North Somerset Council

Report to the Executive

Date of Meeting: 23 June 2021

Subject of Report: Budget Monitor Month 12 Out-turn Report

Town or Parish: All

Officer/Member Presenting: Ash Cartman, Executive Member for Finance

Key Decision: Yes

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

Recommendations

The Executive is asked to;

i. Note the revenue and capital out-turn positions for 2020/21 as detailed within the report

ii. Approve the amendments to the revenue budget as detailed in Appendix 1

iii. Note the general revenue reserve balance of £9.053m at 31 March 2020, and also the transactions to / from earmarked reserves as set out in Appendix 4

iv. Approve the amendments to the capital programme as detailed in Appendix 6

1. Summary of Report

This report builds upon previous reports considered by the Executive over the past 12 months and provides a summary of the council's financial performance for the 2020/21 financial year in respect of both its revenue and capital budgets, including an overview of how the Covid-19 pandemic has impacted on the council's finances.

It aims to inform Members of the key components within the out-turn position together with the associated impact upon the level of general reserves as well as the transfers into, and out of, the council's earmarked reserves.

The report also provides a link between the revenue monitoring reporting framework presented to the Executive throughout the year and the annual statutory accounts which will be published on the council's website once finalised.

2. Policy

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

The 2020/21 revenue and capital budgets have been set within the context of the council's medium-term financial planning processes, which ultimately support the Corporate Plan. That being said, the 2020/21 financial year has been one of extreme challenge as everyone has been dealing with the effects of the global pandemic, and this event has clearly impacted on the council's planned financial strategy.

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 following the first outbreak of the Covid-19 pandemic.

Covid-related impacts, risks and forecasts have been assessed and incorporated into the council's monthly monitoring processes throughout the year to ensure that all impacts were quantified and compared to the amounts of known resources. This provided an assurance framework to the corporate leadership to support and enable strategic decisions to be made knowing that that they could be funded without serious impact on the council's overall financial sustainability.

Significant levels of additional resources have been allocated to the council throughout the year and these have also been closely monitored and considered when bringing together the overall financial position. It has been important to understand the purpose and nature of this funding at the outset to determine how the council should reflect these monies within its budget or other financial records, particularly as a lot of this funding has been given to deliver national government objectives within a local setting.

Previous reports have detailed the turbulent events of the council's Covid journey and have shown that it has faced an extremely challenging financial outlook at the same time that it has responded to the very real impacts of coronavirus on individuals, services and businesses within our communities.

We can see that Covid-19 has impacted on the majority of the council's existing services in some way or another, as well as on a significant number of providers and suppliers, who have either requested additional support or who have been required to implement some form of change to service delivery.

The scale, breath and pace of change over the past year has been tremendous and the council has adopted an agile approach, and in some cases, has had to stop or reduce some services, whilst at the same time standing up new services to reach those in urgent need. The council has also worked closely with other partners and stakeholders, such as town and parish councils, voluntary and charitable organisations, health partners and the police to name just a few.

Although this has been a year of profound change, risk and uncertainty, the financial impacts as detailed throughout the report show that the council has managed to deliver within its overall resource envelope and achieve a balanced budget.

The final out-turn position for the year does however recognise that the council still faces uncertainty and risk in some areas and it also needs to support economic recovery in the months ahead, and so has set aside Covid funding within reserves to smooth the financial impact for some of these known issues, further details are provided within the report.

3.2. Revenue Budget Out-turn – summary and headline messages

Shown below is a summary of the council's revenue budget out-turn position at the end of the 2020/21 financial year – although there are movements and variances compared to the base budget in both the directorate budgets and the financing budgets, the Net Revenue Budget presents a balanced budget position, as the council's resources match the net expenditure there will be no transfer required from either the General Fund Working Balance, or the council's Risk Reserve.

As previously advised, the financial monitoring continues to be reflected in the same format used throughout the 2020/21 financial year, which was prior to the council-wide restructure, the purpose being to enable consistency of understanding. The council's budget monitoring reporting arrangements will reflect the new format and naming conventions from 1 April 2021.

Revenue Budget Monitoring Summary 2020/21

		Month 12 Out-turn		
	Original Revenue Budget £000	Revised Revenue Budget £000	Provisional Out-turn £000	Provisional Variance £000
People & Communities;				
Adult Social Care	68,893	80,959	82,200	1,241
Children & Young People	30,867	32,546	31,843	(703)
Housing	1,519	1,465	1,308	(157)
Schools & Dedicated Schools Grant (*)	0	0	0	0
Development & Environment	35,414	49,433	49,568	134
Corporate Services	7,621	8,534	8,766	232
Public Health & Regulatory Services	912	1,886	1,626	(260)
Corporate & Capital Financing	20,844	24,074	23,043	(1,031)
Contribution into Covid Reserve	0	860	860	0
Contribution into Capital Risk Reserve	0	0	1,483	1,483
Total Revenue Budgets	166,069	199,757	200,696	939
General Fund Financing Budgets	(166,069)	(199,757)	(200,696)	(939)
NET REVENUE BUDGET TOTALS	**0**	**0**	**0**	**0**

	£000
DSG Deficit at 1 April 2020	(3,847)
- Net movement during 2020/21 - Schools Block	278
- Net movement during 2020/21 - High Needs Block	(3,581)
DSG Deficit at 31 March 2021	**(7,150)**

(*) Schools budgets are funded by a specific grant from the Department of Education and any surplus or deficit at the end of the financial is transferred into a reserve held on the balance sheet, it is not included within the general fund balance. Further information on the movements in-year are included in para. 3.4.7.

