

Report to Cabinet

Subject: Quarterly Budget Monitoring and Virement Report – Quarter 2 September 2020 including Mid-Year Review of the Medium Term Financial Plan

Date: 12 November 2020

Author: Senior Leadership Team

Wards Affected

Borough-wide

Purpose

- To update Cabinet on the forecast outturn for Revenue and Capital Budgets for 2020/21. The budgets include all approved carried forward amounts from the 2019/20 financial year.
- To request approval from Cabinet for the changes to the budget as set out in this report.
- To provide Cabinet with a mid-year update of the Medium Term Financial Plan (MTFP).

Key Decision

This is a key decision.

Recommendation(s)

Members are recommended to:

- 1) approve the General Fund Budget virements set out in Appendix 1;**
- 2) approve the amendments to the Capital programme set out in Appendix 3;**
- 3) note the use of reserves and funds during quarter two as detailed in Appendix 2;**
- 4) note the mid-year review of the Medium Term Financial Plan.**

1. Background

- 1.1 The Council has made a commitment to closely align budget and performance management. This is in line with accepted good practice.
- 1.2 To deliver this commitment, systems to monitor performance against revenue and capital budgets, improvement activity and performance indicators have all been brought together and are now embedded in the way the Council works. Whilst the budget and performance information is presented in 2 separate reports, they are reported to Cabinet together and will appear on the same agenda.

2. Proposal

2.1 General Fund Revenue Budget Summary

The following table summarises the overall financial position of the General Fund Revenue Budget and the expected total spend for the year. This information has been compiled using the best information made available to Financial Services by the relevant spending officers as at 30 September 2020.

In summary the Council's General Fund outturn is projected to be in line the approved budget of £11,602,700, including an overall contribution from earmarked reserves of £2,269,900. Members will recall approving at Quarter 1, the use of £420,600 of earmarked reserves to ensure the budget was maintained at its maximum due to the forecast budgetary impact of Covid-19. The latest position at quarter 2 includes a proposed transfer back to earmarked reserves of £100,000 enabled by the receipt of a fourth tranche of emergency Covid-19 grant funding announced by the Government as detailed in paragraph 2.2. The impact of Covid-19 will continue to be closely monitored throughout the year and further adjustments may be recommended in order to maintain a balanced budget and appropriate allocation of resources. A review of the Council's Medium Term Financial plan considering the impact of the Covid-19 pandemic on the resources available for the continued delivery of the Gedling Plan is detailed in section 3 of this report.

General Fund Revenue Budget 2020/21 – Change Analysis

	£
Net Council Budget for 2020-21 approved by Council on 5 March 2020 and Cabinet's Maximum Budget is:	11,602,700
Up to the end of September 2020 expenditure less income totalled	4,058,247
In the remaining 9 months of year we expect net expenditure to be	7,544,453
Total net revenue spend for the year is expected to be	11,602,700
Total Projected Revenue (Under) / Overspend 2020/21	0

Appendix 1 outlines how the General Fund Revenue budget is divided between the Portfolios of the Council and includes a detailed variance analysis identifying the current proposed changes for quarter one against the approved budget for each Portfolio area. Cabinet is recommended to approve these changes.

The major variances detailed in Appendix 1 include:

Expenditure:

- Net additional expenditure due to the Covid-19 Pandemic of £82,600 as detailed in paragraph 2.2 and deferral of efficiencies totalling £50,800, the full list of which is included in the update on the delivery of the efficiency programme in paragraph 2.3;
- Deferrals of the 2020/21 efficiency programme of £38,000 not related to the Covid-19 pandemic, as listed in the efficiency table in section 2.3.

Income:

- Secondment of officer to Police and Crime Commissioner (£65,500);
- New Burdens Grant for the administration of Covid-19 related Business Support Grants (£130,000) offset by associated expenditure and transfer to reserves for future scheme administration;
- Covid-19 Emergency Grant Funding Tranche 4 (£167,000) partly offset by the reversal of use of earmarked reserves approved at quarter 1 £100,000 to cover the deficit due to Covid-19.

