

**CABINET
10 NOVEMBER 2020**

REVENUE BUDGET MONITORING 2020-21 – QUARTER 2

**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 second 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 £7.174m to assist with the pressures, they have also announced a further £1bn to be distributed between Local Authorities and Darlington's proportion will be £1.508m.
4. On the 2 July 2020 the Government announced a further package of support to Councils to help address the financial pressures due to CV19. 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. This additional funding is anticipated to be £4.095m this financial year.
5. If all the funding comes to fruition it is estimated the CV19 pressure for 2020/21 will be £0.875m, significantly lower than initially anticipated in Quarter 1 given the additional government funding packages.
6. 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 and grants anticipated, rebasing, and the early indication of non Covid pressures and savings shows an overall improvement in the 2020/21 financial position of £1.143m.
7. Whilst this headline figure is good news for 2020/21 there is still a significant amount of uncertainty in regard to future pressures and the continued impact of

CV19. This early projection uses best estimates and assumptions based on the Governments recovery plans, however it is likely there will be unforeseen circumstances moving forward.

8. The projected CV19 pressure can be contained this financial year however the greater concern is future years and the longtail CV19 is likely to have on the Council and the Darlington economy. There is no indication if any Government funding will be received for 2021/22 and it is clear the impacts of the pandemic are likely to be prolonged and accumulated in forthcoming years. Any surpluses that may arise this year will be needed to assist with future MTFP pressures.

Recommendation

9. It is recommended that :-
- (a) The financial position in the forecast revenue outturn for 2020-21 be noted.
 - (b) The CV19 pressures and government grant received to date be noted
 - (c) Further regular reports be made to monitor progress and take prompt action if necessary.
 - (d) The carry forward requested is agreed.
 - (e) The transfer of £0.143m to the ICT earmarked reserve be approved.

Reasons

10. 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 Council's 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

11. This is the second revenue budget management report to Cabinet for 2020-21 and provides a mid-year forecast of the revenue position as part of the Council's continuous financial management process.
12. 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 second 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.
13. The information in this report has been taken from the financial records to August and managers' projections for the remainder of the year, using their knowledge of events affecting the services they manage.
14. Overall the projected General Fund reserves position at 31st March 2021 is £20.506m, which is an improvement of £1.143m on the planned balances in the 2020-24 MTFP. Of this, £0.875m relates to the unmet CV19 pressure gap offset by the improvement in the Council's 2019-20 financial results of £0.274m; £0.897m being returned to reserves as a result of the rebasing exercise and £0.503m of Troubled Families Grant which was not anticipated at budget setting time and can therefore be returned to reserves along with other departmental improvements..

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 all services will return to normal and what the impact will be on our communities and the wider economy; the latter points are already having an impact on increased demand for services and council tax and business rate income reductions.
16. The Government has supported Local Authorities with £3.7bn in CV19 funding and have announced a further £1bn which is yet to be distributed. Darlington has received £7.174m to date and is anticipating a further £1.508m which is helping to offset the majority of this years pressures.
17. On the 2 July 2020 the Government announced a further package of support to Councils to help address the financial pressures relating to income loss due to CV19. The Sales Fees and Charges (SFC) scheme will 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. Darlington's allocation of this funding is estimated to be £4.095m for 2020/21.
18. Taking into account the funding of £7.174m, the potential additional £1.508m and estimated SFC income of £4.095m there is anticipated to be a gap in CV19 funding of £0.875m in 2020/21 with further impacts likely in future years. A summary of anticipated CV19 impact in 2020/21 is detailed in **Appendix 4**.
19. The Medium Term Financial Plan 2020/21 – 2023/24 was balanced utilising general fund reserves over the period. Whilst the projected CV19 gap can be accommodated this year there is significant uncertainty about future pressures and funding. There has been no indication to date that government support will continue into 2021/22 yet it is clear the ongoing impacts of the pandemic will continue into future years in particular relation to the council income streams and additional demand for support. Unless any government funding is received in future years reserves are likely to be utilised earlier than anticipated and a full review of the plan will need to take place during 2021/22.

Departmental Resources

20. 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.
21. The **Adults & Children's Services Group** budget is projected to be overspent by £1.879m at the end of the financial year. This is an increase of £0.825m on the position reported at quarter 1. £2.438m relates to CV19, so the overall the budget would ordinarily have been projected to be underspent. The main changes to the previously reported position are detailed below.
 - (a) **Children's Services** is forecasting an overspend of £0.768m at the end of the financial year, £0.514m relating to CV19 expenditure which is an increase of £0.389m on the position reported at quarter one. As the COVID crisis has

continued the demand for services has increased with a number of the previously projected costs rising, along with new pressures. At quarter 1 an assumption was made that the COVID demand would reduce after August with additional measures in place unwinding, however these costs have and are predicted to continue as the pandemic carries on into the winter. This has increased the projected expenditure on placements previously reported by £0.022m and required temporary additional staffing arrangements to be extended adding £0.079m to the previously projected costs. In addition, new pressures are arising as children are staying in the care of the Local Authority longer than planned pre COVID (£0.082m) and the continuing lack of suitable placement provision, meaning a number of children have had to be placed in residential rather than foster care placements (£0.206m).