It is important to note that the council's approved base budget at the start of the financial year was £166.069m and this has increased by £33.688m to £199.757m as a result of additional funding being allocated by the government.

A schedule of grant funding is shown within Appendix 3 and includes both ring-fenced funding for areas such as Infection Control, discretionary business rate grants and outbreak management control and compliance activities as well as a general grant to cover wider Covid impacts.

The council has increased its expenditure budgets within the directorates to match the associated Covid related out-turn expenditure position in each of these areas to avoid distorting the final position.

3.3. Revenue Budget Out-turn – Covid-19 impacts

The first section of our reporting seeks to provide an overview of how Covid has impacted on each of the directorate budgets during the year, whether this be as a result of additional expenditure, losses in income or delays to the delivery of planned savings. The information noted below has been extracted from each directorate position to enable a council-wide 'Covid' position to be understood.

Each of these outcomes have either been funded through specific Covid related grant income allocations or by utilising the general Covid grant and to ensure that these pressures they do not adversely impact on the out-turn performance, the directorate budgets have been increased by way of a budget virement (as shown in Appendix 1).

3.3.1. Adult social services

In Adult Social Care, Covid financial impacts have been significant. In total, an additional £12.4m of additional pressures have been identified, which have been funded either by earmarked government grants or the general Covid grant.

The vast majority of the areas shown below represent payments made directly to adult social care providers, such as care homes and domiciliary care providers, who have been impacted significantly, to support them with exceptional additional costs.

Area	£000s	£000s
Infection Control Grants	6,914	
Rapid Testing Grant	982	
Workforce Capacity Grant	446	
Sub-total - spend funded by ring-fenced grants		**8,342**
Temporary fee uplifts and exceptional payments to providers		2,147
Future Covid Recovery Plan		1,530
Personal Protective Equipment (PPE)		277
Estimated losses in income		150
TOTAL ADDITIONAL PRESSURES		**12,446**

It is also worth noting that, particularly in the first six months of the financial year, the national NHS Hospital Discharge Programme funded hospital discharge packages because of earlier discharge from hospital and expected delays in carrying out both care and financial assessments. This is likely to mean that 2021/22 will see an increase in costs to the council of these packages once we return to pre-Covid funding arrangements.

3.3.2. Children's services

In Children's Services, the main areas of Covid financial impact involved placements for looked after children and support to families with children with disabilities, and £472k of the general Covid support grant was used to support these areas. In addition, £522k of government grant has been distributed to families most in need to support them with the cost of food, utilities and other essentials.

Area	£000s	£000s
Covid Winter Grant scheme	522	
Children's Well-Being for Return to Education	19	
Sub-total - spend funded by ring-fenced grants		**541**
Placements and support to families with disabilities		472
TOTAL ADDITIONAL PRESSURES		**1,013**

A number of areas, such as the Music Service and Nurseries also suffered from income losses, although much of this was offset following claims to the government, i.e. £317k from the Sales, Fees and Charges Compensation Scheme and £203k from the Coronavirus Job Retention ("Furlough") Scheme.

3.3.3. Place

The financial impact of Covid has been significant in the Place (was Development and Environment) directorate. In total, an additional pressure of £12.3m has materialised which has been funded by either earmarked government grants or the general Covid support government grant.

Area	£000s	£000s
Local Authority Discretionary grants to business	2,050	
Local Restrictions Support grants	285	
LA Additional Restrictions grants	6,211	
Self-Isolation Support grants	84	
Re-Opening High Streets Safely Grant	191	
Bus Operators Grant	86	
Emergency Active Travel Grant	72	
Home to Schools Transport Grant	809	
Covid Travel Demand Grant	39	
National Leisure Recovery Fund	189	
Sub-total - spend funded by ring-fenced grants		**10,016**
Support package to leisure & playhouse providers		1,209
Waste & highways costs to maintain service levels		275
Reduction in sales, fees & charges income		787
TOTAL ADDITIONAL PRESSURES		**12,287**

As can be seen from the table above the two major impacts include £8.6m paid to both businesses and individuals to help them survive through various stages of the pandemic and £1.4m paid to leisure providers to help them survive through various closure periods and reduced capacity due to social distancing.

It should be noted that in addition to the income losses noted above a number of areas, such as libraries, halls, events and the Bay Café also suffered from income losses during the course of the year, although some of this was offset following claims to the government, i.e. £2,362k was recovered from the Sales, Fees and Charges Compensation Scheme and a further £209k from the Coronavirus Job Retention ("Furlough") Scheme.

3.3.4. Corporate services

The Covid impacts within the Corporate Services budgets were not as significant as in other areas of the council however, a lot of officer time and capacity was spent on administering the numerous mandatory and discretionary financial support packages to both businesses and individuals, which were critical in helping them survive through the various stages of the pandemic.

