North Somerset Council

Report to the Executive

Date of Meeting: 21 October 2020

Subject of Report: Budget Monitor Month 5

Town or Parish: All

Officer/Member Presenting: Cllr Ashley Cartman, Executive Member for Finance & Performance

Key Decision: Yes

Reason:
Financial values contained throughout the report are in excess of £500,000

Recommendations

The Executive are asked to;

i. Note the projected revenue and capital budget forecasts as detailed within the report, including the likely impacts that the Covid-19 emergency response may have on the Council's overall financial position in the short and medium-term,

ii. Approve the amendments to the capital budgets as detailed within Appendix 4

1. Summary of Report

This report provides a summary of the council's financial performance after the first five months of the 2020/21 financial year and includes details surrounding the current issues, impacts and future pressures and risks affecting the council as a result of the Covid-19 pandemic, as well as those issues affecting the council's business as usual operational activity.

The report advises of the financial support received from the government to date to fund some of the Covid-19 pressures as well as the latest claim for additional support, and also outlines the steps being taken to address the potential short-fall in order to deliver a balanced by the end of the financial year.

2. Policy

The council's budget monitoring is an integral feature of its overall financial processes, ensuring that resources are planned, aligned and managed effectively to achieve successful delivery of its aims and objectives.

The significant financial impacts of Covid-19 mean that these reports have become increasingly important as we now face greater complexity within our budget in terms of bringing together the financial impacts of existing risks and issues, new and emerging Covid issues and also the results government funding awards and support packages.

3. Details

3.1. Introduction and context

The council's revenue budget for 2020/21 was approved in February 2020 and, although it was considered robust and deliverable at that time, it was predicated on an operational and financial environment that very quickly changed at the outbreak of the Covid-19 pandemic.

A report was considered by the Executive at the meeting of 29 July 2020 which provided a detailed account of Covid related events, impacts, and risks faced by the council over recent months, as well as the actions taken to maintain and deliver vital core services to residents and communities – the initial assessment reflected a net projected short-fall in the council's finances of **£5.072m** for the year.

A further update on the council's financial position was provided to the Executive at the meeting in September 2020, and this showed that the council was forecasting gross budget pressures of £29.354m, although recognised that some of these would partly be mitigated by Government funding and interventions, and also through a series of budget cuts and mitigations identified elsewhere within the council's budget, leaving a revised residual budget gap, or shortfall, of approximately **£4.446m** for the year.

Work has continued since then to review and assess the underlying decisions and assumptions in both Covid and non-Covid budget forecasts to ensure that the council can fully understand and forecast the financial impact, and also identify and approve appropriate funding solutions for any remaining budget shortfalls. This report provides the latest information available.

3.2. Revenue budget summary

Shown below is a summary of the council's latest forecast financial position after the first **five months** of the year, using information provided by budget managers from across the council.

The table is displayed in the council's standard financial monitoring template and depicts the financial position for each of the directorates in turn, as well as the aggregated picture for all council services. The projected forecasts do contain both Covid and non-Covid impacts.

Revenue Budget Monitoring Summary 2020/21								
	Original Net Revenue Budget £000	Month 4 Forecast Revised Revenue Budget £000	Month 4 Forecast Projected Out-turn £000	Month 4 Forecast Projected Variance £000	Month 5 Forecast Revised Revenue Budget £000	Month 5 Forecast Projected Out-turn £000	Month 5 Forecast Projected Variance £000	*Movement from Month 4 £000*
Service Expenditure Budgets								
People & Communities;								
Adult Social Care	68,893	72,754	80,707	7,953	72,754	80,786	8,032	*79*
Children & Young People	30,867	30,867	32,778	1,911	30,867	32,415	1,548	*(363)*
Housing	1,519	1,532	1,580	48	1,532	1,584	52	*4*
Schools & DSG	0	0	0	0	0	0	0	*0*
Sub total - People & Communities	101,279	105,153	115,065	9,912	105,153	114,785	9,632	(280)
Development & Environment	35,414	38,081	45,319	7,238	38,081	45,278	7,197	*(41)*
Corporate Services	7,621	7,816	8,931	1,115	7,816	8,817	1,001	*(114)*
Public Health & Regulatory Services	912	1,781	1,875	94	1,781	1,881	100	*6*
Corporate & Capital Financing	20,844	20,844	21,119	276	20,844	21,019	175	*(101)*
Total Net Revenue Budget	**166,069**	**173,674**	**192,309**	**18,635**	**173,674**	**191,779**	**18,105**	*(530)*
General Fund Financing Budgets	(166,069)	(173,674)	(187,863)	(14,189)	(173,674)	(187,863)	(14,189)	*0*
NET REVENUE BUDGET TOTALS	**0**	**0**	**4,446**	**4,446**	**0**	**3,916**	**3,916**	***(530)***

The table above indicates that;

- the council will spend significantly more (i.e. £18.105m) on delivering its services to the public, compared the budget set, and the resources allocated prior to the start of the financial year.

