

TITLE OF REPORT: Revenue Budget – Second 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 second 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. An increase to the base budget to £238.071m was agreed by Cabinet on 15 September 2020, the increase of £17.310m reflects additional funding received as a result of the pandemic and other ring-fenced grants.
4. The Council's Dedicated Schools Grant (DSG) budget for 2020/21 is £105.673m, 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.
7. On 22 October government announced Gateshead would receive a fourth tranche of COVID-19 grant of £2.890m.

Proposal

8. The projected revenue outturn for 2020/21 as at 30 September 2020 is £241.287m compared to the budget of £238.071m, resulting in a projected overspend of £3.216m. A reduction in business rates income of £0.246m results in an overall projected overspend of £3.462m, this overspend is mitigated by additional grant funding of £2.890m resulting in an overall projected overspend of £0.572m. This is a movement of £7.442m since quarter 1. The projection for the year also includes the application of £0.732m of reserves consistent with agreed usage. Ongoing actions to mitigate the budget shortfall are presented in appendix 1 of the report.

9. Within the projected outturn there is a financial impact of reduced income and increased costs attributed to COVID-19 of £25.635m.
10. 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.
11. It is proposed that Cabinet recommend to Council an amendment to increase the net revenue budget by £2.890m as presented in appendix 2 to reflect the further additional funding received in 2020/21 to allow for effective budget monitoring. The allocation will be utilised to fund winter pressures, additional cost associated with local lockdown and increased expenditure relating to the pandemic which is yet to be fully quantified. The amount will be held in contingency until more detailed analysis of costs can be carried out and will then be distributed accordingly.
12. At this point in time there has been no indication from government that they will provide COVID-19 mitigation funding to the council in future years.
13. 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 assumptions that have been used to calculate the figures may change as government guidance changes and also estimates do not take into consideration the full impact of the second national lockdown and the associated closures of Council services.

Virements

14. Virements have been actioned during the second quarter to reflect the operations of the Council and previously approved use of contingency.

Schools

15. The projected DSG outturn at quarter two is £104.851m compared to the budget of £105.673m, is an under spend of £0.822m, a movement of £0.079m since quarter 1. The projections are based on known activity in this academic year, but this may change once moderations have taken place during the Autumn Term and there is more clarity of funding Early years' providers in Spring 2021 term.
16. The DSG reserve is currently £1.212m, it is projected that the balance at the 31 March 2021 will increase to £1.836m. The movement of £0.624m 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

17. The projected HRA outturn requires £2.757m use of reserve compared to the budget of £4.452m, this is a reduction of £1.695m. This is a £0.429m reduction on the quarter 1 position.
18. The HRA reserve at quarter two is £31.035m, it is projected that the balance at the 31 March 2021 will decrease to £28.278m.

Recommendations

19. It is recommended that Cabinet
- i. notes the Council's revenue expenditure position at the end of the second quarter, as set out in Appendix 1 and 2;
 - ii. Recommends that Council approves the virements to contingency actioned for operational purposes as outlined in appendix 1 of the report;
 - iii. Recommends that Council approves an amendment to the net revenue budget for 2020/21 from £238.071m to £240.961m as presented in Appendix 2 to account for the additional COVID-19 emergency grant funding.

For the following reasons:

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 second 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. An increase to the base budget to £238.071m was agreed by Cabinet on 15 September 2020, the increase of £17.310m reflects additional funding received as a result of the pandemic and other ring-fenced grants.
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 overspend of £0.572m. This includes £2.890m of tranche 4 of COVID-19 grant funding but may not include the full impact of the second national lockdown on the Councils income and expenditure.
6. This report recommends an amendment to the net revenue budget for 2020/21 from £238.071m to £240.961m to include the additional COVID-19 government grant of £2.890m. This funding is recommended to be added to contingency and council financing for winter pressures. This allows for a more meaningful monitoring position. The budget will be removed from the 2021/22 base position as the Council has received no indication that government support will continue.
7. At the end of the second quarter of the year, the projected use of reserves is £0.732m.
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 for July to September.

Variations

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

Children, Adults & Families - £1.707m overspend

11. Impacts have been seen in Children's Social Care relating to increased LAC, which is currently an 11% increase in 12 months, this has reduced since last quarter. The Adult Social Care over spends relate to packages of care. Additional costs of covid packages are being mitigated by reductions to Council costs, this may change as packages of care requirements are assessed as part of the hospital discharge schemes.

Public Health & Wellbeing - £2.265m overspend

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, and mortuary costs.

Housing, Environment and Healthy Communities - £0.514m overspend.

13. Impacts from loss of school meals, catering and room hire income. Reductions in car park and waste services income offset by reductions in employee costs.

Economy, Innovation and Growth - £0.412m overspend

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

Other Services, Contingency, Capital Financing and Trading and Investment income - £1.482m underspend

15. Capital financing costs are projected to be lower than budget. This is offset by an estimate for the reinstatement of the redundancy and bad debt provisions at the end of the financial year.

Virements

16. Virements have been actioned during the second quarter to reflect the operations of the Council and enable effective monitoring. The virements actioned which Cabinet are asked to note are as follows:
 - An allocation for the pay award was budgeted for in contingency; £2.992m was moved from contingency to the relevant services when the pay award was agreed.
 - Budgets relating to the Council restructure in November 2019 have been realigned to reflect Council operations; £0.420m income has been moved from Major Projects and Corporate Property to Schools & Public Buildings Asset Management.

Budget virements Cabinet are asked to recommend to Council are;

- £3.441m to be removed from the relevant service budgets and held in contingency. Budgets relating to invest to save projects agreed at the February budget are not being progressed due to the impact of the current pandemic and the requirement to manage the financial implications of it within available resources.

Areas that have been reprofiled include some social care projects, community wealth building, corporate landlord, recommissioning and performance, public service reform and will be considered and progressed as part of 2021/22 budget setting.

- £0.400m to be removed from the Building Cleaning Service to be held in contingency. Budget adjustment to rectify an original overestimate of employee cost budgets.

Actions to Mitigate the Shortfall

17. 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;
- Submit further compensation claims 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

18. The projected DSG outturn at quarter two is £104.851m compared to the budget of £105.673m, an under spend of £0.822m. The projections are based on known activity in this academic year but may change once moderations have taken place during the Autumn term and there is more clarity of funding Early Years' providers in Spring 2021 term. An update will be provided at the third quarter.

Housing Revenue Account

19. The projected HRA outturn requires £2.757m use of reserve compared to the budget of £4.452m, this is a reduction of £1.695m.

Income is forecast to be £0.870m less than the budget which is due to a combination of an increase in the percentage of void properties, an estimated increase in the bad debt position and reduction in services charges income.

20. The quarter two HRA capital programme has reduced by £2.077m 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 housing developments and this is associated with a pause on projects and a review pending the development of an affordable housing strategy and plan. The use of capital receipts has reduced by £1m to reflect that it is earmarked to fund housing development and regeneration this has resulted in an increase in the amount required from the Major Repairs Reserve/HRA Revenue of £0.618m.
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 £0.572m is after the application of £0.732m 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.
- c) **Property Implications** - There are no direct property implications as a consequence of this report.

- 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.