Area	£000s	£000s
Emergency Assistance for Food and Essential Supplies	143	
Sub-total - spend funded by ring-fenced grants		**143**
Reductions in rental and service charge income		824
TOTAL ADDITIONAL PRESSURES		**1,013**

As can be seen from the table above the council extended its Welfare provision during the year and supported more individuals and families with food and essential supplies, £143k of these costs were funded using the grant given by the government.

In addition a number of areas, such as land charges, car parking, central services and property related services suffered from income losses during the course of the year, although a large proportion of this was offset following claims to the government, i.e. £1,208k from the Sales, Fees and Charges Compensation Scheme and a further £10k from the Coronavirus Job Retention ("Furlough") Scheme.

It should be noted that property related activities were specific exclusions of the Sales, Fees and Charges Compensation Scheme and so these impacts have been funded by the council using the general Covid support government grant.

3.3.5. Public health and regulatory services

Officers within the public health and regulatory services directorate were very much at the forefront in terms of leading the council's response to the pandemic through each of its various phases during the last year, and although there were no material Covid impacts or changes in relation to the substantive budget position, the directorate was responsible for managing a series of new ring-fenced grant allocations distributed by the government.

As can be seen from the table below these grant allocations largely focused upon providing resources to support planning for local outbreaks of the coronavirus and containing its spread, through both enforcement measures as well as developing a range of targeted

interventions. Funding was also given to supporting those individuals who were considered as clinically extremely vulnerable.

Area	£000s	£000s
Covid Local Outbreak Management Plan	144	
Local Authority Compliance and Enforcement grant	93	
Contain Outbreak Management Fund	576	
Clinically Extremely Vulnerable Individuals grant	91	
Community Testing Fund	69	
Sub-total - spend funded by ring-fenced grants		**973**
TOTAL ADDITIONAL PRESSURES		**973**

The grant allocations in respect of outbreak management planning and compliance were much larger than shown in the table above however, the grant conditions do not require all of the monies to be spent by the end of the financial year meaning that balances can be carried forward to fund future outcomes.

3.3.6. Capital financing and non-service budgets

During the year the council has incurred additional expenditure when responding to the pandemic, largely relating to cross-cutting or council wide functions such as rolling out a new ICT platform to facilitate home-working on a large scale, arranging access to services such as Zoom and making changes to buildings to ensure compliance with safe social distancing measures. There were also additional costs incurred with contractors to support delivery of the business rates grants schemes, many of which have been in operation for most of the financial year.

The government has issued some new burdens funding towards these costs and the remaining balance of £833k has been funded using the general Covid support government grant. The grant also contributed towards the increased cost of the Coroners Service which is a joint arrangement managed by Bristol City Council on behalf of the four unitary councils in the region.

Area	£000s	£000s
	0	
Sub-total - spend funded by ring-fenced grants		**0**
Council-wide corporate costs		833
Increased cost of coroners' service, managed by Bristol CC		197
TOTAL ADDITIONAL PRESSURES		**1,030**

Other material movements to note within the out-turn position relate to reductions in income linked to planned returns on investment balances. Whilst the council's cash-flow positions remained buoyant throughout the course of the year despite the extreme volatility faced by many of its services and income streams, the wider economic situation impacted on the money markets which meant that interest rates fell to record levels, and even tipped into periods when negative rates were offered to councils who wanted to place funds. The out-turn shows a short-fall of £475k for the 2020/21, although it should be noted that this is likely to remain a key risk going forwards into 2021/22.

3.4. Revenue Budget Out-turn – other key service issues

As in previous years all elements of the council's operational revenue budgets have continued to be monitored and reviewed and this section of the report provides an overview of the main highlights of the year and so largely focuses on those issues which are not directly related to the pandemic. That being said, it is not entirely possible to classify all budget movements into separate Covid / non-Covid categories.

The council's annual budget processes are underpinned by a series of core assumptions and factors and so it is important to be aware of all material issues within the revenue budget in order to understand the potential impact that these may have in future years.

3.4.1. Adult Social Care

Aside from Covid, there was a "business as usual" / underlying core overspend of £1.240m within the Adult Social services budgets, which includes an estimated £330k of planned Medium Term Financial Plan savings that have been delayed as a result of later implementation due to internal or external capacity issues.

There are a number of other issues that make up the overspend, including a £2.3m increase in spend on residential and nursing care packages with Exceptional Special Needs (ESN), which more than offsets the £2m reduction in demand for basic residential and nursing care packages associated with the pandemic.

ESN packages arise where a premium is paid on top of the basic rate – this could be where clients require additional support, where the home does not accept the basic rate or where Covid has meant that client is unable to move from their original hospital discharge placement, which may have been originally commissioned at a higher rate. It is important to note that the client income contribution rate for ESN packages is significantly lower than for basic packages which means that this has also led to a significant reduction in income levels compared to the budgeted position.

During the year there has also been an increase in spend on domiciliary care and supported living, offset by a reduction in spend on short-term placements and an increase in non-client income.

The overspend in relation to individual care packages is being partially offset by savings in areas such as contracts and commissioning and early intervention and prevention.

It is also worth noting that the out-turn position reflects accounting adjustments that revise down the total income received by £400k in relation to credit loss allowance and debt impairment. These provisions are prudent given the current circumstances however will continue to be monitored in the future to determine if they are still required.

