

**TITLE OF REPORT:**            **Provisional Revenue Outturn 2019/20**

**REPORT OF:**                **Darren Collins, Strategic Director, Resources & Digital**

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### **Purpose of the Report**

1. This report sets out the outturn position on the 2019/20 revenue budget. Cabinet is asked to
  - i. note the contents of the report;
  - ii. recommend to Council appropriations to and from reserves consistent with previous decisions, accounting policies, the principles set out in the Medium-Term Financial Strategy (MTFS) and requirements of the Accounting Code of Practice;
  - iii. agree and recommend to Council the proposed changes to strategic reserves following the outcome of a review of Council reserves as set out in this report and appendix.

### **Background**

2. Cabinet receives quarterly reports on the agreed revenue budget so that any variances can be identified and addressed. This report sets out the final revenue monitoring position for 2019/20 on a consistent basis to the Revenue Monitoring Framework.
3. Council agreed the original revenue budget for 2019/20 on 21 February 2019. This was set at £206.999m. This was subsequently revised to £207.262m on 20 November 2019 following the receipt of additional funding of £0.263m.
4. The Dedicated Schools Grant (DSG) budget for 2019/20 was agreed by Council on 21 February 2019 as £102.441m.
5. Council agreed the original Housing Revenue Account (HRA) budget for 2019/20 on 24 January 2019. This was set as a net deficit of £8.382m funded from planned use of reserves.

### **Service Revenue Outturn 2019/20**

6. The overall service revenue outturn for 2019/20, including transfers to and from reserves and financing, results in an under spend of £0.237m (0.1%). This is a movement of £2.047m in comparison to the third quarter review of budget. The provisional outturn position is subject to audit.
7. This position includes the application of £3.795m of earmarked reserves, and £0.385m of the General Fund reserve and the appropriation of £8.391m into

reserves. This includes the first tranche of Covid19 funding received in March of £7.593m to be utilised against 2020 costs.

8. It should be noted that there are several one-off areas of expenditure included in this position, most of which have been accounted for in Other Services, these include:

	£'m
Reinstatement of redundancy provision	0.803
Reinstatement and increase to Councils bad debt provision	0.872
Creation of expected credit loss provision	0.129
Newcastle airport change in loan terms	0.874
Adjustment to in year interest receivable from Newcastle airport	0.106
Compensatory payment to Gateshead Trading Company	0.306
Total	3.090

### **Council Revenue Outturn 2019/20**

9. As previously reported the Council has received a refund of VAT in relation to Leisure Services of £3.893m. The Council's stated intention in relation to this one-off benefit has been to transfer this into the General Reserves to support the MTFS. When added to the monitoring position outturn this results in an overall council revenue position for 2019/20 of a surplus of £4.130m.
10. Further detail on the outturn position can be found in Appendices 1 and 2.

### **Appropriations to/from Reserves in Support of Outturn**

11. In line with agreed use of reserves the proposed appropriations from reserves at outturn are as follows;
- £2.290m from the Financial Risk and Resilience reserve,
  - £0.489m from the Economic, Housing and Environmental Investment reserve,
  - £0.413m from the Poverty, Health and Equality Investment reserve,
  - £0.848m from the Budget Sustainability reserve,
  - £0.020m from the Budget Sustainability reserve,
  - £0.101m be funded from the unapplied revenue grants reserve,
  - £0.409m from receipts from developer contributions, Section 106 and Section 38 agreements,
  - £0.574m from the ring-fenced Public Health reserve,
  - £0.385m from the General Fund reserve.
12. Proposed appropriations to reserves at outturn also include;
- £7.895m to be appropriated to the ringfenced unapplied revenue grants reserve, this includes the first tranche of Covid funding received in March of £7.593m.