Details of the budget virements authorising the usage of Earmarked Reserves and Revenue Budget Funds as approved by the Chief Financial Officer and relevant Corporate Director in accordance with Financial Regulations are set out in **Appendix 2**. No virements were approved by Portfolio Holders for amounts of £50,000 or less during quarter two.

2.2 Budget Implications arising from the Covid-19 Pandemic

2.2.1 The financial impact of the Covid-19 pandemic is significant, as highlighted in the report to Cabinet on 18 June detailing the Council's response work. In addition to the amounts reported to Cabinet in the Quarter 1 Budget Monitoring Report, estimated additional expenditure pressures of £82,600 are expected bringing the total estimated Covid-19 related additional expenditure to £527,100 for the full financial year.

Quarter 1 reported estimated income losses for the full year of £2,825,600. The table below shows a net improvement in income from that previously reported totalling (£75,200) mainly relating to Leisure Centres, Waste Services and Taxi Licencing resulting in a total expected loss of income for 2020/21 of £2,750,400.

The total estimated budget impact for 2020/21 is £3,277,500. These pressures are presented net of any related savings or additional income and grants that have been identified.

Covid-19 Related Expenditure at Quarter 2	
	£
Covid-19 Related Expenditure reported at Quarter 1	444,500
Quarter 2 Expenditure	
Homeless accommodation (net of income)	7,000
Waste additional drivers	25,900
Street Care additional staff	11,000
Cemeteries agency staff	20,700
IT additional equipment for homeworking	18,000
Additional Expenditure at Quarter 2	82,600
Total Additional Covid-19 Related Expenditure	527,100

Note: Key budget pressures included in quarter 1: agency staffing and IT costs to maintain service delivery; protective equipment; homeless accommodation; deferred efficiencies.

Covid-19 related Income losses at Quarter 2	
	£
Covid-19 Related Income Losses reported at Quarter 1	2,825,600
Quarter 2 Position	
Improved Net Income position from that previously reported (including additional savings):	
• Leisure Centres	(72,500)
• Community Centres	(10,000)
• Bulky Household Waste Collection	(10,000)
• Garden Waste	(50,000)
• Licencing Fees	(15,000)
Reduced Income:	
• Parks and pitches reduced usage	13,200
• Tree Team reduced work due to staff isolation	3,000
• Advertising & Sponsorship income	15,300
Income Reductions on Deferred Efficiencies	
Details set out in efficiency table (paragraph 2.3)	50,800
Quarter 2 Covid-19 net impact on Income	(75,200)
Total Covid-19 Impact on Income for 2020/21	2,750,400

In addition to the 2020/21 income losses, an increased deficit on the Council's Collection Fund is expected due to irrecoverable council tax and business rates. Gedling's share of the increased deficit is currently forecast at £280,000 but due to the technical accounting treatment of the Collection Fund deficit, this does not need to be funded until next year, 2021/22. The government announced that it will extend the period over which these 2020/21 shortfalls in local taxation are accounted for, from 1 to 3 years. This is intended to ease immediate pressures when budget setting for 2021/22. The details of this will be set out in regulations later this year.

2.2.2 Central Government Emergency Funding

During the course of the pandemic the Government has announced the following tranches of emergency grant funding to support local authorities in responding to the pandemic and cover expenditure pressures and income shortfalls:

	£
Tranche 1 - announced March 2020	54,200
Tranche 2 – announced April 2020	1,178,400
Tranche 3 – announced July 2020	170,400
Tranche 4 – announced October 2020	167,000
Total	1,570,000

In addition to the grant awards detailed above, the government has also introduced an income compensation scheme, recognising the impact the pandemic has had on income from sales, fees and charges. This scheme will provide compensation for unforeseen losses that are irrecoverable during 2020/21 only. The income guarantee scheme will operate on a principles-based approach and includes a 5% deductible rate based on the 2020/21 approved budget, with the government providing compensation for 75p in every pound of relevant loss of eligible income thereafter. The scheme is restricted to compensating irrecoverable net losses, specifically from those customer and client receipts which are charged in return for a service, where demand has been reduced due to Covid, but excludes commercial revenues, including property rents.

