scheme to help reimburse lost income during the pandemic where 75p of every £1 lost over and above the initial 5% of planned income from sales, fees and charges will be covered. At the time of writing we do not have any detail on how funding will be allocated so no account of this has been taken into the figure presented in the report
18. The Medium Term Financial Plan 2020/21 – 2023/24 was balanced utilising general fund reserves over the period. It is clear that unless any further government funding is received that these reserves will fully utilised before 2023/24 and a full review of the plan will need to take place during 2021/22.

Departmental Resources

19. Departmental Resource projections are summarised in **Appendix 2** and detailed in **Appendices 2(a) to 2(d)**. Even without the CV19 implications it is difficult to predict year end positions at this early stage and management projections indicate all budgets are online to be achieved with the exception of those stated in the following paragraphs.
20. The **Adults & Children's Services Group** budget is projected to be overspent by £1.054m at the end of the financial year.
 - (a) **Children's Services** is forecasting a year end balanced position. Due to the CV19 crisis some children's placements have been affected and the demand for children's social care support has increased. Lockdown and social distancing restrictions concerning placements has resulted in regularly used provision being unavailable and hence more expensive accommodation has been the only option available to accommodate safely. To deal with demand a number of temporary staff have been employed until August. The estimated additional cost of CV19 is £0.125m but assumes that restrictions and demand will have reduced by the end of August. If the crisis continues these costs will increase. Further issues caused by COVID which may impact upon the budget over the remainder of the year include the backlog within the court system which could mean that some children's exit from care may be delayed

subsequently requiring those children to continue to be supported by the Local Authority.

- (b) There are a number of pressures upon budgets within children's social care as the number of children in care has increased. During the last financial year the numbers of children receiving support in Independent Fostering and Special Guardianship Orders led to budget overspends which have continued within the current financial year. However, following a review of all residential placements a number of children were able to return home or be placed with fostering provision which has resulted in savings in this budget area. Overall the projected savings within the residential budget are expected to offset the forecast overspend in other placement budgets and the additional estimated CV19 costs up to August.
- (c) **Development & Commissioning** is forecasting a year end pressure of £0.045m which all results from CV19. The Council agreed to increase the support given to CAB for the financial crisis support service they provide by £0.035m to fund an additional member of staff to support those most vulnerable within the borough. Additional costs have also been incurred in providing extended brokerage and contracting support to social care providers during the COVID crisis to date.
- (d) **Education** is forecasting a year end breakeven position. The service has incurred additional costs (£0.036m) as a result of the CV19 crisis with a number of pupils having additional or changes to their placements. As the pupils requirements concern SEN these additional costs will be funded through the high needs element of the Dedicated Schools Grant.
- (e) It is prudent to highlight at this stage that there is a potential pressure for school transport going forward. If the social distancing measures remain in the autumn term when schools have returned this will impact significantly upon how children reach school. The capacity of both buses and taxis will be significantly less and therefore potentially up to three times as many vehicles will be needed under the existing transport system. This will be unaffordable within the current budget and will be unsustainable as locally there is insufficient capacity within the providers of buses and taxis to meet this demand. The annual cost of buses/taxis is £1.6million and hence this will lead to significant cost pressures.
- (f) The Council is exploring various options regarding how children reach school, though this is limited as the use of public transport is against current Government guidance, other alternatives such as personal budgets will be explored. This is a national issue that will affect all Council's with education responsibilities. Officers will continue to link in with colleagues from the DFE and will update members accordingly.
- (g) **Public Health** is forecasting an overspend of £0.090m at the year end. This pressure relates to the need to purchase personal protective equipment for staff due to the COVID 19 crisis.
- (h) **Adult Social Care & Health** is forecasting an overspend of £0.919m, of which £1.440m is due to additional costs associated with the ongoing CV19 pandemic. The increased expenditure is being used to support providers of

adult social care, support to day care providers to maintain provision in the future, provision of personal protective equipment (PPE) and additional staffing costs.