- The council is projected to receive £14.189m more resources than planned, the majority of which relates to allocations of additional government grants which have been given to fund Covid-related pressures.

- The council is currently reflecting a net overspend, or shortfall in resources, of **£3.916m** by the end of the financial year, assuming current assumptions remain unchanged.

- This is an **improvement of £0.530m** compared to the position reported at the end of Month 4.

3.3. Local government income compensation scheme for lost sales, fees and charges

It should be noted that the latest monitoring forecast does not yet reflect the grant income compensation scheme which could be received from the government in respect of partially funding losses in sales, fees and charges income receipts.

Guidance for this grant has been received and a detailed assessment has been undertaken in recent weeks to understand;

- which elements of the council's income losses the grant may cover, and those areas which are ineligible or outside of its scope,

- the degree to which the income losses are currently budgeted and therefore the baseline deductible which the council will need to meet itself,
- those losses which are truly irrecoverable and unavoidable, rather than those which are simply deferred until later in the financial year, and also
- the appropriate timelines of the grant process so that future receipts can be integrated into the council's budget monitoring reporting framework.

Income losses <u>excluded</u> from the grant compensation scheme are;

- Investment income – both treasury and commercial investments
- Other commercial income - advertising etc
- Property and rental income losses
- Income from third parties / contract losses – e.g. contracted out leisure income
- Income not included within the approved base budget for the 2020/21 financial year
- Income from local authority owned companies
- Income that can reasonably be recovered later in the financial year
- Income which can be mitigated by reductions in expenditure or which have already been compensated for by other government funding

The government has advised the following timeframes for the income loss grant claims;

Period of loss	Data Submission	Notification & Payment
1 April to 31 July 2020	30 September 2020	October 2020
1 August to 30 November 2020	31 December 2020	January 2021
1 December 2020 to 31 March 2021	30 April 2021	May 2021

All claims submitted to the government must be signed off by the S151 Officer as meeting the agreed principles and detailed guidance, and councils must be able to provide evidence to support such losses as the government will be undertaking an assurance and reconciliation process. Failure to comply with any conditions will mean that grants could be withdrawn or repayable back to the government.

The council has submitted its first grant claim covering losses incurred during the 4-month period April to July 2020, **which totalled £1.8m**. It should be noted that future claims will be for differing values and will reflect the phased budgeted income profiles, net of actual levels of income received during those future periods – at this time it is not possible to predict what they may be with any degree of certainty.

The council's first claim is currently being reviewed and assessed by the government, and we hope to receive approval notification before the end of October so that a forecast can be included within the next budget monitoring report. Obviously any grant received from this, or subsequent claims, will reduce the current net over spend of £3.916m.

Further information on the guidance can be found at: https://www.gov.uk/guidance/local-government-income-compensation-scheme-for-lost-sales-fees-and-charges

3.4. Revenue budget – service summaries

The council's financial monitoring processes are consistently applied and embedded throughout all of the directorates and service areas, and then consolidated and reviewed by the corporate management team. A key cornerstone of the council's process requires a financial summary to be prepared by each director and is included in Appendix 2.

These summaries provide a detailed breakdown of significant financial variances and cover both Covid and Non-Covid impacts however, key extracts for each of the directorates have been summarised and incorporated below.

3.3.1 - People & Communities – Adult Social Care (£8.032m projected over spend)

The overall forecast year end position for Adult Care and Housing Service is a net overspend of £8.032m; £7.403m of this relates directly to the Covid pandemic and £629k relates to “business as usual” pressures. The picture is shown in the table below.

	2020/21 Original Budget £000s	2020/21 Revised Budget £000s	2020/21 Forecast £000s	*2020/21 Variance from Budget Previous Period £000s*	2020/21 Variance from Budget This Period £000s	Of which Covid related £000s	Of which BAU £000s
Individual Care Packages							
Expenditure - Long Term Care Packages (residential)	45,375	48,551	54,636	*6,703*	6,085	5,896	188
Client Income - Long Term Care Packages (residential)	(13,974)	(13,974)	(13,239)	*810*	736	131	604
Expenditure - Long Term Care Packages (non-residential)	32,375	33,060	34,359	*463*	1,300	877	422
Client Income - Long Term Care Packages (non-residential)	(3,946)	(3,946)	(3,521)	*526*	426	138	287
Expenditure - Short Term Care Packages	3,884	3,884	3,465	*(570)*	(419)	0	(419)
Client Income - Short Term Care Packages	(211)	(211)	(294)	*(27)*	(83)	0	(83)
Other income (including CCG contributions)	(2,493)	(2,493)	(2,685)	*(152)*	(192)	0	(192)
Other	171	171	171	*0*	0	0	0
Sub-total	**61,180**	**65,040**	**72,892**	*7,754*	**7,852**	**7,043**	**809**
Community Equipment and PPE	356	356	701	*360*	345	355	(10)
Early Intervention and Prevention	705	705	676	*(245)*	(29)	0	(29)
Social Care Activities	1,840	1,840	2,045	*218*	204	0	204
Contracts and Commissioning	4,812	4,452	4,112	*(136)*	(340)	5	(345)
TOTAL	**68,893**	**72,394**	**80,426**	*7,953*	**8,032**	**7,403**	**629**