Looking ahead, the Covid-19 pandemic and underlying business as usual activity has served to heighten a number of risks in the adult social care budget; the key ones being:

- Supressed demand for services in 2020/21 due to CCG funding of hospital discharge cases and voids in care homes
- Agreement of a business case to secure long-term funding for the new hospital discharge arrangements
- Ongoing need for increased ESN related packages
- Increased costs in, and financial stability of, the care market

- Potential increased demand for support, especially for mental health and carers' support
- Capacity to deliver transformation and MTFP savings
- Underlying levels of outstanding debt

3.4.2. Children's Services

The overall position in Children's Services, after use of the general Covid Support Grant, is an underspend of £703k. This is predominantly reflective of overspends in relation to families with disabled children and legal costs (£401k and £171k respectively), which are more than offset by staffing and travel savings, spending deferrals and, for the first time in many years, an underspend in relation to placements for children looked after.

Key risks looking ahead are that some of the increases associated with Covid are sustained beyond the time period of the corresponding funding, that some of the 2020/21 mitigations / underspends described above cannot be sustained into 2021/22, and that the number of children looked after increases following the easing of lockdown measures.

In addition, there are further targeted savings of £1.5m included within the 2021/22 approved budget, largely related to reducing the costs of placements for children looked after, and, whilst, progress to date has been excellent, this area has some inherent risk in terms of delivery.

3.4.3. Development and environment

The overall position in Development and Environment (or Place), after use of the general Covid Support Grant, is a net overspend of £135k.

The key variances are as follows:

- £121k underspend - Highways Operations – arising from a combination of vacant posts and reduced maintenance delivered due to capacity
- £288k overspend - Concessions – increase in bad debt provision due to a rise in debt levels and contribution to reserves to fund a new lease arrangement
- £150k overspend - delayed delivery of MTFP savings
- Various salary underspends linked to difficulties in recruiting or vacant posts being held due to service closures e.g. Libraries

Looking forward, the key risks for 2021/22 include the ongoing demand for home to school transport. Although the service did achieve a balanced budget for 2020/21 it should be noted that £809k of ring-fenced Covid funding was received to facilitate social distancing during journeys. Whilst it can clearly be demonstrated that the service incurred a range of additional costs, at times it was difficult to identify only the Covid-related incremental costs from the overall costs meaning that an aggregated approach was taken. It should therefore be recognised that the underlying demand for transport may result in a new pressure when additional funding expires.

New MTFP savings of £1.8m have been incorporated within the budget for 2021/22 and as always, there is a delivery risk associated with these especially since some capacity is still being utilised to deal with the impacts of Covid.

Another key change is that waste services will be delivered through a local authority trading company from 2021/22 as approved at Council in September 2020. The North Somerset

Environment Company Limited (NSEC) has been formed and the existing waste revenue budgets will be re-based in order to recognise and meet the costs of the new service. Although there is likely to be an impact within the revenue income and expenditure budgets as a result of these changes, these will be smoothed over future financial years meaning there will be no net impact in either the 2020/21 or 2021/22.

That being said, whilst the budgeted impacts can be smoothed it should be noted that the risk profile of waste services has changed, specifically those risks associated with the income generated from the sale of recycling materials, as this risk now sits with the council. The market can be volatile and is also dependant on the quality of materials processed by NSEC, and so additional monitoring will be undertaken in this area.

3.4.4. Corporate services

The overall position for Corporate Services, after use of the general Covid Support Grant, is a net overspend of £231k. Whilst this budget variance is not material in total, there are numerous movements which make up this sum, some of which are considered to be one-off in nature, whilst others may continue into future years.

The main variances are as follows:

- £288k – net increase in insurance costs including contribution towards a provision for a legacy issue
- £136k – shortfall in recharges to the capital programme, as a result of staffing vacancies and diverting other members of the team to work on Covid-related activity
- £ 81k – non delivery of legacy MTFP savings
- £ 90k – continuation of First Steps programme, which provides support and advice to residents in respect of council tax and welfare issues
- £ 37k – increase in members costs
- £ 39k – increase in external audit fees

Many of these variances were offset with mitigations and savings arising in other areas of the budget, notably as a result of holding staffing vacancies, reductions in the costs of energy and maintenance within office accommodation budgets and also reductions in travel related costs.

The majority of these variances are one-off and are not expected to continue into the future, funding has been included within the 2021/22 budget to enable the continuation of the successful and valued First Steps programme however, the council will need to consider the ongoing impact of items such as the increased costs of external audit within its MTFP considerations, should these costs continue to increase as expected.

3.4.5. Public health and regulatory services

The council’s public health budgets are funded from a specific grant from Public Health England and have continued to operate within a financial ring-fence during 2020/21, which means that any underspending of these budgets must be transferred into an earmarked reserve and only spent on public health related activity in the future. The out-turn position for the year was an underspend of £389k, which has increased the balance held in the reserve to £765k.

Staff within regulatory services made a significant contribution towards the council's Covid compliance and enforcement activities, much of which was prescribed by the government and funded through a series of specific grants which meant that some of the budgeted costs were funded in other ways. Vacancies were also held during the year; environmental health related areas encountered recruitment difficulties, discussions with other neighbouring authorities have shown this to be more of a national issue rather than a local one and so an alternative solution will need to be identified in the coming months to alleviate service pressures.