The grant is accessed by completing three financial returns each covering a four-month period. The Council submitted its first claim covering income lost from April through to July totalling £683,000 at the end of September 2020, whilst we have not yet had confirmation of the amount of grant that will be paid it is anticipated that for the full year we should receive c£1,400k (which is in line with amounts originally reported at Quarter 1).

The MCHLG have confirmed that any grant awards from the income guarantee scheme will be in addition to the £1,570k grant detailed in the table above, for

which there is no scope for clawback in the grant conditions, and so can be used for all other pressures.

The Council have also made a claim for funding under the Government's Job Retention Scheme, to cover for the cost of furloughing casual staff at the Leisure Centres and Community Centres, currently estimated at **£34k** for the year.

2.2.3 The current estimate of the total net budget impact of the Covid-19 pandemic compared to that previously reported at quarter 1 is:

Budget Implications Covid-19	Quarter 1 £	Quarter 2 £	Movement £
Expenditure Pressures 2020/21	444,500	527,100	82,600
Income Losses 2020/21	2,825,600	2,750,400	(75,200)
Total 2020/21	3,270,100	3,277,500	7,400
Collection Fund Losses 2021/22 impact	280,000	280,000	0
Total Covid Related Budget Pressures	3,550,100	3,557,500	7,400
Total Grant Funding 2020/21	(2,835,000)	(3,004,000)	(169,000)
Net Total Budget Impact	715,100	553,500	(161,600)

In summary the net impact of Covid-19 now reported at quarter 2 and included in Appendix 1 is £553,500, a reduction in net costs of £161,600 compared to that previously reported due to the receipt of a fourth tranche of emergency grant funding. (Note: This does not include expenditure incurred during 2019/20 of £34,500 funded by the Council).

In addition to the above Covid related budget pressures the Council has also received New Burdens funding to recognise the additional workload being faced by the Council, which for quarter 2 includes Business Grants Administration £130,000 and Covid Compliance and Enforcement Grant £48,500 which are both currently expected to be fully offset by expenditure as detailed in Appendix 1.

2.2.4 There remains a significant amount of uncertainty around the full impact of the Covid-19 pandemic in 2020/21 with key risks including:

- a resurgence of the virus requiring further response activity. A second national lockdown commenced on 5 November requiring service closures, with expenditure/income impacts and funding not yet clear;
- uncertainties surrounding the capacity of, and the future demand for, our

chargeable services. The key risk issue is leisure centre income.

- the impact of the economic downturn on the tax collection and demand for our services for those most directly affected e.g. by predicted job losses.

The impact of Covid will continue to be closely monitored throughout the year in order to mitigate the current or any increased deficit by identifying in-year savings, options for the use of earmarked reserves, or if necessary, a request to Council to increase the 2020/21 budget funded by an increase in the use of General Fund Balances.

The impact of Covid-19 is expected to have an ongoing impact beyond 2020/21 and the potential Medium Term Financial Plan impacts are detailed at paragraph 3.

2.3 **Efficiency programme – Progress Update**

Since 2014/15 the Council has approved four separate budget reduction programmes totalling £6.5m net of risk provision. Previous progress has been positive and budget reductions achieved have been in line with the profiled estimate. Of the total programme, £1.705m net of risk provision remains to be delivered over the period 2020/21 to 2022/23.