- Receipts from Section 106 and Section 38 agreements are proposed to be appropriated into the ringfenced Developers' Contributions reserve which can then be used to fund specific development expenditure. A total of £0.465m was received in year, which is proposed to be appropriated to the reserve.
  - It is also proposed that the under spend of £0.032m in relation to current year performance is appropriated to the ring fenced Public Health reserve.
  - £0.396m to the ring fenced dedicated schools grant (DSG) reserve
13. These proposals would result in an increase in Earmarked reserves of £3.664m, further information is provided in appendix 3.
14. It is proposed that the overall surplus against budget of £4.130m is included in the General Fund reserve. A further appropriation of £0.385m is required from the General Fund reserve to the LMS Budget Share reserve to write off balances relating to Academy transfers.
15. In addition to this it is proposed that the over spend on school budgets in 2019/20 of £0.770m, excluding the written off academy balances, is appropriated from the ring fenced schools LMS Budget Share reserve and the under spend of £0.396m on Dedicated Schools Grant (DSG) be appropriated to the earmarked DSG reserve.
16. The HRA outturn is a £0.519m use of reserve, compared to the budget of £8.382m, this is a reduction of £7.864m. The HRA is ring-fenced and does not form part of the General Fund reserve.

### **Strategic Reserves - Balance Review and Proposal**

17. At the MTFS and outturn reporting points, general fund balances and strategic earmarked reserves must be reviewed. This is to ensure balances are fit for purpose, contributing to long term financial sustainability and the purpose for being held is fully transparent.
18. It is proposed that the following changes are made to strategic reserves;
- £5.161m is transferred from Budget Sustainability reserve into the Financial Risk and Resilience Reserve to reflect the nature of the workforce reserve;
  - The remaining balance in the Budget Sustainability Reserve (£4.206m) is transferred into the Poverty, Health and Equality Reserve to earmark funding of this priority area;
  - The value of the VAT rebate (£3.893m) is transferred from the general reserve to the Economic, Housing and Environmental Investment reserve to earmark funding for this priority area.
19. The outcome of the review on the Council element of the general fund reserve is that the remaining balance will be £11.059m. This equates to 5% of 2020/21 net revenue budget (£220.761m) and assessed as appropriate in the current climate.
20. The reserve balances following the proposed review are shown in appendix 4 for information.

## Recommendations

21. It is requested that Cabinet:

- Notes the Council's 2019/20 revenue outturn position as an under spend of £4.130m, subject to audit.
- Agree and recommend to Council the appropriations to and from reserves outlined in paragraphs 11-16.
- Agree and recommend to Council the proposed changes to strategic reserves following the outcome of a review of Council reserves as set out in this report and appendix.

For the following reason:

- To contribute to sound financial management and the long-term financial sustainability of the Council.

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## Policy Context

1. This report meets the standards required to comply with the Accounts and Audit Regulations 2015. It is also consistent with the Council's objectives of making Gateshead a place where everyone thrives by assisting in ensuring a sustainable financial position for the long term.

## Background

2. The Accounts and Audit Regulations 2015, which represent financial management good practice, recommend that councillors should receive regular reports on performance against revenue and capital budgets. The frequency of the reports is determined following a risk assessment of the budget, and Cabinet currently receives a report on a quarterly basis.
3. This report and appendices sets out the final outturn position on the 2019/20 revenue budget.
4. The Council retained element of the DSG budget is agreed in February within the Budget and Council Tax Level Report. The 2019/20 budget was agreed as £102.441m. During the year adjustments were made reducing the budget to £101.761m.
5. The HRA outturn requires £0.519m use of reserve compared to the budget of £8.382m, this is a reduction of £7.864m.

## Revenue Outturn 2019/20

6. Monitoring reported to Cabinet on 21 January 2020 projected an overspend of £1.810m. The report identified that management would continue to seek to deliver outturn within budget.
7. The overall service revenue outturn for 2019/20, including transfers to and from reserves and financing results in an under spend of £0.237m. This position includes Covid19 related costs incurred in March.
8. As previously reported the Council has received a refund of VAT in relation to Leisure Services of £3.893m. The Council's planned financial strategy in relation to this one-off benefit has been to put this into the General Reserves to support the MTFS. Due to the technical accounting treatment of this income the overall Council's revenue outturn bottom line for 2019/20 is a surplus of £4.130m.
9. The position includes the use of £5.124m of earmarked reserves, £0.943m of which is budgeted, and a proposal to appropriate £8.391m into reserves.
10. It is proposed that the overall surplus of £4.130m is transferred to the General Fund reserve. A further appropriation of £0.385m is required from the General Fund reserve to the LMS Budget Share reserve to write off balances relating to Academy transfers.