3.4.6. Corporate, capital financing and non-service budgets

The most significant under spend reflected within the Non-Service out-turn position relates to the council's £900k contingency budget, which has no direct spending plans liked to it at the start of each year. This means that the council has the ability to use this funding to offset adverse variances elsewhere within its budget should the need arise, or to allocate sums to specific spending plans or priorities if required. No such allocations were made during 2020/21.

3.4.7. Schools and the Dedicated Schools Grant

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.

At the end of the 2019/20 financial year there was a deficit of £3.847m, during 2020/21 this has increased to £7.150m; although this includes a £278k underspend from the Schools Block which is likely to be spent within that block during 2021/22, rather than offset the overall deficit.

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 140% increase in the number of children and young people with the Education, Health and Care Plans (EHCPs) from 2015 to 2021.

Medium term measures to mitigate spending increases include the implementation the Specialist and Alternative Provision Review, and Education Commissioning Strategy, 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.
- 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
- Further plans to deliver Specialist Units on mainstream schools' 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 2020. 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, in order 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. This Summit took place earlier this year and there was significant commitment from all parties; implementation plans are now being drawn up.

3.5. 2020/21 Savings proposals

Included at Appendix 2 is a schedule of the budget reductions totalling £5.235m, which were incorporated into the 2020/21 base budget, together with an assessment showing the status and progress for each of the savings plans. Despite the ongoing challenges faced over the past year, these items remain a feature within the monthly budget monitoring processes and are regularly reviewed by directorate leadership teams. The out-turn assessment indicates that approximately 85% of the planned savings were largely delivered in year or mitigated with other measures, which is only marginally lower than achievement of 90% in the previous financial year.

3.6. Reserves – general revenue reserves

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 5.45% of the original net revenue budget. This reserve is not usually held to fund spending priorities, instead it seen as a working balance to cover unforeseen or unavoidable financial risks.

It has been anticipated in monitoring reports throughout the year that the only draw on these reserves would be the requirement to fund any residual over spend remaining at the end of the financial year however, as noted from above, the council has managed to achieve its aim of balancing its budget for the year and so the closing balance at the year-end remains unchanged.

Although the optimum level of general reserves to hold is a subjective decision for each council to consider dependent upon many risk factors, a general rule of thumb, widely supported by external auditors, indicates that a minimum level should equate to between 4-6% of the authority's revenue budget thus the current level of £9m is within desired levels.

However, it should be noted that the council will continue to face a range of risks and uncertainties, including those in respect of the Covid-19 emergency, and so this reserve may be required in the future to fund any residual impacts not covered by other government allocations or from sums set aside within earmarked reserves. Should that be the case then the council would need to ensure that balances do not fall below the levels set out in the reserves policy.

3.7. Reserves – other usable reserves (ear-marked)

In addition to the general reserve balance the council also has a series of reserves which it can use to support spending within the revenue or capital budget, smooth impacts across financial years or hold to cover future financial risks. These are known as '**usable**' reserves and are held on the council's balance sheet.

Ear-marked reserves are largely created in order to;- provide resources for a range of one-off programmes, invest in planned future expenditure or service improvements, deliver the outcomes required by unconditional service related grants received from the government and / or external partners, or to provide the council with cover from potential financial risks.

Their planned use is part of an effective strategic financial plan although it should be noted that;

- some of these reserves are more 'general' in nature whereas other reserves are 'earmarked' and held for specific purposes

- some of these reserves are more regulated and need to follow prescribed guidance, whereas other reserves have a degree of flexibility or choice

Directors manage these resources alongside revenue budgets and routinely share details of the planned transfers between reserves and their revenue budgets within the monthly budget monitoring framework, and these have been included within each of the published reports over the past year.

An updated summary combining all of the council's usable reserves is provided at **Appendix 4**, which reflects the opening balance at the start of the financial year, together with movements into, or out of the council's revenue budget, and the final balance held in the reserve at the end of the financial year.

At an overall level the schedule shows a positive or healthy position in that the overall level of usable reserves held by the council has increased from £65.682m to **£101.344m** over the year. However, given the context of the pandemic it is extremely important to understand the significance of the balances held in some of these reserves at the year-end, any regulatory framework surrounding them, as well as their planned future use, which means that they are currently fully allocated, and therefore not available to fund new pressures, initiatives or priorities within the revenue budget.

An overview of material items transferred into reserves at the end of the year is shown below;

- **Covid-19 response – £6.5m** - since the start of the pandemic the government has provided a range of unallocated funding packages to local government in order to help defray some of the pressures experienced within their financial plans and revenue budgets. A proportion of this funding has been applied to finance impacts within the 2020/21 revenue budget whilst other sums have been transferred into earmarked reserves to fund plans and initiatives which will be delivered in future years.

- **Place contracts reserve - £6.8m** - a large proportion of the services provided by the Development and Environment (or Place) directorate are delivered through material third party contracts, such as highways, street cleansing and grounds maintenance, and waste collection and disposal. All contracts are procured, monitored and

reviewed on an ongoing basis to ensure that an efficient and effective range of services are delivered, at a price which supports value for money considerations. Changes in contract provision were approved during the financial year although the financial impacts may arise over the period 2021-2024 and so an earmarked reserve has been created to smooth costs across this period.