In terms of 2020/21, the net programme due for delivery in 2020/21 is £808,000. Quarterly monitoring indicates the following:

Movements on Efficiencies 2020/21	
	£
Approved Efficiency Programme 2020/21	(808,000)
Quarter 1 Deferrals	256,500
Application of the 2020/21 Budget Reduction Risk Provision	(100,000)
Revised programme for 2020/21	(651,500)
Deferred Efficiencies to 2021/22 at Quarter 2	
Commercial property rent (net)	33,000
Sponsorship of flower beds	5,000
Total	38,000
Deferred efficiencies due to Covid-19	
Licencing Fee Increase	14,000
Charging Developments for Bins	27,500
Marketing - e-mail advertising	2,800
Marketing - Website Advertising	4,000
Marketing - Advertising	2,500
Total	50,800
Quarter 2 Deferrals	88,800
Revised 2020/21 Efficiency Programme	(562,700)

The £88,800 quarter 2 budget impact of these projects is included in Appendix 1. £50,800 of this due to Covid-19 and has been included in the Covid impact table above for completeness. The budget impact is only accounted for once in Appendix 1.

The cumulative deferred projects at quarter 2 are £345,300, the budget impact of these deferrals has been partially offset by the use of the Budget Reduction Risk Provision for 2020/21 of £100,000 in quarter 1.

Delivery of the 2020/21 programme will continue to be monitored and updates provided in future reports. The whole programme will be reviewed as part of budget process for 2021/22 to identify any risk issues and ensure new efficiency proposals are developed to replace any projects that are considered high risk of non-delivery e.g. commercial property income which is on hold pending consultation on the restrictions on borrowing for yield.

2.4 **Capital Programme**

Appendix 3 details the current projected position on the Capital Programme and its financing for 2020/21, analysed by Portfolio, and this is summarised in the table below. Cabinet is recommended to approve these changes

Quarter 2 amendments to the current Capital programme of (£2,523,300) are presented in the table below.

Capital Budget 2020/21 - Change Analysis	
	£
Original 2020/21 budget approved by Council on 5 March 2020	11,225,600
Approved Carry Forwards from 2019/20	1,507,100
Schemes Approved in Quarter 1	(86,000)
Current approved budget for 2020/21	12,646,700
Proposed Amendments to the Programme at Quarter 2	
Additional Schemes:	
Addition to Lambley Lane Changing Rooms (subject to securing grant funding)	70,000
Additional CCTV Conway Park (funded by revenue contrib.)	15,000
Arnold Leisure Centre Lift Replacement (funded by revenue contribution)	23,000
Savings on Existing Schemes:	
Arnold Leisure Centre Steel Pillar Works	(64,000)
Druids Car Park Boundary Wall	(10,000)
Schemes Proposed for Deferral (see note below):	
Station Road Housing Scheme Carlton	(165,300)
Vehicle Replacement Programme	(244,000)

PASC Tree/ Landscaping Equipment	(83,000)
Killisick Play Area Development	(111,000)
Calverton Enterprise Units	(1,370,000)
Hazelford Way Industrial Units	(350,000)
Customer Service Improvements (reception area)	(100,000)
Civic Centre Window Replacement	(134,000)
Total Proposed Amendments	(2,523,300)
Proposed Revised Capital Programme 2020/21	10,123,400
Actual Expenditure to Quarter 1 2020/21	787,657
Estimated Expenditure Quarter 2 - 4 2020/21	9,335,743
Projected Capital Programme Outturn	10,123,400

Details of the budget virements authorising the usage Capital Budget Funds e.g. Asset Management Fund as approved by the Chief Financial Officer and relevant Corporate Director in accordance with Financial Regulations are set out in **Appendix 2**.

Total schemes proposed for deferral are (£2,557,300), details of major schemes are as follows:

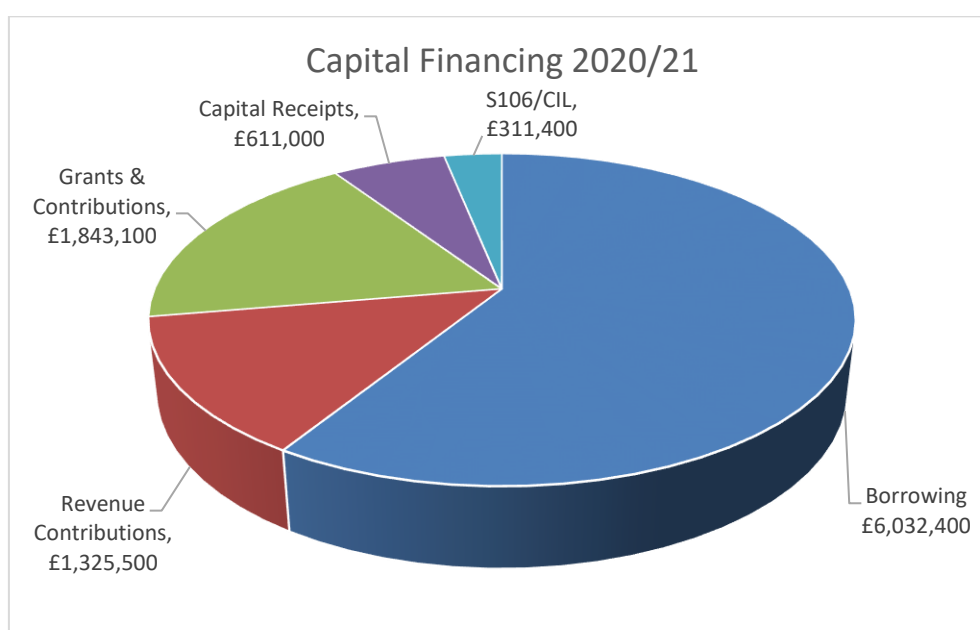
- Station Road Housing Carlton (£165,300) – a viability and option appraisal for the development of the site is nearing completion and will be subject of a Cabinet report in the near future with a start on site now expected early in 2021/22;
- Vehicle Replacement Programme (£244,000) – due to COVID19 there are significant delays in the supply chain for new vehicles resulting in a number of replacements being deferred until 2021/22. This deferral also reduces the amount of borrowing the authority needs to finance the capital programme in the current year. The maintenance cost associated with the retained vehicles will be accommodated in current budgets;
- Play Area Development (£111,000) – Both the Breckhill and Onchan Park schemes are expected to be completed in 2020/21. The deferral relates to the Killisick scheme, which is expected to commence in April subject to securing grant funding;
- Calverton Enterprise Units (£1,370,000) – Grant funding has not yet been secured in order to progress this scheme. The business case has been reviewed and a new bid submitted to the LEP for the next available round of funding;
- Hazelford Way Industrial Units (£350,000) – Scheme deferred for six months in order to assess the viability of leasing the units in the wake of Covid-19;
- Customer Service Improvements (£100,000) – Design works for this scheme were subject to a competition by Nottingham Trent University students, however the Covid-19 pandemic has delayed the delivery of the final project until 2021/22;

- Civic Centre Window Replacement (£134,000) – This represents the first year of a three programme which is currently being reviewed and considered for re-profiling in order to obtain best value from the procurement process. It will be re-assessed as part of the 2021/22 budget process and any changes presented for approval as part of the 2021/22 budget report.

Capital schemes are monitored on a quarterly basis, meetings are currently held between finance officers and service/project officers.

2.5 **Capital Programme Financing**

The projected method of financing the current capital programme requirement of £10,123,400 is detailed in Appendix 3 and summarised in the chart below.