The overall position when compared to the reported figures at the last Executive meeting, is a slight worsening position of c.£79k.

It is worth noting that there are a number of uncertainties – both risks and opportunities – that will come into play as the year progresses, so the likelihood of there being a movement in the numbers, especially with a gross budget of over £100m, is very high indeed.

The £7.4m Covid pressures relate to potential temporary support payments to providers, although our position remains that, whilst we are concerned about the market, we may not be able commit to additional funding unless central government provides more grant.

An extension of the Infection Control Grant has now been announced and, as a result, the Council may be able to reduce its forecast spend on support to providers; this will be reviewed for the next monitoring period.

Other Covid related pressures are associated with the purchase of PPE (£355k), estimated losses of income (£366k) and forecast losses of MTFP savings (£341k), the latter two are subject to review.

The business as usual pressure is made up of a number of factors however, the predominant reason appears to be an increase in cost of residential Exceptional Special Needs (ESN) placements, which seems to be a trend that began in October of last year.

This additional expenditure is offsetting reductions in basic residential and nursing placements, including short term care. Initial discussions indicate that the ESN increases in the pre-Covid period might relate to a reducing number of available placements, and, hence, and increase in price pressure. During Covid, it is thought that the lockdown may have resulted in increases in support needs and an increase in the number of placements made out of area and, hence, at other local authority rates. We are collating a list of all the new ESN cases since October 2019 with a view to determining which could be reviewed.

3.3.2 - People & Communities – Children's Services (£1.548m projected over spend)

The overall forecast year end position for Children's Services is a net overspend of £1.548m; £1.204m of this relates directly to the Covid-10 pandemic and £344k relates to "business as usual" pressures. This is an improved position when compared with the previous report; the main changes from the previous period's position are a bringing in of savings in relation to the deferral of some 2020/21 budget growth, a review of forecast income for nurseries, and additional salary savings.

In overall terms, it is worth noting that growth was applied to the Children's Services budgets in 2020/21, but this does not appear to be sufficient to close the gap between the budget and the demand for services, particularly in relation to placements for looked after children and support for disabled children. In addition, there are financial impacts in relation to the Covid-19 pandemic in relation to social care, early years nursery provision and the music service. The main areas driving the projected overspend are summarised in the table below and described in the narrative.

	P5 Variance £k	*Covid-related £k*		**Change from P4 £k**	*Covid-related £k*
Placements for looked after children	690	*239*		1	*0*
Disabled Children's Services	597	*330*		10	*31*
Early Birds Nursery Private Income	351	351		-71	-71
Music Service (Traded Deficit)	179	179		0	0
Legal Costs (children looked after)	113	0		0	0
Schools Non-Attendance Penalty Notices	51	51		0	0
Somerset Education Services Contract	-61	0		0	0
Deferral of 2020/21 MTFP Growth	-105	*0*		-105	*0*
Staffing	-262	0		-101	0
Other	-5	54		-97	0
Total	**1,548**	**1,204**		**-363**	**-40**

