

Report to: Scrutiny Committee Cabinet Council

Report of Interim Head of Finance

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To: SCRUTINY COMMITTEE 28 September 2020

To: CABINET 2 October 2020

To: COUNCIL 7 October 2020

Revised budget 2020/21

Recommendation(s)

Cabinet is asked to recommend to Council that it:

1. Agrees that the net revenue expenditure budget for 2020/21 be increased to £15.835 million with the increase to be funded from revenue reserves.
2. Agrees the additions to the capital programme as detailed in Appendix 2 of this report to be funded from capital receipts.

Purpose of Report

1. To recommend changes to 2020/21 budgets to reflect the financial impact of the Coronavirus pandemic, and other matters, on the council.

Corporate Objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the Council. This report shows how that allocation has been affected by the pandemic.

Background

3. The Council set a net revenue expenditure budget for 2020/21 of £15.044 million at its meeting on 12 February 2020
4. Since the budget was set, and in common with councils across the country, Coronavirus has had a major impact on our operations. Additional costs have been incurred in supporting residents and businesses affected by the pandemic. At the same time, a number of the council's key income streams have been affected by the country going into lockdown. Taken together, the additional spend and lost income must be addressed in year, to ensure that the council stays within a budget approved by Council.
5. To date, central government has provided non ring-fenced grant funding to the council totalling £1.6 million since the pandemic started. This was provided to councils to support their expenditure pressures, and also to alleviate any potential cash flow pressures arising from a sudden increase in spend and drop off in income.
6. We have also received direct funding from government to pay for our delivery of some of their support packages, the most notable being the business grants.

Changes to the 2020/21 revenue budget

7. Monitoring reports for all services have been revised in order to identify the cost of assisting the national response to the Coronavirus pandemic, and the income lost as a result of lockdown regulations and consequent changing behaviour in society.
8. Following a review of spend to date across the council by the strategic finance team working with heads of service and budget holders, it is currently estimated that the net expenditure budget needs to be increased from £15.044 million to £15.835 million, an increase of £0.791 million. This increase will be funded from the council's reserves. This is summarised in Table 1 and is shown in detail in Appendix 1.

Table 1: Revenue budget 2020/21

	£000
Original net expenditure budget 2020/21	15,044
Impact of Coronavirus pandemic:	
Additional expenditure pressures	1,137
Additional income pressures	2,403
Additional grant funding	(3,281)
Other revisions	532
Total revisions	791
Total revised expenditure budget 2020/21	15,835

9. In terms of the impact of the Coronavirus pandemic, the significant expenditure pressures include additional work for the housing and homelessness team, particularly in dealing with supporting rough sleepers to be moved into accommodation. The council is also supporting vulnerable people and people that are "shielding" during the pandemic. As staff have been diverted onto supporting the council's Coronavirus

response, this has led to pressures with in some cases staff working additional hours and also foregoing holiday to ensure day to day service delivery can be maintained.

10. Many of the council's key income streams have been affected by the pandemic. These include car parking income, and fee income from planning and building control, as well as commercial income from tenants.
11. Some of the loss of income will be able to be offset by the government's compensation scheme for losses of sales, fees and charges revenue. The scheme is designed to offset irrecoverable income losses that the council is incurring so that they don't negatively impact on financial sustainability, specifically in balancing budgets for the 2020/21 financial year.
12. An initial assessment of the principles has been carried out and used in determining income included in this report. As an example, where a council had budgeted to collect income from leisure centres either through direct customer charges, where they are council owned, or through a planned management fee, where there is an arms-length relationship, and this income is now irrecoverable, such income would be in scope of the income scheme.
13. The scheme will not support income losses in the following areas:
 - Commercial income from investment properties,
 - Interest and investment income, and
 - Council tax and business rates income.
14. The scheme includes a five per cent deductible rate, whereby councils will absorb losses up to five per cent of their planned sales, fees and charges income, with the government compensating them for 75 pence in every pound of relevant loss thereafter. By introducing a five per cent deductible the government is accounting for an acceptable level of volatility, whilst shielding authorities from the worst losses.
15. The first claim for compensation is due at the end of September 2020 based on actual results compared to budget. Future claims will continue to be based on the original budget for the 2020/21 financial year.
16. In terms of council tax and business rates income, under regulations budgeted income from those sources will not change during 2020/21. However, should there be a shortfall in those receipts (compared to expected levels), then in accounting terms this will create a deficit that under normal circumstances would need to be made good in the following financial year.
17. Given this year's events, the government is proposing that repayments to meet council tax and business rates deficits that occur in 2020/21 will be phased over a three-year period (2021/22 to 2023/24) to ease the immediate pressures on budgets. For business rates, Vale is already budgeting to be at "safety net" so any losses on business rates income will not impact on its budget.
18. On council tax, collection rates have fallen slightly. By the end of August 2020 47.65 per cent of council tax had been collected, compared with 48.52 per cent at the same point in the previous year. The collection rate will continue to be monitored and any

impact on the following year's budget will be assessed as part of the 2021/22 budget setting process.

19. In addition to dealing with the impact of the pandemic, this budget also deals with other revisions. These include a revision to the net position on housing benefits at year end. Also included is a revision to the profiling of the transformation budget included in the budgets for 2020/21 and 2021/22, and a reduction in the contingency budget to reflect the fact that this revised budget is being set half-way through the financial year.
20. The revised budget sets a new limit on council expenditure for the year that must not be exceeded. It is based on officers' best estimates of the likely financial impact of the council as at the time of writing, which was Friday 18 September.
21. It must be noted that the nature of the Coronavirus pandemic means that it is not possible to guarantee that the increase of budget requested through this report will accurately reflect the pressures that will arise in the next six months. Should the revised budget proposed in this report not be sufficient to meet those pressures, then it will be necessary to bring a further report to agree the action required to meet those pressures. In the event of an underspend at year end, then this will reduce the requirement to draw on reserves.

Capital programme 2020/21

22. On 13 February 2020 Council agreed a capital programme for 2020/21 of £10.500 million.
23. A small number of additions are proposed to the capital programme for 2020/21, reflecting the council's response to the Coronavirus and other operational matters. These are detailed in appendix 2 and will be funded from capital receipts.

Future outlook

24. Although this report is focussed on addressing the financial challenges facing the council during 2020/21, drawing on reserves to address the in-year shortfall has implications for future budgets. This decision therefore must be made in the context of the council's overarching financial position.
25. The position reflected in the council's medium-term financial plan as reported to Council in February 2020 showed that, while the council was not required to use reserves to set a balanced budget for 2020/21, future years would see a budget gap emerge that was predicted to increase to over £6.2 million per annum by 2024/25.
26. Given the additional draw on balances this financial year, and that the Coronavirus pandemic looks certain to have an ongoing impact on the council into future financial years, the need to take action to address the increasing funding gap as part of budget setting for 2021/22 and future years has intensified.

Financial, legal and any other implications

27. These are covered in the main body of the report.

Conclusion

28. 2020 has seen the council forced to deal with unprecedented challenges that has led to increases in expenditure and pressures on income. Although we have received financial support from government it is estimated that this will not be enough to cover the likely net cost of the pandemic. As a result of this and other necessary revisions to the budget, councillors are asked to agree the proposed changes to the 2020/21 budgets.

Appendices

- 1) Revenue budget revision
- 2) Capital programme revision

Background Papers

Budget papers for 2020/21