- **Collection fund smoothing reserve - £17m** – as noted in para 3.8 below, the council is required to account for an unusual situation within its revenue budget at the end of the 2020/21 financial year. The council has been awarded a Section 31 grant to compensate it for changes to the national business rate relief scheme, which resulted in a significant loss of business rate income previously due to the council. Due to the accounting arrangements associated with the Collection Fund, the loss of income will be recognised in a future financial year, whereas the S31 grant has been received in the current financial year, and so the grant has been transferred into the smoothing reserve so that it can be applied at the appropriate time. These monies cannot be used for any other purpose.

- **City-Region Deal reserve - £5.3m -** the City-Region Deal reserve is a technical reserve used to account for the council's share of resources which will be pass-ported into the accountable body for use at a later date.

- **Capital grants and receipts - £5m -** the council holds a variety of assets, the majority of which are either operational and used to deliver services or held as a long-term investment to generate capital appreciation, or alternatively, deliver a return into the annual revenue budget. Capital receipts are generated when the council sells an asset - although there may be timing differences linked to asset sales and capital expenditure, all of the council's capital receipts have been allocated as funding for schemes and projects within the approved capital programme.

  In addition to revenue grants, the council also receives capital grants which are ring-fenced to fund projects and schemes within the capital programme, meaning that they cannot be reallocated for alternative purposes.

The schedule also shows that the council brought **£20.582m** of reserves back into the revenue budget during the year to finance both revenue and capital expenditure. The majority of this spend was planned on approved projects and key priorities although some covered risks and unavoidable costs, further information is shown below;

- **Covid-19 emergency response – £5.9m** – these monies were given to the council at the end of March 2020 and represented the first tranche of unallocated Covid support funding. Three further tranches were awarded during the year and all 4 sums amounted to £14.6m in total. The council has applied the majority of this funding to specific pressures within the revenue budget in-year or allocated to specific projects for delivery in the future.

- **Schools reserves –** these reserves and balances are held by schools and cannot be reallocated for alternative purposes, £1.6m was drawn down and transferred to the schools at the start of the year, although a proportion was subsequently retained.

- **Directorate reserves –** these reserves are held by directorates and contain funding for a range of specific projects and planned initiatives such as housing surveys, investments in digital capabilities and improvements to the council's website,

replacement system for children's services or supporting place-making and growth agendas. £3.6m was drawn down and transferred to the revenue budget over the course of the year progressing these plans despite the pandemic.

As in previous years the Finance Strategy Board have undertaken a review of earmarked reserves as part of their closure of accounts work-plan in order to ensure that all reserve balances are appropriately held and are still aligned to key council priorities. Whilst noting that the level of reserves has significantly increased, the review highlighted that the majority of reserves were in fact contractually committed, allocated to agreed projects and programmes or being held to cover risks and uncertainties associated with the pandemic - no changes were proposed as a result of this review.

3.8. 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 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 original net revenue budget.

The income is recognised within the council's accounts as a 'precept' which is drawn against the collection fund, which is a ring-fenced arrangement used to administer all related income on behalf of the following parties;

- Business Rates – North Somerset Council (49%), Avon Fire Authority (1%), Central Government (50%)
- Council tax – North Somerset Council, Avon Fire Authority, Police & Crime Commissioner for Avon & Somerset, Town and Parish Councils

The accounting arrangements for the collection fund are more complex and are actually different to other parts of the council's budget and mean that the council will levy and receive the same fixed annual budgeted sum each year, irrespective of any in-year movements which have arisen during the course of the year. All surplus or deficit positions generated, are transferred into an 'unusable' reserve, shared proportionately across all of the preceptors, and then reflected as an actual transaction within the accounts in subsequent years.

This means that although we have been closely monitoring the financial performance of the collection fund during the year to understand the impact that the Covid-19 pandemic has had, impacts will largely feature in future years. The out-turn positions for each of the areas are noted below.

Business rates

The out-turn position in respect of business rates income shows that there is a deficit of £25.412m at the end of the 2020/21 financial year, and the council's share of this is £12.452m. This is an improvement compared to the previously reported £28.515m position and is largely due to the government announcing it would not permit appeals for reductions to rateable values if the reason was due to Covid. The council previously forecast potential losses of almost £3m for such appeals.

It should be noted that a significant proportion of the income short-fall relates to the award of relief granted to businesses who operate within the retail, hospitality and leisure sectors at the start of the pandemic period.

The government has been clear that this was a national policy decision which will be fully funded and so the council will receive 100% reimbursement for all relief awarded under the policy. The reimbursement mechanism used by the government is via a Section 31 Grant, which has been recognised as income during the 2020/21 financial year.

However as noted above, the business rate deficit on the collection fund will not show in the council's annual accounts until the 2021/22 financial year, and so the council has transferred all of the Section 31 retail relief grant income into an ear-marked usable reserve at the year-end in order to smooth the accounting impacts across both financial years.

Council tax

The out-turn position in relation to council tax shows an in-year loss of £3m compared to budgeted position at the start of the year. The losses relate to a range of baseline assumptions including lower cash collection rates, slower delivery of anticipated increases in the tax base, and an increase in the amount of discounts and reliefs awarded to households.