11. In addition to this it is proposed that the over spend on school budgets in 2019/20 of £0.770m, excluding the written off academy balances, is appropriated from the ring fenced schools LMS Budget Share reserve and the under spend of £0.396m on Dedicated Schools Grant (DSG) be appropriated to the earmarked DSG reserve.
12. The HRA outturn is a £0.519m use of reserve, compared to the budget of £8.382m, this is a reduction of £7.864m. The HRA is ring-fenced and does not form part of the General Fund reserve.
13. The overall outturn position is shown in Appendix 2. Although the outturn is positive, it masks over spends in some services and also includes a number of year end transactions that have impacted on the final position. The positive outturn remains a significant achievement given the financial pressures faced by the services and enables the Councils sound financial position to be maintained within an extremely challenging economic and financial context.
14. Quarterly reports to Cabinet have identified that the Councils budget has continued to face increasing pressures in several areas. The main variances to budget after the use of reserves on a group basis are outlined below.

### **Children, Adults & Families**

15. The overspend of £0.916m on Children's Social Care relates to additional expenditure on placement costs, offset by reduced staffing costs in various areas.
16. The under spend of £0.342m on Education, Schools and Inclusion relates to trading surpluses, lower than budgeted PFI costs offset by an over spend on home to school transport.
17. The overspend of £3.340m on Adult Social Care relates to over spends on packages of care.

### **Economy, Innovation and Growth**

18. The under spend of £0.428m on Planning Policy, Climate Change and Strategic Transport relates to increased income from planning applications, building control and private sector housing.

### **Capital Financing Costs**

19. The under send of £1.738m on capital financing costs is due to active management of debt which has resulted in reduced borrowing costs during 2019/20, as well as some slippage on the programme itself.

### **Trading and Investment Income**

20. There is an under spend of £1.284m on Traded and Investment Income this relates to a positive contribution from the Insurance Fund, a dividend from Newcastle international airport and higher than anticipated investment income, offset by under achievement of income from Trinity Square, SCAPE and the trading company.

## **Schools**

21. Schools reserves have decreased from £6.249m to £5.479m, as there was an over spend on schools of £1.155m for 2019/20, which is proposed to be transferred to the LMS Schools reserve, and academy transfer balances write off to the General Fund of £0.385m. Resulting in a net appropriation of £0.770m. This forms part of the total General Fund reserve.
22. The Dedicated Schools Grant (DSG) under spent in 2019/20 by £0.254m and it is proposed that this be appropriated to the DSG reserve along with the additional funding received during the year of £0.142m in relation to a prior year adjustment for early years. The DSG is a ring-fenced earmarked reserve.

## **Housing Revenue Account**

23. Income has exceeded budget by £1.552m of which £0.680m related to rental income and £0.928m fees and charges. Expenditure has reduced by £6.327m which mainly relates to an underspend on the capital programme of £4.225m and lower than budgeted borrowing costs of £0.589m.

## **Savings**

24. The overall target for revenue savings in 2019/20 was £13.113m. The final outturn for achieved savings was £10.470m, a shortfall of £2.463m. The shortfall has been mitigated by £1.236m use of reserves and £0.072m of contingency, resulting in an overall underachievement of £1.335m. It is important to note that unless action is taken to address unachieved savings they will contribute to the budget pressures in 2020/21.

## **Reserves**

25. The proposed usage of strategic and ring fenced reserves for the year is £5.124m including £0.943m of budgeted use. In addition, it is also proposed that £8.788m is moved to ringfenced reserves, including DSG and Covid funding. The use of reserves includes £4.040m of Strategic Reserves, £1.084m of ringfenced reserves.

### *Strategic Reserves*

- £2.290m Financial Risk and Resilience Reserve for the use of previous service budget flexibility projects,
- £0.848m Budget Sustainability Reserves for previously agreed savings mitigations,
- £0.489m Economic, Housing and Environmental Investment Reserve for agreed savings mitigation in economic development, business support and marketing,
- £0.413m Poverty, Health and Equality Investment Reserve for the discretionary social fund, innovation fund and poverty programme.