2.6 **Capital Receipts Monitoring**

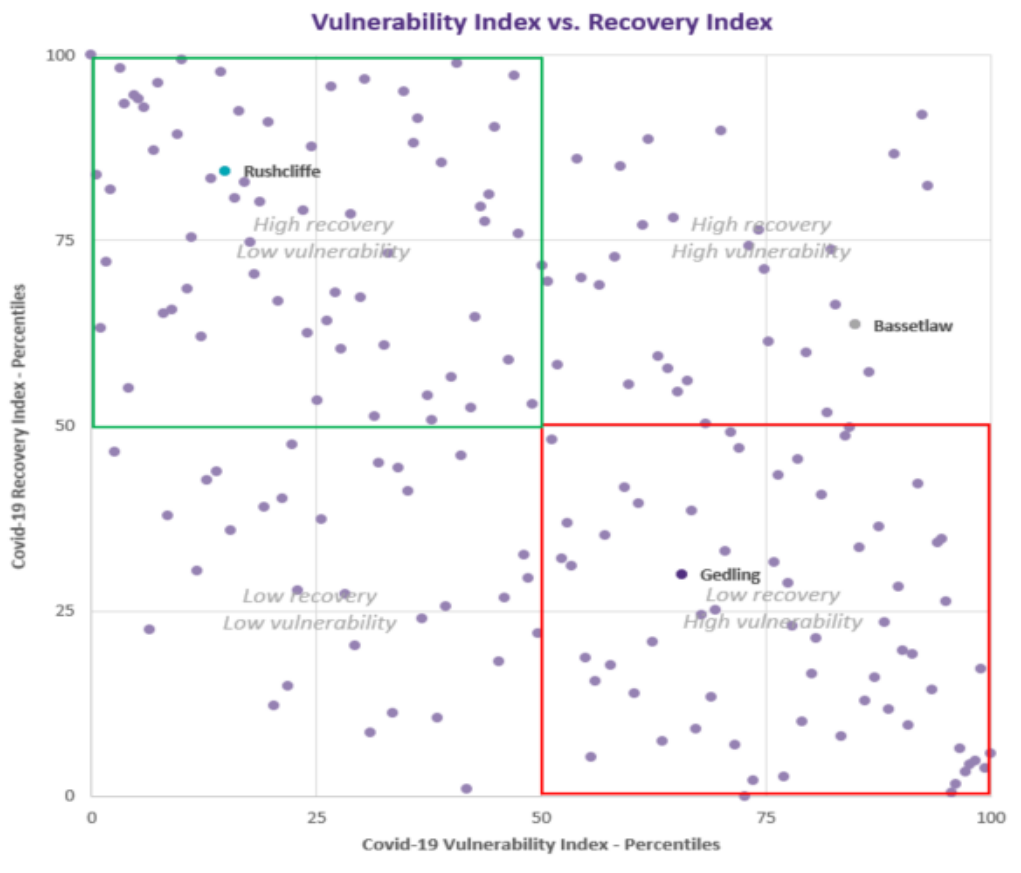
When the Council sells General Fund assets it is permitted to use this income to fund capital expenditure. The initial capital receipts estimate for 2020/21 projects that £611,000 will be generated and used to finance the capital programme in 2020/21. There is no change to the capital receipts estimate projected at quarter 2 monitoring.

3. **Review of Medium Term Financial Plan**

- 3.1 The impact of the Covid-19 pandemic presents significant financial challenges for the Council well beyond the current financial year. The Council's draft 2019/20 Annual Governance Statement, published with the draft 2019/20 Statement of Accounts, provided an estimate of the 2020/21 net budget impact of the Covid-19 pandemic of between £0.7m to £1m and included an action to review the ongoing impact on securing a sustainable Medium Term Financial Plan for presentation to Cabinet in the autumn. The latest estimate of the 2020/21 Covid-19 financial impact is an improved position of £0.554m as

detailed in paragraph 2.2.3. However, there remains a significant amount of uncertainty around the full impact of the Covid-19 pandemic both in the current financial year and in the medium term.

- 3.2 In the current climate a mid-year review of the Council's MTFP forms an important aspect of effective financial management to inform our 2021/22 budget process and ensure that a sustainable financial position is secured in the medium term and the successful delivery of the Gedling Plan is supported.
- 3.3 A recent report commissioned by the Society of District Council Treasurers provides an insight to the potential ongoing Covid related impacts facing District Councils. Based on a set of national indicators the report provides a Vulnerability Index and a Recovery Index to help us understand the key vulnerabilities and how well placed we are to recover in the medium term. The resulting indicators place Gedling in the highest risk percentile in relation to other districts indicating a higher level of vulnerability to Covid and a lower ability to recover, primarily due to a higher than average number of people employed in 'lower level' occupations on below average income, coupled with a high number of businesses and a high level of employment considered to be in 'at risk' sectors. Other Nottinghamshire districts also in the highest risk percentile include Ashfield, Broxtowe and Mansfield.