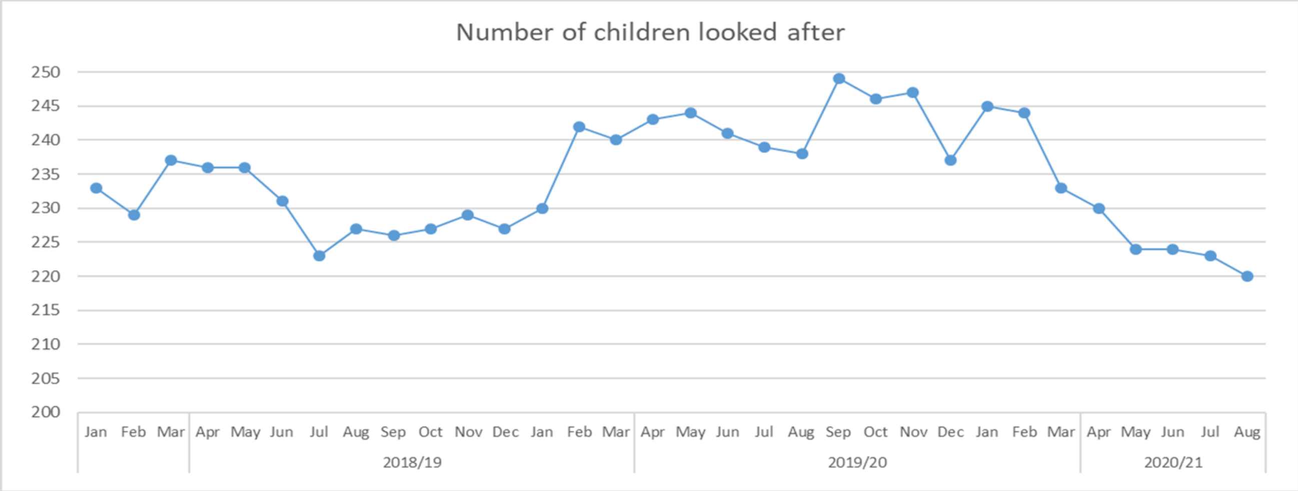
<u>Placements for children looked after</u>

In relation to placements for children looked after, as can be seen from the table below, the growth in the budget was insufficient to offset the 2019/20 overspend (£1.4m). We have experienced an increase in numbers, especially in high cost placements in supported living, although this is largely offset by a reduction in spend on residential placements, and savings are being made by changed commissioning arrangements, particularly for children aged 16+ approaching leaving care. The forecast spend for 2020/21 is an increase in spend of just £117k when compared with last year, although this does represent an overall projected overspend against budget of £690k as illustrated below.

All	2019/20 £000s	**2020/21 P5 £000s**	Change £000s	***2020/21 P4 £000s***
Budget	8,834	**9,649**	815	*9,649*
Spend	10,222	**10,339**	117	*10,338*

Variance	1,388	**690**	-670	*689*

Spending, in part, reflects the total number of children looked after, which plateaued at a high of around 235 - 245 during the most part of 2019/20. More recent reductions are unlikely to be sustained as an increase in referrals is expected as young people return to school and this will need to be factored into the medium term financial plan (MTFP)



<u>Support for Disabled Children</u>

Pressures are also being experienced in relation to support to disabled children, in large part driven by young people requiring more support during the pandemic, especially those not attending school and, as a result requiring much more significant social care support; additional spend relates to increased Direct Payments and increased complex support packages. There is also one joint-funded case with the CCG, where the Council's contribution has increased following a review.

Service Area	2020/21 Budget £000s	2020/21 Forecast £000s	2020/21 Variance £000s	*Covid-related £000s*		2019/20 Out-turn £000s	Change in Spend £000s
Complex Packages	279,912	591,799	311,887	*232,820*		232,259	359,540
Direct Payments	331,368	609,744	278,376	*97,408*		406,014	203,730
Respite	225,796	229,816	4,020	*0*		164,670	65,146
Playschemes & Day Care	15,533	18,393	2,860	*0*		22,944	(4,551)
Total	**852,609**	**1,449,752**	**597,143**	***330,228***		**825,887**	**623,864**

<u>Early Birds Nursery</u>

Early Birds Nursery is one of three Council maintained nurseries, and the only one generating income from private nursery fees (as opposed to those funded by the Dedicated Schools Grant in relation to free places). The lockdown measures have had a significant impact on the service, with no uptake of fee-paying places during the initial phase and only a limited number of places from June 2020.

Given the uncertainty of the Covid-19 situation, it is currently proving challenging to forecast income for the full year at this stage. The forecast has been reviewed for period 5 and the current £351k forecast variance is a £71k favourable change from period 4. Whilst bookings for September and January intakes show an increase in the number of fee-paying places, hours being requested are 25% less than before and during the first 2 weeks of September a few parents have withdrawn their children, and some places still not yet confirmed.

It is also worthy of note that the nursery is mitigating some of these losses by reporting a forecast underspend of £77k on salaries, mainly due to non-usage of agency and vacant posts. There may also be an opportunity to mitigate the adverse position from Government funding for losses from fees and charges (we can claim 75% of our losses but the first 5% on the total budgets we are claiming for is deductible). The claim is currently being costed for submission by end of September.

Music Service

The Music Service is a traded service generating around 64% of its income from instrumental and vocal music lessons brokered by schools, 5% from selling services to schools, 5% selling provision directly to families and about 26% from grant funding. The Council currently contributes no direct funding to the operation of the Music Service other than some corporate overheads.

The majority of traded income comes from families through schools, and as a result of the school closures due to Covid-19 the predicted lost income for the Music Service is £342k. As a mitigation, the Council has been successful in applying to the government's Coronavirus Job Retention Scheme to support staffing costs, with £163k grant expected for the duration of the scheme which ends in October.

