

TITLE OF REPORT: Revenue Budget – First Quarter Review 2020/21

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report sets out the latest monitoring position on the 2020/21 revenue budget at the end of the first quarter, including impacts of the global pandemic. Cabinet is asked to note the contents of the report and recommend the budget adjustments outlined within the report to Council.

Background

2. As part of the Council's budget and policy framework Cabinet receives quarterly reports on the agreed revenue budget so that any variances can be identified and addressed at appropriate pace with Councillor oversight.
3. Council agreed the original revenue budget for 2020/21 on 27 February 2020. This was set at £220.761m.
4. The Council's Dedicated Schools Grant (DSG) budget for 2020/21 is £105.674m, with £1.212m held in reserve.
5. The Housing Revenue Account (HRA) budget 2020/21 was agreed by Council 27 February 2020. This was set as a use of £4.452m of the reserve.
6. On 23 June Gateshead Council's response to COVID-19 – Financial update, wider implications and steps towards recovery was reported to Cabinet.

Proposal

7. The pandemic has had a substantial financial impact on the Council's in year position. The projected revenue outturn for 2020/21 as at 30 June 2020 is £245.839m compared to the budget of £220.761m, resulting in a projected overspend of £25.078m. This overspend is mitigated by additional grant funding (COVID, Public Health and Better Care Funding) resulting in an overall projected overspend of £8.014m. The projection for the year also includes the application of £0.950m of reserves consistent with agreed usage. Ongoing actions to mitigate the budget shortfall are presented in appendix 1 of the report.
8. Within the projected outturn there is £14.410m of reduced income and £7.970m of additional costs attributed to COVID-19 impact.
9. Budget savings of £0.400m for 2020/21 in relation to a contract review and corporate landlord are not now expected to be achieved in the financial year. The undelivered savings will contribute to the funding gap in 2021/22.

10. It is proposed that Cabinet recommend to Council an amendment to increase the net revenue budget by £17.310m as presented in appendix 2 to include the additional funding to be received in 2020/21 to allow for effective budget monitoring.
11. At this point in time there has been no indication of covid mitigation funding being received in future years.
12. Due to the current operational and uncertain economic circumstances the Council finds itself in, several assumptions have had to be made to arrive at the current projected service outturn. There is the possibility that the current position is understated as the assumptions that have been used to calculate the figures may change as government guidance changes. This position is also dependent on the success of the phased opening of leisure facilities, schools reopening in September and there is no account for a second wave of the virus in the winter months or a local lockdown.
13. The Medium Term Financial Strategy 2021/22 to 2025/26 and plans for 2021/22 budget will be the subject of a report to Cabinet in October.

Schools

14. The projected DSG outturn at quarter one is £104.931m compared to the budget of £105.674m, is an under spend of £0.743m. The projections are based on known activity in this academic year, but this may change in September 2020. The overall position for 2020/21 is summarised in Appendix 2.
15. The DSG reserve is currently £1.212m, it is projected that the balance at the 31 March 2021 will increase to £1.757m. The movement of £0.545m accounts for the current projected under spend offset by the payment relating to clawback of the 2019/20 early years adjustment (£0.198m).

Housing Revenue Account

16. The projected HRA outturn requires £3.359m use of reserve compared to the budget of £4.452m, this is a reduction of £1.091m.
17. The HRA reserve at quarter one is £31.035m, it is projected that the balance at the 31 March 2021 will decrease to £27.676m.

Recommendations

18. It is recommended that Cabinet
 - I. notes the Council's revenue expenditure position at the end of the first quarter, as set out in Appendix 1 and 2;
 - II. recommends that Council approves an amendment to the net revenue budget for 2020/21 from £220.761m to £238.071m as presented in appendix 2 to account for the additional better care, public health and COVID emergency grant funding.

For the following reason:

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

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APPENDIX 1

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 sets out the latest position on the 2020/21 revenue budget at the end of the first quarter and projects spending and income to the end of the financial year.
4. Council agreed the original revenue budget for 2020/21 on 27 February 2020. This was set at £220.761m.
5. Appendix 2 details the budget for 2020/21 compared to an assessment of the projected outturn for the year. Without any further action the projected outturn on net budgets for 2020/21 results in a projected over spend of £25.078m. This overspend is mitigated by additional grant funding (COVID, Public Health and Better Care Funding) resulting in an overall projected overspend of £8.014m.
6. This report recommends an amendment to the net revenue budget for 2020/21 from £220.761m to £238.071m to include additional grants awarded after the budget was set for public health (£0.461m), better care fund (£0.064m) and covid government grants (£16.785). These budgets will be added to service budgets and council financing. This allows for a more meaningful monitoring position. Budgets relating to emergency covid grant (£15.101m), track and trace (£1.514m) and new burdens (£0.170m) are in year only and the corresponding budgets will therefore be removed from the 2021 starting position as the Council has received no indication that government support will continue.
7. At the end of the first quarter of the year, the projected use of reserves is £0.950m.
8. Budget savings of £0.400m for 2020/21 are not expected to be achieved in year due to delays in the reviews as a consequence of the pandemic.
9. This financial position does not include any outcome from the compensation scheme offered by the Government for lost fees and charges budgeted income. The first claim is due to be submitted on 30th September and requires internal audit certification that eligible costs are included. This will contribute to reducing the current projected overspend.