- (b) Assessment and Care Planning is projected to be overspent by £0.634m at the end of the financial year. This overspend arises from projected net (i.e. after reducing for savings on vacant posts) agency staff costs of £0.270m covering vacant posts, staff on maternity leave and staff sickness absence. The cost of supporting children who are not looked after, is projecting a pressure of £0.300m which is in line with additional caseloads. Whilst this budget is overspending the pressure is significantly less than the cost of formally looking after the children, should they end up in the care of the Local Authority. This support cost pressure is largely overspending due to expensive independent living arrangements for two child who have left custody. The Leaving Care budget continues to be under pressure with a projected year end overspend of £0.057m. This pressure arises from the cost of supporting increased numbers of care leavers with increased costs for supporting up to the age of 25.
- (c) Adoption and placements budgets continue to have a projected underspend, which is now £0.300m. This is based upon current child in placements so is subject to change should placement numbers or type change over the remainder of the year. .
- (d) **Development & Commissioning** is forecasting to be underspent by £0.029m at the end of the financial year. Whilst there are ongoing pressures due to CV19 of £0.042m, savings are projected in a number of the demand led contracts which are offsetting this pressure
- (e) **Education** is forecasting to be overspent by £0.011m at the year end. CV 19 continues to impact on the budget with £0.187m of pressures. This is an increase of £0.151m on the projection at quarter 1 and has arisen from an increase in the number of support arrangements that were required for pupils over the summer holidays as CV19 continued to impact on services (£0.035m). During the school closure period a number of vulnerable pupils were provided with laptop computers by the DfE to enable those pupils to continue with their schooling. The laptops require ICT support, which was not provided as part of the DfE scheme. The Council has therefore let a contract for ICT support which increases costs by £0.069m per year.
- (f) As pupils have returned to school in the autumn term school transport has been provided within the constraints of social distancing. This has required additional transport arrangements and the Council has agreed to contribute towards the costs of running a number of non statutory services. Although savings were made on school transport contracts as a result of reduced

payments through supplier relief the estimated additional cost of CV19 is projected to be £0.046m.

- (g) The CV19 projected cost increases are mostly offset by savings within the education budgets. £0.036m of COVID costs is to be offset by education grants and savings of £0.097m are projected from vacant posts, staff turnover and reduced historic teachers pension liabilities.
 - (h) **Public Health** is forecasting an overspend of £0.105m at the year end. This pressure relates to the need to purchase personal protective equipment for staff due to the CV19 crisis.
 - (i) **Adult Social Care & Health** is forecasting an overspend of £1.029m, of which £1.590m is due to additional costs associated with the ongoing CV19 pandemic. The increased expenditure is 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.
 - (j) Adults (excluding CV19 costs) is underspending against budget by £0.561m, a slight improvement of £0.040m from the Q1 position due to various factors with savings in staffing, running costs and supplies and services of £0.025m.
22. The **Economic Growth and Neighbourhood Services Group** is projecting an overspend of £8.261m after taking into account the anticipated impact of CV19, particularly on the business activities of the group. This is an improvement of £0.787m from the position reported at Q1. Operationally the group is projected to be £0.350m overspent when the impact of CV19 is excluded.
23. The majority of the £0.787m improvement comes from improved income projections for car parking income. At Q1 we were projecting 100% loss of income for 12 months, however this has now been revised to only 100% losses for the first 6 months and 30% losses for October to March (excluding the current parking offers). Staff in the construction and highways DLO groups were also furloughed as a result of the national lockdown which suspended or seriously curtailed operations in the early part of the pandemic and this brought in £0.163m of additional government support.
24. Lockdowns and current social distancing guidelines have had and will 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 believed income levels will be severely affected for the remainder of the year. Current estimates of net losses are based on how managers expected current guidelines to impact on services and are subject to change and may improve or worsen depending on how government advice evolves to combat the increase in local and national cases.
25. Based on current expectations and guidelines the following pressures are projected;
- (a) Planning, Economic Initiatives & Asset Management has seen a reduction in the overall submissions for planning fees, however, the position may see some improvement as there are number of one-off larger planning applications expected to be submitted during the year. Overall, the service area is reporting

an operational overspend of £0.215m which is due to the recent receipt of a backdated claim for rental and service charges, we are looking into this and have included for prudence but hope to reduce this claim. Savings in staffing have helped to reduce the overall pressure.