Consultations are currently ongoing with schools to determine demand and uptake of lessons from September. The responses so far indicate a considerable amount of uncertainty regarding income during terms 1 and 2, both as schools adapt to the changing circumstances and the risk of income being adversely affected where there are changes to mitigation measures. A staff consultation is also in progress to review service options in light of this expected reduction in trading activity.

Similar to the nursery income discussed above, there may also be an opportunity to mitigate the adverse position from Government funding for losses from fees and charges.

3.3.3 - People & Communities – Schools & Dedicated Schools Grant (£6.440m projected deficit)

The Dedicated Schools Grant (DSG) is a ring-fenced grant, which must be used in support of the schools' budget. The majority of the funding is for academies and is paid direct to them by the Department for Education (DfE), using the formula agreed by the Strategic Schools Forum (SSF) for funding all schools in North Somerset, whether they be maintained or not, as well as funding for Early Years providers. The majority of the remainder forms the High Needs Block, which funds costs in relation to pupils with Special Educational Needs and Disabilities (SEND), including special schools places, Top-Up Funding and placements in independent, non-maintained schools.

At the end of the 2019/20 financial year there was a deficit of £3,847m, **during 2020/21 this is projected to increase to £6.440m**; *an increase of £2.593m*.

The deficit is transferred into an earmarked reserve rather than impact on the council's general fund balance. The DfE has made it clear that councils are not expected to use general funding to support the DSG, but there is an expectation that councils have deficit management plans. The deficit relates to spending on the "high needs block", which funds education for children and young people with Special Educational Needs and Disabilities

(SEND) and reflects the 80% increase in the number of children with the EHCPs from 2015 to 2019.

The main area of forecast overspend is out of area placements arising from an increase in demand for special schools' placements and a lack of local supply. As shown in the table below, spend is forecast to increase by £734k (13%) this year, compared to last, and this is primarily driven by an increase in the average unit cost from £46,898 to £52,785. The actual number of placements has increased by 1 FTE from 117 to 118 (an increase of 6 in period 5 from period 4). In addition, the 1920 overspend was £521k but due to other pressures in the High Needs Block and the requirement to set a balanced budget, the budget has actually decreased in 20/21 by £513k. Overall this has resulted in an estimated £1.770m overspend. The forecast spend is likely to change further in the coming month once there is more certainty about special school placements for September.

	2019/20	**2020/21**	**Change**
FTE	117	118	1
Budget	5,000,000	4,486,163	(513,837)
Spend	5,521,473	6,255,825	734,352
Variance	521,473	1,769,662	1,248,189

Top-up Funding is estimated to be over spent by £577k, mainly in special maintained schools due to an unbudgeted increase in the number of children. It is worth noting that placements in maintained special schools are largely more cost effective than placements in independent non-maintained special schools, so increasing place numbers here mitigates higher increases if placements were made out of area.

Reducing the increase in spending the high needs block is an issue for local authorities across the country and has been recognised by the DfE. In previous years, the overspend was partially mitigated by a significant transfer of funding from the schools block to the high needs block. However, for 2020/21, this has been reduced to just 0.5% of the DSG (c. £650k).

Medium term measures to mitigate spending increases include the implementation the Specialist and Alternative Provision Review, which includes the following key projects: -

- The submission and progression of a bid to the DfE as part of the Wave 13 SEND and AP Provision Free School Bid, for a 65-place Emotional and Mental Health (SEMH) Special School within North Somerset
- The commencement of the programme and statutory process to deliver an expansion to Baytree Special School to a new site with facilities for 65 new places for pupils with severe and profound learning disabilities.
- The commencement of the programme and statutory process to deliver expansions to Westhaven and Ravenswood Special Schools
- The commencement of the programme and statutory process to deliver two new Specialist Units (for up to 20 pupils) to meet the needs of high functioning pupils with autism on mainstream school sites

Recent modelling, which takes into account forecasts for the increasing number of young people requiring specialist provision, indicates that, in the absence of a further exceptional funding injection from the government, there is little prospect of reducing the overall deficit, although it is possible that the in-year deficit could be eliminated by 2023/24.

Officers discussed our deficit management plan with officials from the DfE at the end of July. They raised no concerns about our approach and, in particular, were supportive of our intention to lead and organise an Inclusion Summit, to include various partners. The purpose of the Summit is to develop a strategy and plans to ensure that more children and young people with SEND can remain in mainstream schools with appropriate levels of support.

3.3.4 - Development & Environment (£7.197m projected over spend)

The overall forecast for Development and Environment is a £7.197m over spend. The directorate has been significantly impacted by Covid which represents £6.721m of this sum.