- (i) On a positive note, a rebasing exercise was completed reviewing the 2020/21 external purchase of care budget to reflect the outcome of the 2019/20 yearend savings, this has enabled £0.525m to be returned to general fund reserves. In addition to this further savings have been achieved in the year due to additional income received following clients assessed care and support needs being awarded Continuing Health Care (CHC) funding and also additional assessed client contributions.
21. The **Economic Growth and Neighbourhood Services Group** is projecting an overspend of £9.048m after taking into account the anticipated impact of CV19, particularly on the business activities of the group. The CV19 element is £9.061m.
 22. Both current social distancing guidelines and the national lockdown have had, and continue to have, a significant impact on fees and charges within the Economic Growth & Neighbourhood Services Group. While recovery activities have begun it is widely anticipated income levels will be severely affected for the majority of the year.
 23. Based on current expectations and guidelines the following pressures are projected;
 - (a) Planning, Economic Initiatives & Asset Management is expected to see an overall reduction in submissions for planning fees. While levels initially saw a 50% drop off at the start of lockdown it is expected that this will improve as the lockdown is relaxed. The anticipated pressure is in the region of £0.219m. Property Management & Estates is also expected to see a shortfall in income of £0.188m due to the impact of the covid-19 pandemic on property rentals and delays in exchanging tenancy agreements.
 - (b) Capital Projects, Transport & Highways Planning is currently expected to have a small underspend of £0.031m. While the CV19 pandemic saw the Highways DLO service severely reduced during lockdown it is planned that the service will return from mid-June. The cost of this reduction due to lockdown is calculated as £0.341m.
 - (c) The pressure has been offset by an underspend on concessionary fares which after a Tees Valley led negotiated agreement saw a saving of £0.372m against the original budget. As a pressure for concessionary fares was included in the MTFP this amount has been clawed back sits in general fund reserves.
 - (d) Community Services has a number of public buildings that were closed from late March 2020 due to the government lockdown. This has seen income levels from fees and charges to cease. While many of these facilities remain closed to the public, recovery work is being undertaken which will allow these buildings to re-open in the coming month in line with government guidelines as well as governing bodies recommendations.
 - i. Dolphin Centre is expected to have some services return from July with more to follow over the subsequent months but given the reduction in

capacity of the venue while ensuring social distancing is observed it is expected income levels to initially be at 20% of normal. After taking into account government support of £0.233m towards the cost of furloughed staff there is an expected pressure of £1.891m for the year.

- ii. Eastbourne Complex provides a number of outdoor facilities which are expected to become available for use from July onwards in a limited capacity. However there will be some impact on the wider facilities and the pressure for the year is projected to be £0.105m.
 - iii. Head of Steam is expected to reopen from July but given the expectation that visitor numbers will be down by 50% there is an anticipated pressure of £0.024m.
 - iv. The Hippodrome is currently not expected to re-open until the production companies who deliver the shows restart their industry. Based on this it is assumed the theatre will not re-open fully until 2021/22. After taking into account government support of £0.218m towards the cost of furloughed staff there is an expected pressure of £1.915m for the year.
 - v. While both Crown Street and Cockerton Libraries are expected to re-open from July income is likely to be adversely affected for the year resulting in a pressure of £0.035m.
 - vi. School Meals continues to operate to provide free meals however it is not expected that a most will not fully open until September 2020 and any service levels will be based on how the schools manage their re-openings. Given the uncertainty in this area the pressure could be in the region of £0.174m.
 - vii. Street Scene suspended a number of services from late March such as bulky household collections, tree works, etc. These services are being slowly reintroduced, however, the lost income is £0.075m. Due to current CV19 guidelines on social distancing there is additional costs of £0.150m needed to carry out refuse and recycling collections safely.
 - viii. Waste Disposal has seen a significant increase in tonnages generated from household waste during the government lockdown. This has initially been offset by savings in other waste streams due to service suspensions but as these services return there is expected to be an ongoing pressure on household waste. Assuming the disruption continues for the year this could see waste costs increase by £0.400m.
- (e) Community Safety has a pressure on car parking following the decision to offer free parking from late March 2020. If this free offer continues for the year on all parking income streams the pressure would be £2.453m.
- (f) Building Services turnover has been impacted by the decision made due to the covid-19 lockdown, Construction was completely suspended while Maintenance was restricted to emergency works only from late March. Both services are expected to begin the process of recovery from June but it should be noted that internal capital works will only resume when it is safe to do so and will be relying less on external contractors and agency workers to ensure

we can maintain sufficient work for our internal workforce. The cost of the suspensions is £0.934m.

- (g) Housing general fund is showing an overspend of £0.109m, £0.122m being due to additional CV19 Homelessness related costs for rough sleepers and the employment of an additional member of staff to manage the extra demand.