### *Ringfenced Reserves (Appropriations From)*

- £0.101m Revenue Grants Unapplied Reserve to reflect in year use of grants
- £0.409m Developers Contributions Reserve to fund specific development expenditure within services

- £0.574m Public Health Reserve for the use of previous under spends to fund current year expenditure

#### *Ringfenced Reserves (Appropriations To)*

- £7.895m Revenue Grants Unapplied Reserve relating to Covid19 funding and ringfenced service income relating to more than one financial year
- £0.465m Developers Contributions Reserve for income received to be used for specific development expenditure in the future
- £0.032m Public Health Reserve relating to the in-year service under spend that must be used to fund public health
- £0.396m Dedicated Schools Grant Reserve as a result of the under spend on specific grant income that can be carried forward and used in future years

### **Strategic Reserves - Balance Review and Proposal**

26. At the MTFS and outturn reporting points, general fund balances and strategic earmarked reserves must be reviewed. This is to ensure balances are fit for purpose, contributing to long term financial sustainability and the purpose for being held is fully transparent.
27. It is proposed that the following changes be made to strategic reserves;
  - £5.161m is transferred from Budget Sustainability reserve into the Financial Risk and Resilience Reserve to reflect workforce pressures;
  - The remaining balance in the Budget Sustainability Reserve (£4.206m) is transferred into the Poverty, Health and Equality Reserve to earmark funding of this priority area;
  - The value of the VAT rebate (£3.893m) is transferred from the general reserve to the Economic, Housing and Environmental Investment reserve to earmark funding for this priority area.
28. The outcome of the review on the Council element of the general fund reserve is that the remaining balance will be £11.059m. This equates to 5% of 2020/21 net revenue budget (£220.761m) and assessed as appropriate in the current climate.

### **Consultation**

29. The Leader of the Council has been consulted on this report.

#### **Alternative Options**

30. There are no alternative options proposed.

#### **Implications of Recommended Option**

#### **31. Resources**

- a. **Financial Implications** – The Strategic Director, Resources and Digital confirms these are as set out in the report and appendices.
- b. **Human Resource Implications** – There are no direct Human Resource implications as a consequence of this report.



**c. Property Implications** – There are no direct property implications as a consequence of this report.

**32. Risk Management Implication**

Regular budget monitoring and the associated action planning that arise from this activity assists in reducing the risk of the Council overspending its agreed budget. This enables effective financial planning which allows the Council to deploy resources in line with priorities.

**33. Equality and Diversity Implications - Nil.**

**34. Crime and Disorder Implications - Nil.**

**35. Health Implications - Nil**

**36. Sustainability Implications** – Regular budget monitoring and allocated actions contributes to the financial sustainability of the Council.