Covid-related pressures

The projected Covid-related pressures represent £6.721m of the total projected over spend and the main pressures remain unchanged since the month 4 report. The principal areas are as follows:

Additional expenditure

In response to the pandemic additional expenditure has occurred and is forecast to be c£1.507m by the end of the financial year, the principal areas of forecast additional expenditure are shown in the table below.

Area	Forecast Cost (£m)
Support to Leisure and Theatre contractors	£0.90m
Support to Waste contractor	£0.10m
Waste Disposal increase in costs	£0.07m
Additional transport resource to help with social distancing measures and HTST	£0.06m

Income losses

Area	Forecast Income Loss (£m)
Parking Income	£2.52m
Leisure Income	£0.42m
Venues, Events and Concessions	£1.05m
Waste Income	£0.05m
Library Income	£0.04m
Planning & Building Control	£0.68m

Delivery of MTFP savings plans

Area	Forecast Savings Lost (£m)
Street Lighting LED rollout Energy Saving	£0.09m
Parking Review	£0.15m

Non-Covid Pressures

As well as the financial issues arising due the pandemic, there are a number of largely unrelated financial pressures that have been identified early in the financial year monitoring process. This may not be unusual but the directorates ability to mitigate these pressures is more of a challenge than in previous financial years.

The non-Covid financial pressures are forecasted to be **c£1.640m**. The main areas remain unchanged from previous reports and are as follows:

Pressures within the Home to Schools Transport service

Despite c£500k of growth allocated to the service in 2020/21, there remains significant pressures within the Home to Schools Transport service as a result of a growth in demand specifically for SEND transport. The demand for SEND transport has increased by 98 pupils in the current financial year which is a 27% increase when compared to last financial year. There are still 60 SEND pupils with no placements currently confirmed, this makes estimating the spend in 2020/21 challenging due to a number of unknown factors about their potential transport requirements. The forecast variance for the service is a £0.834m overspend, this is however an estimate and is likely to change once the service understand the travel requirements of all the SEND pupils in 2020/21.

Programme Savings in relation to staffing

Programmed savings in relation to staffing from previous financial years are at risk in 2020/21. In previous financial years these have been offset by vacancies and delays in recruitment but due to the significant pressures on the services and increased workloads as a result of Covid it is more challenging to hold vacancies for a significant period of time. The total budgeted saving is £300k but only £100k is likely to be achieved in 2020/21 resulting in a £200k variance. The directorate management team will continue to review to attempt to mitigate this variance throughout the year.

Mitigations and savings plans

The directorate has been exploring ways to reduce costs, deploy reserves and defer some of its intended investment projects planned for this year in order to make savings to help mitigate the financial pressures.

The total of the mitigations identified is c£1.164m, the main areas are shown in the table below.

Area	Forecast Mitigation (£m)
Reduction in Events Expenditure	£0.08m
Reduction in Venue Expenditure	£0.14m
Furlough Income	£0.15m
Deferral of 2020/21 Growth	£0.14m
Use of waste reserve to offset MTFP saving	£0.45m
In -year underspend within transport service	£0.10m

As noted above, the government has also announced a scheme for income losses however at the time of writing this report the details supporting the income losses scheme across the whole of the financial year have yet to be fully quantified and so uncertainty remains with regards to approval of the council's claim and the resultant share of this funding and therefore this has not been included within the variances described above.

Other areas of risk that have not been included within the forecast variance are as follows:

- Costs arising from major planning application appeal

- Risk in relation to the bus network if direct government support is stopped
- Ash die-back programme and required work
- Impacts of any local lockdowns

3.3.5 Corporate Services (£1.001m projected over spend)

The overall forecast for Corporate Services is a net over spend of £1.001m and as with other directorates, has been impacted by Covid-related issues and these represent approximately £0.853m of this sum, after mitigations.

Covid-related pressures

The Covid-related pressures within the directorate largely remain unchanged from the month 4 report and are listed within the following table. It can be seen that the greatest impact remains a shortfall in income, compared to budgeted levels however the majority of these income losses do fall outside the scope of the government compensation scheme and so have not been included within the first grant claim submission meaning that the council will have to bear the entirety of the loss.

The income losses currently forecast include the following:

Area	Forecast Income Loss (£m)
Housing Benefit and Overpayment recoveries	£0.23m
Lease income	£0.12m
Commercial property income	£0.48m
Car Parking income	£0.44m
Land charges fee income	£0.08m

Mitigations and savings plans

The directorate has been exploring ways to reduce costs, deploy reserves and defer some of its intended investment projects planned for this year in order to make savings to help mitigate the financial pressures, and at this time the following actions have been identified and included within the forecasts.