3.4 Covid-19 Budget Risk Issues and Medium Term Financial Impacts

3.4.1 The ongoing financial implications of the Covid-19 pandemic on the Council's finances are expected to be wide-ranging, with a high degree of uncertainty. Some key medium term risks are detailed in the paragraphs below.

3.4.2 Resurgence of the Virus

A resurgence of the virus requiring further response activity is an ongoing risk. Associated costs and the availability of government funding is uncertain.

3.4.3 Increased Local Government Funding Uncertainty

2020 Comprehensive Spending Review – The Chancellor announced that there will be no Autumn Budget, focussing instead on continuing the Covid-19 support package. On 21 October, the Chancellor confirmed that the 2020 Comprehensive Spending Review, originally launched to set government department budgets for 2021/22 to 2023/24, will not now be implemented and instead a one year spending review will be completed which continues to inhibit meaningful financial planning. The District Councils' Network had requested that the Spending Review cover a three year period and that funding be included to cover all covid-related costs in 2021/22. The Local Government Finance Settlement is expected in December.

Fair Funding Review/Business Rates Retention – The Ministry of Housing, Communities and Local Government confirmed in April that the Fair Funding Review and the move to 75% Business Rates Retention would be deferred for a further year to allow councils to focus on meeting the public health challenge. This is the second year that the reforms have been deferred. Under the reforms the business rates system was due to be reset presenting a risk that accumulated business rates growth achieved in the system would be removed and so reducing income levels. At the time of the announcement the ministry said it was considering how to deal with retained growth next year and further details are not yet available.

3.4.4 New Budget Pressures

New Services may arise upon implementation of the Council's approved Reset Strategy (approved by Cabinet on 18 June). Any new services that cannot be contained within the current base budget will need to be offset by additional efficiency targets in the absence of further government funding. Service development bids will be considered during the 2021/22 budget process.

Forecast Economic Downturn is expected to impact on:

- a) the demand for our services from those most directly affected e.g. due to predicted job losses. The Office for Budget Responsibility is projecting that the unemployment rate could peak at between 9.7% and 13.2% in the next few years. Increased demand for welfare support is likely to be experienced including, for example, increased claims for Housing Benefit and the Council Tax Reduction Scheme (see 3.4.5 below), and increased Housing Needs and Homelessness Support.

- b) Business rates and property rental income due to the forecast closure of businesses, particularly in the retail high streets. The long-term impact upon the market for the rental of property and offices is not yet known. The cultural shift of increased remote working could result in a reduced demand. (see 3.4.5 below)

Income Reductions due to Service Restrictions and Change in Customer Behaviours –Gedling’s budget for fees and charges is over £8m per annum and is a critical factor in maintaining a balanced budget. Uncertainties surrounding the capacity of, and the future demand for, our chargeable services will impact on the actual income in the medium term. The key risk issue is leisure centre income and the Institute for Fiscal Studies reports that compared to pre-covid plans for income generation, income from culture and leisure services across all sectors is forecast to decline by over 50%.

3.4.5 Collection Fund Income Council Tax and Business Rates

There are 2 aspects of Council Tax and Business Rates that will impact on the MTFP:

- a) Collectible sums due based on the council tax base and the business rates base.

Council Tax - There has been an increase in the applications for Council Tax Reduction since the start of the financial year for which Gedling operates a 100% scheme. To date this has reduced the expected collectible council tax by £850k which, during 2020/21, is partly offset by the Hardship Relief fund allocations leaving an increased cost in the region of £200k. There is no indication of future hardship relief funding. The increase in CTRS presents a risk to future collectible council tax levels in the MTFP. **A 1% drop in the council tax base is projected from 2021/22.**

Business Rates - The business rates base and trading conditions will be monitored as the Council continues to support business during the latest lockdown restrictions. Current forecasts for business rates income already assumes a reduction in business rates from 2021/22 due to the uncertainties surrounding the business rates retention system as detailed above and therefore no further reductions are included at this time.