**37. Human Rights Implications - Nil.**

**38. Area and Ward Implications** - Revenue spending supports the delivery of services across the whole of Gateshead.

# Appendix 2 - Revenue Monitoring Summary 2019/20

Service	Revised Budget £'000	Projected Outturn £'000	Variance £'000
<b><u>Children, Adults &amp; Families</u></b>			
Children's Social Care	31,847	32,763	916
Education, Schools and Inclusion	3,040	2,698	(342)
Quality Assurance & Commissioning	6,825	7,028	203
Adult Social Care	65,795	69,135	3,340
<b><u>Public Health &amp; Wellbeing</u></b>			
Public Health	16,080	16,080	0
Wellbeing	3,861	3,965	104
<b><u>Housing, Environment &amp; Healthy Communities</u></b>			
Housing, Compliance and Traded Services	4,224	4,430	206
Highways and Waste	12,917	13,142	225
Environment & Fleet Management	2,999	3,154	155
<b><u>Economy, Innovation and Growth</u></b>			
Business, Employment and Skills	875	892	17
Planning Policy, Climate Change and Strategic Transport	2,305	1,879	(426)
Major Projects and Corporate Property	(3,256)	(3,305)	(49)
<b><u>Office of the Chief Executive</u></b>	1,021	921	(100)
<b><u>Corporate Services &amp; Governance</u></b>			
Legal & Democratic Services	3,593	3,423	(170)
Human Resources & Workforce Development	1,454	1,410	(44)
Corporate Commissioning & Procurement	163	331	168
Public Service Reform	359	359	(0)
<b><u>Corporate Resources</u></b>			
Financial Management	1,987	1,913	(74)
Customer Experience & Digital	2,646	2,776	130
Housing Benefits	580	580	(0)
IT	2,911	2,738	(173)
Commercialisation and Improvement	1,336	1,308	(28)
<b>Other Services &amp; Contingencies</b>	6,250	5,196	(1,054)
<b>Capital Financing Costs</b>	32,000	30,262	(1,738)
<b>Traded &amp; Investment Income</b>	(3,836)	(5,120)	(1,284)
<b>Expenditure Passed outside the General Fund</b>	(1,855)	(1,770)	85
<b>Levies</b>	11,140	11,137	(3)
<b>NET BUDGET</b>	<b>207,262</b>	<b>207,325</b>	<b>63</b>
<b><u>Financed By</u></b>			
Settlement Funding Assessment (SFA)	(71,825)	(72,125)	(300)
Other Grants	(25,126)	(25,126)	0
Public Health	(16,080)	(16,080)	0
Council Tax	(91,319)	(91,319)	0
Collection Fund (Council Tax)	(1,968)	(1,968)	0
Earmarked Reserves	(943)	(943)	0
<b>TOTAL FUNDING</b>	<b>(207,262)</b>	<b>(207,562)</b>	<b>(300)</b>
<b>SERVICE (SURPLUS) / DEFICIT</b>	<b>0</b>	<b>(237)</b>	<b>(237)</b>
VAT Refund	0	(3,893)	(3,893)
<b>OVERALL (SURPLUS) / DEFICIT</b>	<b>0</b>	<b>(4,130)</b>	<b>(4,130)</b>

**Appendix 3 - Reserves Summary 2019/20**

	Adjusted Opening Balance £'000	Proposed Appropriation From £'000	Proposed Appropriation To £'000	Closing Balance 2019/20 £'000	Review Change £'000	Closing Balance Following Review £'000
<b>GENERAL RESERVES</b>						
General Reserve	10,822		4,130	14,952	(3,893)	11,059
School Budget Share Reserve	6,249	770		5,479	0	5,479
<b>TOTAL GENERAL RESERVE</b>	<b>17,071</b>	<b>770</b>	<b>4,130</b>	<b>20,431</b>	<b>(3,893)</b>	<b>16,538</b>
<b>EARMARKED RESERVES</b>						
<b>STRATEGIC RESERVES</b>						
Financial Risk and Resilience	11,290	2,290	0	9,000	5,161	14,161
Budget Sustainability Reserve	10,215	848	0	9,367	(9,367)	0
Economic, Housing and Environmental Investment Reserve	5,000	489	0	4,511	3,893	8,404
Poverty, Health and Equality Investment Reserve	3,500	413	0	3,087	4,206	7,293
<b>TOTAL STRATEGIC RESERVES</b>	<b>30,005</b>	<b>4,040</b>	<b>0</b>	<b>25,965</b>	<b>3,893</b>	<b>29,858</b>
<b>RINGFENCED RESERVES</b>						
Revenue Grants Unapplied	1,115	101	7,895	8,909	0	8,909
DSG	816	0	396	1,212	0	1,212
Developers' Contributions	1,706	409	465	1,762	0	1,762
Public Health Reserve	2,192	574	32	1,650	0	1,650
<b>TOTAL RINGFENCED RESERVES</b>	<b>5,829</b>	<b>1,084</b>	<b>8,788</b>	<b>13,533</b>	<b>0</b>	<b>13,533</b>
<b>TOTAL EARMARKED RESERVES</b>	<b>35,834</b>	<b>5,124</b>	<b>8,788</b>	<b>39,498</b>	<b>3,893</b>	<b>43,391</b>
<b>TOTAL USE OF RESERVES</b>	<b>52,905</b>	<b>5,894</b>	<b>12,918</b>	<b>59,929</b>	<b>0</b>	<b>59,929</b>