Area	Forecast Mitigation (£m)
Reduction in Expenditure relating to travel, energy, postage etc	£0.15m
Reduction in Support Service Contract costs	£0.19m
Furlough Income	£0.03m
Deferral of 2020/21 Growth	£0.02m
Use of Commercial Investment and Benefits Smoothing Reserve	£0.21m

Non-Covid Pressures

As well as the financial issues arising due the pandemic, there are several other issues reflected within the directorate forecasts, and these are shown in the table below.

Area	Forecast Cost (£m)
Increase in external audit fees	£0.020m
Deferred delivery of MTFP savings plans re CCTV	£0.068m
Increase in Revenues, Benefits and contract related costs	£0.125m

Officers within the directorate are looking to identify funding solutions to cover these costs, including expediting decisions where appropriate. It is anticipated that some of these pressures will reduce during the latter part of the year, and updates will be included within future monitoring report updates.

Other areas of risk that have not been included within the forecast variance are as follows:

- Potential shortfall in recharges to the capital programme
- Further shortfalls in rental income, from within office accommodation buildings

3.3.6 Public Health & Regulatory Services (£0.100m projected over spend)

The net expenditure budgets for the Public Health (PH) and Regulatory Services is **£1.781m** in 2020/21 although the gross expenditure budgets for the services in this area are much larger and total £12.287m. The base budget assumes that £9.315m of this spend will be funded by Public Health Grant; £0.958m from external income sources; and £0.233m from the public health reserve.

Due to the accounting arrangements surrounding Public Health funding, the directorate budgets have been grouped into services which fall within the **PH ring-fence**, and those which do not.

Under or over spending on the PH budgets at the end of the year will impact on the council's public health ring-fenced reserve, whereas under / over spending on other services outside of the ring-fence will fall on to the council's General Fund and will ultimately impact on local taxpayers.

Covid-related pressures

At this time forecasts show that the Public Health budgets have largely been unaffected by Covid-19 related pressures, although income levels in the Regulatory Services are approximately £70k lower than budgeted, largely due to reductions in Licence fee income.

Non-Covid Pressures

There are two notable non-Covid variances to highlight within the Public Health budget forecasts, both of which fall within the ring-fence, which are;

- Additional allocation of Public Health grant of £181k in 2020/21

- Increase in the cost of the Children’s contract, largely as a result changes to the specification and the requirement to increase outcomes in this area. This contract is currently going through a re-procurement process which will seek to align future levels of spend to the resource envelope available.

3.5. Collection Fund

The council annually levies charges on both residents and businesses through council tax and business rate demands and this locally generated income is used to help pay for our services. The budget for the 2020/21 financial year shows that the council expects to receive approximately £150m of income from these sources, which equates to 90% of the net revenue budget.

The collection fund is a complex area and there are many underlying assumptions and factors which will influence the financial outcomes and eventual losses. An initial forecast had been made to try to quantify such losses, which equated to approximately £8.3m. These forecasts have recently been updated and although the overall quantum loss remains unchanged, forecast losses relating to council tax have increased by c£600k to £5.97m and business rate losses reduced to £2.35m. Changes relate to assumptions such as collection rates, underlying tax base, values of discounts and reliefs.

As previously advised the Government has indicated that losses in this area will not fall on council budgets during the current financial year but will instead, be spread over the following three years however, details of how this will be actioned have yet to be provided. In addition to the deferral proposal, the Government have also indicated that they may share irrecoverable income losses with councils through the development of a scheme, similar to that established for sales, fees and charge income. Clearly this would be an extremely welcome intervention although again, no details have been provided and so they have not been factored into monitoring or medium-term financial plan forecasts.

3.6. Funding from Central Government

The council has received, and continues to be allocated funding from the Government, which has been designed to cover the financial pressures being faced across its services, or to be used to passport onto others to discharge national policy initiatives.

Some of this funding is ring-fenced and is directly linked to supporting specific Government policy initiatives (£9.098m), whilst £13.439m of funding has not been ring-fenced and can therefore be used to fund the range of financial pressures described in section 3.3 above.

At the time of writing this report over £22.5m of funding has been allocated to the council and incorporated into its forecasts, although new grants and responsibilities continue to be added as the Covid pandemic evolves. The latest changes relate to the following;

- Payments of £500 to support individuals who are required to self-isolate, and who are in receipt of in-work benefits (claims to be backdated to 28 September)

- Payments of up £1,500 to small businesses in England which are affected by a local lockdown for a 3-week period

Further information on these grants, their administration and how they fit into the council's finances will be included within future monitoring reports.

3.7. Revenue Reserves – General & Earmarked

The council's general reserve balance at the start of the year, often referred to as the Working Balance, **was £9.053m** which equates to approximately 5.5% of the net revenue budget, although current forecasts assume that the council will be required to draw down part of the reserve to help fund some of the Covid related pressures in order to balance its budget by the end of the financial year. That being said, until more information is known about future financial impacts, then it is difficult to quantify how much of the reserve will be required.