- (b) Capital Projects, Transport & Highways Planning is currently expected to have an operational underspend of £0.079m, mainly as a result of reduced electricity consumption on street lighting due to more efficient lanterns. Additional section 38 income received during the year is offsetting an expected fall in fees from the capital project and building design teams following the delay or deferment of a number of housing schemes.
 - (c) Community Services saw a number of its public buildings closed from late March 2020 due to the government lockdown. While these buildings have reopened, they continue to be severely affected by the current social distancing restrictions. Other services provided by the group have continued and it is from these that there is an expected operational underspend of £0.126m;
 - (d) Income from the Cemeteries and Crematorium services is expected to £0.090m greater than budgeted for the year.
 - (e) A saving in Waste Disposal of £0.050m has arisen due to lower than expected inflationary increases on the contract.
 - (f) Community Safety overall is expected to breakeven operationally at the end of the year. Parking income losses due to CV19 have improved following the decision to return to charging from October 2020.
 - (g) Building Services returned to operations from June 2020 and while it is not expected to recover the costs and profit lost during this suspension it is currently projected that the services will meet their profit targets for the remainder of the year where operations have returned.
 - (h) Housing general fund is showing an overspend of £0.515m. This includes £0.158m in Homelessness and Rough sleeping related CV19 costs as well as an increase of £0.052m due to increases in B&B costs and placing people for extended periods. ICT costs for customer services have increased by £0.020m and there is a shortfall in income of £0.270m due to CV19 from a reduction in court fee income .
26. The **Resources Department** is projecting a year end budget overspend of £0.195m (including carry/forwards & transfers), a decrease in projected overspend of £0.024m on the position reported at quarter 1. £0.040m is requested to be carried forward to fund the Equality and diversity training which has partially been on hold during the pandemic and will be required in 2021/22. Furthermore, given the pressure there will be on ICT equipment moving forward to continue to support the deployment of staff to home and agile working, it is requested the underspend in the AD Resources areas of £0.143m is transferred to the ICT Architecture fund for future utilisation.
27. The main changes in the Resources group from quarter 1 are summarised as follows:

- (a) Xentrall Partnership, is projected to be underspent by £0.040m which arises due to lower employer pension contributions for staff within the Stockton on Tees Borough Council pension scheme.
- (b) Democratic services are projected to be underspent by £0.071m however £0.059m of this underspend is allocated to cover the costs of additional ICT equipment for members required due to CV19.
- (c) Administration is projected to be underspent by £0.172m at the year end. £0.67m of which has arisen from vacant posts and reduced support required for the Town Hall during the pandemic. Savings of £0.060m are also projected in postage budgets as the amount of mail has reduced during the period.
- (d) Legal & Procurement is projected to be overspent by £0.047m at the yearend primarily due to staffing costs covering maternity leave and also a shortfall in the central budget for printing/photocopying machines where the fixed costs of the machines are not being covered through recharges to the service departments. This pressure will however offset by savings within the departments as the printing budgets will be experiencing savings.
- (e) ICT budgets are projected to be overspent by £0.204m due to additional ICT requirements as a result of the CV19 crisis. This is an increase of £0.062m on that reported at quarter 1 as additional ICT equipment has needed to be procured as staff continue to work remotely.

28. 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

29. The Council Wide and Corporately Managed Resources projections at this stage are projecting a £0.405m shortfall. Financing Costs are projected to be £0.109m underspent, and whilst the impact of CV19 has reduced the projected dividend receivable on the Council's property investment funds by £0.236m, this has been more than offset by lower than predicted interest rates that has reduced the cost of borrowing by £0.345m. 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 £0.125m.
30. The 2020/21 MTFP assumed a pay award offer of 2%, however, the national employers and unions have since agreed on a pay award of 2.75%. This agreement has created an increased cost to the Council this year of £0.404m.

Housing Revenue Account

31. HRA projections are shown in **Appendix 3**. Income from rents is anticipated to be £0.373m lower than budget, slightly higher than the Q1 position and is due to additional void as we were not able to re-let or move people at the start of the pandemic until advised by government it was safe to do so. There were also further delays in sheltered complexes due restrictions in to communal areas and relets in these areas have just recommenced. Due to CV19 some areas of the Housing Capital Programme have been delayed in particular the new build

programme and will slip into the new financial year. Consequently, it is anticipated £9.748m of the Revenue contributions will not be required this financial year will remain in Housing balances until called upon next year. A further impact of this is a reduction in financing costs. These changes are being programmed into the revenue account going forward and do not fundamentally change the business plan position.

Collection Fund

32. 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.
33. Due to the ongoing Covid-19 crisis it is anticipated the council tax collection fund will show 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 and this has been included in the projections.
34. 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

35. The Council's projected revenue reserves at the end of 2020-21 are £20.506m, £1.143m higher 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.
36. Of the £20.506m 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 funding surplus of £4.826m. 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 19 a full review on the MTFP will be required during 2021/22.

Outcome of Consultation

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