Variations

10. The main variances on a group basis are set out below.

Children, Adults & Families - £2.9m overspend after £3.0m additional funding is applied.

11. Impacts have been seen in Children's Social Care relates to increased LAC, which is currently a 16% increase on last year as well as impacts on Adult Social Care relating to an increased cost of packages of care and supporting providers.

Public Health & Wellbeing - £1.7m overspend after £5.6m additional funding is applied.

12. Significant impacts relating to unachieved income in relation to closure of leisure facilities and loss of room hire as well as additional costs in relation to PPE, uniform and cleaning materials.

Housing, Environment and Health Communities - £0.6m overspend after £4.3m additional funding is applied.

13. Significant impacts from loss of school meals and catering income. Reductions in car park and waste services income..

Economy, Innovation and Growth - £0.3m overspend after £1.5m additional funding is applied

14. Reductions in licencing, planning and building control income which will not recover fully in year

Other Services, Capital Financing and Trading and Investment income - £2.4m overspend after £1.3m additional funding is applied.

15. Trading and investment income relating to various dividends and investments has been negatively impacted by the pandemic where items such as the airport loan not interest will not now be received in year as originally expected.

Actions to Mitigate the Shortfall

16. The council will;
- Continue to work closely with the Clinical Commissioning Group (CCG) to ensure that the appropriate contribution is received for all relevant packages of care;
 - Continue to review invest to save priorities to support thrive outcomes and manage financial impact in year;
 - Submit a compensation claim to government under the fees and charges guarantee;
 - Continue proactive budget management by budget holders to ensure efficiencies and savings can be delivered in year;

- Continue work on the recommissioning and decommissioning of service areas as agreed by Council in the 2020/21 budget report.
- Further refine and develop relationships with the voluntary sector which may require positive growth and/or a resources shift;

Schools

17. The projected DSG outturn at quarter one is £104.931m compared to the budget of £105.674m, an under spend of £0.743m. The projections are based on known activity in this academic year, but this may change in September 2020. An update will be provided at the third quarter.

Housing Revenue Account

18. The projected HRA outturn requires £3.359m use of reserve compared to the budget of £4.452m, this is a reduction of £1.091m.
19. Income is forecast to be £1.689m less than the budget which is due to a combination of increased arrears in the rent and services charges and an increase in the percentage of void properties. Specific action is being taken to address the current void position.
20. The quarter one HRA capital programme has reduced by £2.695m resulting in a direct reduction in the amount required from the HRA to meet the cost. The reduction represents slippage into 2021/22 in relation to the decent home, the fire door installation programmes and the new development plans. This is in part offset by the increase in the projection associated with boiler replacements.
21. The projection assumed the contingency budget will be utilised in full. This provides some headroom in year for additional costs/lost income, arising from the implications of COVID-19 that cannot otherwise be absorbed.
22. Given the self-financing nature of the account and the reliance upon the tenant income to service the expenditure the level of reduced income is concerning as the need for investment within the capital programme will continue over the medium term.

Summary

23. The projected over spend at the end of the first quarter of £8.014m is after the application of £0.950m of reserves in line with the usage agreed as part of 2020/21 budget.
24. For all projected over spends senior management will ensure proactive budget management through regular monitoring will continue to take place with action plans being monitored with the aim of containing spending within the revised budget.

Consultation

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

Alternative Options

26. Cabinet could decide not to amend the budget to take into account additional funding expected in 2020/21 however this would be to the detriment of effective financial management and accountability.

Implications of Recommended Option

27. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms these are as set out in the report and appendices.
- b) **Human Resources Implications** – There are no direct Human Resource implications as a consequence of this report. Budget savings proposals will be subject to separate reporting.
- c) **Property Implications** - There are no direct property implications as a consequence of this report. Budget savings proposals will be subject to separate reporting.

28. 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.

29. Equality and Diversity Implications - Nil

30. Crime and Disorder Implications – Nil

31. Health Implications - Nil

32. Climate Emergency and Sustainability Implications - Nil

33. Human Rights Implications - Nil

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