The council recognises that there remains a series of uncertainties and risks across many of its budgets in both the current financial year, and also into the medium term. Indeed, the latest report in respect of the council's longer-term planning, considered elsewhere on the agenda for this meeting, highlights a significant budget gap of some £19m across the next three financial years. The council must balance off various financial forecasts and resource projections as part of its overall strategic planning.

3.8. Capital budgets – current financial performance

The capital programme covers the period up to 2024/25, although does give particular focus and attention for the 2-year period 2020-2022. The programme covers all aspects of the councils' services and has been built up in several phases following different stages of approval.

Appendix 3 presents a summary of all projects currently contained within the capital programme which includes the budget for the current year and also the following financial years. At this time it is estimated that the council's overall programme totals £262.753m, £110.995m of which relates to the current financial year.

This is the council's largest ever capital programme and includes several major projects including Metrowest and those elements funded through the Housing Infrastructure Fund.

In addition to the approved capital expenditure **budget** for each project, the schedule also provides details of how much expenditure has been incurred to date, together with how these schemes **will be funded** and what types of resources will be used. The summary shows that the largest proportions of the programme will be funded from the receipts of external grants and contributions (£202.889m), and by increasing the council's long-term borrowing (£38.129m).

Appendix 4 details changes to the approved capital programme reflecting re-phasing of capital works, increased grant funding and other decisions recommended for approval by the Investment & Infrastructure Board or the Section 151 Officer. These changes require formal approval through this report.

4. Consultation

The report has been developed through consultation with the council's corporate leadership team, and also with each of the departmental management teams.

5. Financial Implications

Financial implications are contained throughout the report.

6. Legal Powers and Implications

The Local Government Act 1972 lays down the fundamental principle by providing that every local authority shall make arrangements for the proper administration of their financial affairs, although further details and requirements are contained within related legislation. The setting of the council's budget for the forthcoming year, and the ongoing arrangements for monitoring all aspects of this, is an integral part of the financial administration process.

7. Climate Change and Environmental Implications

There are no direct climate change and environmental implications associated with the recommendations in this report although they remain an important factor in many areas of the council's budget.

8. Risk Management

The Council's Strategic Risk Register includes two risks associated with the financial planning:

- Risk that we are unable to deliver the priorities of the Council by not planning to meet the Medium-Term Financial Challenge.
- Risk that we do not manage budgets effectively in-year by not implementing and delivering the transformational projects required to meet the Financial Challenge.

The council's Corporate Leadership Team also maintains and regularly reviews specific significant risks associated with the Covid-19 pandemic with a pandemic risk register, a copy of which was discussed at the recent Audit Committee. There two finance related risks identified within the Register:

- Council continued financial viability – in respect of liquidity, and a sustainable budget position
- Viability of our providers, contractors, suppliers including concerns around sustainability of key markets and failure to provide essential services.

The application of additional funding, provider support, service mitigations and savings referenced in this report seek to manage these risks identified above.

9. Equality Implications

There are no specific equality implications with regard to the recommendations contained within this report although it should be noted that the council has utilised additional Government funding to support vulnerable residents whether through additional Council Tax Support, financial support to those providing essential services, and working in partnership with community groups.

Individual savings proposals will be supported with an Equality Impact Assessment where appropriate.

10. Corporate Implications

The Corporate Plan and MTFP are vital tools to help align effort across the organisation and ensure that services are all are focused on delivery to agreed community and organisational priorities. With continuing financial pressures and demands for services, it is essential that the councils' limited resources continue to be prioritised and allocated in line with the identified priorities. The Corporate Plan has been reviewed in the light of the Covid-19 emergency and steps are being taken to assess timeframes and monitor key outcomes.

11. Options Considered

The council has a legal duty to deliver a wide range of services and also to ensure appropriate financial stewardship of its financial affairs and therefore has no option but to adequately assess the financial outcomes brought about as a result of the pandemic, and to formulate a strategy to address the impacts. There are clearly many ways in which this can be done and these are described throughout the report.

Author:

Melanie Watts, Head of Corporate Accountancy, melanie.watts@n-somerset.gov.uk

Appendices:

Appendix 1	Revenue budget summaries for 2020/21
Appendix 2	Financial commentaries from each directorate management team
Appendix 3	Monitoring the of the capital programme
Appendix 4	Schedule of capital budget virements – to be approved

Background Papers:

Exec Report, February 2020, Medium Term Financial Plan and Revenue budget update
Exec Report, July 2020, Financial Impacts of Covid-19 Emergency
Exec Report, Sept 2020, Month 4 Budget Monitor