The council's share of annual deficit in respect of council tax is £2.501m and this does include the application of the £1.492m of Hardship Funding grant given by the government, which enabled some council tax payers to receive an additional discount of up to £150 on their annual bill.

Covid Funding

Although both elements of the collection fund are anticipated to show losses at the end of the financial year the Government has confirmed that '**Covid- related**' losses in this area will not entirely fall on council budgets during the current or next financial year, but will instead be spread over the following three years, and then funded through a specific Covid collection fund losses grant. A sum of £0.727m has been received which will potentially cover the losses over the next three years although it should be noted that this sum was predicated on an indicative estimate made by the council in January 2020 and there remain a significant range of variables and uncertainties before it can be determined whether this sum will be sufficient.

3.9. Support provided to businesses and individuals

Whilst the majority of the report provides details of transactions that have been reflected within the council's revenue budget over the course of the past year, it should also be recognised that the council has also received significant sums of additional Covid monies which have been used to fund responsibilities undertaken on behalf of central government, notably the payment of grants to individuals and businesses.

The government has provided unprecedented levels of financial support in this area to help reduce the financial hardships suffered by many through periods of lockdown or as a result of restrictions and adherence to national guidance and self-isolation.

As previously noted, Appendix 3 provides a list of total additional grant funding allocated to the council and the summary highlights those sums which were part of the national framework and only passported to councils so that they could re-distribute the funding for the government.

As such, these transactions do not form part of the council's accounts as they have been accounted for on an agency basis but, have been included for completeness to enable an understanding of the financial challenges faced across the district as a result of the Covid-19 emergency, and also to provide an understanding of the practical challenges which the council overcame in order to develop new service provisions and processes at a time of real need.

3.10. Capital Budget Out-turn

Appendix 5 presents Members with a detailed schedule showing all of the schemes included within the council's approved capital programme, which includes the budget for the current year and the following four financial years. This shows that the council's overall programme currently totals £357.974m, £66.419m of which relates to the 2020/21 financial year.

The capital summary shows that the council has spent £41.895m during 2020/21, which equates to 63% of its budget for the year, although has placed commitments for schemes totalling a further £5.923m which would increase the spending to 72% of the annual budget.

This is lower than in previous years and is evidence that the pandemic impacted on the delivery timescales associated with some capital projects, particularly at the start of the process when there were more uncertainties associated with lock-down and social distancing measures. Officers are currently reviewing how much of the unspent balance will be required in future years and as a result this some budgets will be 'slipped' and included within next years' programme in line with delivery and completion of the schemes.

Capital expenditure incurred during the year will be transferred to the council's balance sheet as a long-term asset if it has been spent on increasing our asset base, for example, expenditure incurred on fitting out the FoodWorks facility or monies spent on increasing or enhancing our infrastructure network.

Expenditure incurred during the year which has not resulted in a council owned asset will be charged to the revenue budget as a technical accounting adjustment, for example, projects relating to the expansion of academy schools to deliver more school places, or capital grants given to housing association providers.

In addition to the capital expenditure costs, the schedule also provides details of how these schemes have been funded and what types of resources have been used. The largest proportions of the programme has been funded following the award of external grants and contributions (£34.922m), capital receipts from the sale of assets (£2.433m), deposits and reserve balances brought forward from previous years (£1.250m) and by increasing the council's long-term borrowing (£3.290m).

Whilst this summary provides information in respect of the final out-turn position for the year, the underlying financial monitoring and governance processes have highlighted increasing areas of risk in some areas. The council recognises the benefits of delivering major capital investment within communities across the district but does however note that such projects may be impacted by a range of issues, some of which could result in a future budget pressure. As a result the council has sought to establish a capital risk related reserve in order to provide resilience in this area and this is included within the table at Appendix 4.

3.11. Capital Budget Amendments

Appendix 6 details changes to the approved capital programme reflecting re-phasing of capital works, new projects, and other decisions recommended for approval by the Investment & Infrastructure Board or the Section 151 Officer. This in an ongoing process and forms part of the governance arrangement and so these changes do require formal approval through this report.

3.12. Statutory Reporting of the Revenue Out-turn Position

Each year the council is required to publish details of its financial activities within the annual Statement of Accounts, so that they are available for review by members of the public and other interested parties, and also for inspection by external auditors.

The deadline for publication of the Accounts is usually 31 May however due to the Covid-19 emergency, this requirement has again been deferred until 30 September 2021, as it is recognised that councils currently have other priorities to consider at this time. Finance officers are continuing to progress and it is anticipated that the councils' full set of draft accounts for 2020/21 will be published on the website by 30 June 2021.

Local authorities in the United Kingdom are required to prepare their formal accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which is issued by Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code specifies the principles and practices of accounting specifically for local authorities, and does include differences to other organisations, although the statutory accounts are still required to provide a true and fair view of the financial position, and also reflect a summary of the transactions of the council during the course of the year.

As a result of the specific legislation the council's 'statutory accounts' **do** include transactions and adjustments which are not fully reflected within the monthly budget monitoring reports presented to Members, as they are technical in nature and <u>do not</u> directly impact on the council taxpayer. Examples of such adjustments include items such as depreciation of the council's asset base, the profit or loss on the disposal of fixed assets, and the impacts of the annual changes and revaluations within the council's pension fund liabilities.