24. The **Resources Department** is projecting a year end budget overspend of £0.219m as follows:

- (a) Finance & Governance is projected to be underspent by £0.100m from lower insurance premiums. The Council's insurance contract was due to end in May 2020, however the Council has negotiated a two year extension with our existing insurance provider which provides savings of £0.100m for each year.
- (b) Registrars are projected to be overspent by £0.096m due to lower receipts from wedding ceremonies as a result of CV19. During the lockdown period the income received for weddings and other ceremonies has been minimal as the majority of wedding locations have been shut, with ceremonies cancelled or postponed. It is estimated that during the lock down period of April to July that the Council will have lost approximately £0.072m in fee income. As the lockdown is relaxed and venues reopen fee income will increase, however it is expected that there will still be a shortfall due to social distancing measures, with the loss of some venues including the Council Chamber which is used for larger registry office ceremonies. This shortfall is estimated at £0.024m, however the actual shortfall will be dependent upon the how long social distancing measures are in place during the remainder of the year.
- (c) ICT budgets are projected to be overspent by £0.203m due to additional ICT requirements as a result of the CV19 crisis. In line with Government advice and to maintain services a large number of Council staff are working from home. To enable this, £0.126m of mobile computer equipment has been purchased to enable remote access working. In addition to hardware the Council has increased its access to mobile data through telephony contracts, which is projected to cost £0.076m to the end of the financial year.

25. The School balances and allocations are shown in **Appendix 2(e)**. Information on projected closing school balances is not yet available but will be included in future reports to Cabinet.

Council Wide and Corporately Managed Resources

26. The Council Wide and Corporately Managed Resources projections at this stage are projecting a £0.997m shortfall. Although not confirmed is it anticipated the impact of CV19 may reduce the dividend receivable on the Councils property investment funds. Whilst the investments will still produce a positive return they could be lower than planned. There is also anticipated to be a reduction in the profits from our JV companies this year as the programme is pushed back, at this point we have estimated the reduction in dividends and profit to be £0.611m.

27. The 2020/21 MTFP assumed a pay award offer of 2%, however, the current national employers offer stands at 2.75% which the unions are consulting upon. If this is agreed the increased cost to the Council this year is £0.400m.

Housing Revenue Account

28. HRA projections are shown in **Appendix 3** with an overall reduction to budget of £0.325m this stage due to an anticipated shortfall in the rents of council dwellings of £0.290m and an increase in maintenance costs of £0.200m and staffing and supplies and services savings of £0.165. These changes are currently affordable within the revenue account and do not fundamentally change the business plan position.

Collection Fund

29. The Collection Fund account reflects the statutory requirements for the Council to maintain a separate Fund in relation to the operation of Council Tax and Business Rates Retention Scheme (BRRS). The Fund records all of the transactions for billing in respect of Non Domestic Rates (NDR) and Council Tax, exemptions and discounts granted, provision for bad debts and appeals and payments made to the Council's General Fund, the Police and Fire & Rescue precept authorities and Central Government.
30. Due to the ongoing Covid-19 crisis it is anticipated the council tax collection fund will showing a projected deficit of £2.018m primarily due to the increase in local council tax support claimants along with an anticipated house building slowdown and increased bad debt provision. This deficit will need to be funded from GF reserves this has been and is included in the projections.
31. Due to the ongoing Covid-19 crisis a 5% reduction in the business rates collection from non-retail premises has been assumed and reflected in the projections for NNDR at the cost of £0.550m. There are other elements that will increase the deficit due to the granting of reliefs, exemptions and the small business rates relief all of which are funded by section 31 grant received from the Government.

Conclusion

32. The Council's projected revenue reserves at the end of 2020-21 are £12.879m, £6.484m lower than the initial 2020-24 MTFP position and include a brought forward amount of £0.274m from 2019-20 and the rebasing exercise of £0.897m.
33. Of the £12.879m projected reserves, we have a risk reserve balance of £4.350m and a commitment to use £11.330m to support years 2 – 4 of the current MTFP, which leaves a £2.801m shortfall in funding. This of course is assuming no further pressures are identified and there is no impact of CV19 in future years. In reality there will be ongoing pressures and as noted in paragraph 15 a full review on the MTFP will be required during 2021/22.
34. The Government announced a further package of financial support on the 2 July 2020, however as no detail on allocations has been received at the time of writing no account has been taken of this in the forecasts.

Outcome of Consultation

35. No external consultation has been carried out in preparing this report.