A specific change to highlight to Members in respect of the 2020/21 financial year is the accounting treatment for specific or ring-fenced grants, because throughout the year the council's budget monitoring has reflected the Covid-related grant income within its financing budgets, whereas these sums will be reflected within the directorate income totals within the statutory accounts in line with the regulations. The purpose of separating out the grant income and expenditure within the monthly budget monitoring reports was to improve the transparency of Covid-related financial transactions within our budgets, as they could easily have been missed if they were 'netted off' against each other within a single total. Being open is a core component of the council's vision.

Appendix 7 provides a summary of the council's revenue budget out-turn position for 2020/21 which is displayed in the standard monthly budget monitoring presentation, as well as the format required within the statutory accounts. This enables a comparison of the different reporting formats and provides a reconciliation between the two.

The financial summary shows that the council;

- has achieved a balanced position on its revenue budget for the year which means that no transfers to or from the General Revenue Reserve are required (see column 1),
- has made a net contribution into its reserves of £30.070m (see column 2)
- has reflected a net surplus of £15.537m when providing services within its Comprehensive Income and Expenditure Statement at the end of the year (see column 6).

Column 5 shows that £14.533m of this relates to technical adjustments which have been reversed out within the council's unusable reserves using statutory mechanisms to avoid a financial impact on the council taxpayers of the area, some of the more significant items are listed below;

Technical adjustment	**£000s**	**£000s**
Annual depreciation and impairment charges and revaluation changes on the council's asset base	23,558	
Net reduction in the value of the council's investment properties	862	
Net loss on the disposal of non-current assets, includes schools transferring to academy status	7,353	
Capital expenditure charged to the revenue budget under statute	4,575	
Capital grants and contributions received and used to finance spend	-32,316	
Transfer of Dedicated Schools Grant deficit to unusable reserves	-3,303	
Transfer of Collection Fund deficit to unusable reserves	-14,919	
Adjustments relating to pensions	-6,377	
Adjustments relating to debt charges and capital spend	5,764	
All other technical adjustments (net)	270	
TOTAL TECHNICAL ADJUSTMENTS		**-14,533**

4. Consultation

The report has been developed through consultation and engagement with the council's corporate leadership team, directorate leadership teams and with nominated budget managers.

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

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are considered by service managers when creating and monitoring their budgets and may be referenced or noted, where appropriate, throughout the report or associated appendices.

8. Risk Management

The council faces a wide variety of risks whilst delivering its many services to residents, some of which may have a financial consequence or impact. The most significant financial risks associated with delivery of 'business as usual services' for the 2020/21 revenue budget were contained within the Medium Term Financial Plan (MTFP) approved by the Executive in February 2020 however, clearly some of these risks have been overtaken by the council's response to the pandemic and so have been regularly reviewed by the corporate leadership team and the S151 Officer throughout the year.

The main risks, which are highlighted below, were considered as part of the 2021/22 budget setting process in assessing the levels of reserves which may need to be held. They will also need to be re-considered when monitoring the current year's budget and when formulating the next iteration of the MTFP and setting the 2022/23 budget. It is worth noting that the likelihood of these materialising is greater following Covid and the potential amounts could be significant.

- The sufficiency and sustainability of the adult social care market and the council's ability to meet increasing costs
- Increased demand for support for social care in both adults and children's services and in services for children and young people with SEND, including areas such as Exceptional Special Needs placements and home to schools' transport services
- Agreement of a business case to secure long-term funding for the new hospital discharge arrangements
- Any other unfunded and on-going impacts of the Covid-19 pandemic in relation to increases costs and lost income, e.g. concessions and property related income
- Capacity to deliver transformation and MTFP savings projects
- Ongoing reduction in interest rates
- Costs and funding pressures in relation to existing capital projects within the approved programme
- Any appeals or legal challenges

9. Equality Implications

The 2020/21 revenue budget incorporates savings plans approved by Members in February 2020 all of which are supported by an equality impact assessment (EIA). These EIAs have been subject to consultation and discussion with a wide range of stakeholder groups to ensure all risks have been identified and understood.

10. Corporate Implications

There are currently no specific corporate implications within the report. The relationship between the budget process and its continued ongoing monitoring arrangements have to be fully integrated if the council is to achieve the required financial outcomes it requires. Members will be aware that robust financial management and strong internal controls will play a key part in delivering successful service outcomes as well reducing financial risk.

11. Options Considered

N/A

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Appendices:

Appendix 1 Revenue Budget Monitoring Summary 2020/21
Appendix 2 Monitoring of the 2020/21 MTFP Savings Proposals
Appendix 3 Summary of Covid Grant Funding
Appendix 4 Summary of Usable Reserves
Appendix 5 Monitoring of the Capital Programme
Appendix 6 Summary of Changes to the Capital Budgets – to be approved
Appendix 7 Reconciliation of the Revenue Budget Out-turn Statement 2020/21

Background Papers:

- Executive, February 2020 - Medium Term Financial Plan and Capital Strategy reports, which incorporate the 2020/21 revenue and capital budgets
- Executive, September 2020 to March 2021 – Budget Monitoring reports