- b) Collection Rates

Recovery action was suspended at the start of the year due to Covid. The latest collection rate for council tax as at September is 1.6% below expected levels equating to approximately £1.0m of cash not received. Business Rates is currently 2.2% behind expected collection rates equating to £300k but this is fluctuating month on month. Recovery action recommenced in September and improvements in collection rates are now expected.

Reductions in collectible rates and increased bad debts in 2020/21 will contribute to a deficit in the collection fund that would ordinarily need to be

recovered in the following year therefore affecting future income in the MTFP. It is important to remember that any deficit in the Collection Fund is shared by the major preceptor and central government. **Gedling's share of the forecast deficit for both Council Tax and Business Rates is c£300k.** Due to Covid-19 the government has announced that it will extend the period over which these 2020/21 shortfalls in local taxation are accounted for, from 1 to 3 years. This is intended to ease immediate pressures when budget setting for 2021/22.

Note: Business Rates Reliefs

In response to Covid the Government provided additional business rates relief to small businesses and retail, hospitality and leisure businesses, totalling £12.2m. This will be fully funded by s31 grant from Government. However, due to the technical accounting requirements there will be a timing difference between the receipt of the grant which must be accounted for in 2020/21 and the collection fund deficit created by the awarding of the reliefs which will not need to be paid until 2021/22 (this element of the collection fund deficit cannot be spread over 3 years). Therefore, at the 2020/21 year end there will be a surplus in the General Fund balance of approx. £4m (Gedling's share) which must be retained for payment of the deficit in 2021/22 and is therefore not included in the MTFP scenario at paragraph 3.6.

3.4.6 Capital Programme

The 2020/21 capital programme monitoring at paragraph 2.5 details a number of schemes that are deferred due to delays in commissioning and delivering as a result of Covid-19. The budget requirement of some schemes may increase due to market inflation but this is not expected to be significant, and schemes based on a viable business case including forecast rental income may be delayed until more certainty returns to the market e.g. Hazleford Way Newstead Industrial Unit Extension. There are no reductions in capital receipts expected. A full review of the capital programme will be completed during the budget process.

- 3.4.7 In this context it is appropriate to recognise increased risks in the medium term plan and to review both the minimum level of general fund balances and strategy adopted with regard to the structural imbalance in the current MTFP and taking steps to reduce this further. This can be considered further when more is known about the Spending Review intentions.

3.5 Other MTFP Emerging Risk Issues

3.5.1 2020/21 Pay Award

The Chancellor removed the 1% public sector pay cap in 2018/19 which impacted on pay expectations in local government. In Gedling pay increases equated to an average 3% for 2018/19 and 3.1% for 2019/20 – slightly higher than the national average of 2.8%. Estimated pay awards of 2% are included in the approved MTFP for 2020/21 to 2024/25. Whilst considered realistic assumptions at the time of the budget process it was recognised that uncertainties in the economy presented a risk that future awards could be higher.

This risk became a reality in 2020/21 when the pay award was agreed at 2.75%, 0.75% higher than estimated. This equates to an additional ongoing cost averaging £105,000 per annum. For 2020/21, this increase was included and approved as part the quarter one budget monitoring report presented to Cabinet in August, being funded by identified in-year savings. However, this does not provide resources to fund the ongoing budget requirement **and it is determined that a new efficiency target of £105,000 for the ongoing cost of the additional pay award be included in the efficiency targets** for allocation to service department as part of the 2020/21 budget process. Estimates for future pay awards are currently retained at 2% in the future years of the MTFP.

3.5.2 Review of the Current Approved Efficiency Programme

As detailed in paragraph 2.3, the current approved programme of £1.7m included in the current MTFP will be reviewed as part of budget process for 2021/22 to identify any risk issues and ensure new efficiency proposals are developed to replace any projects that are considered to be at high risk of non-delivery e.g. commercial property income which is on hold pending consultation on the restrictions on borrowing for yield.

3.6 Medium Term Financial Plan Scenarios

3.6.1 The table below presents a reasonable MTFP scenario (before mitigation options are considered), reflecting the key covid-related and other emerging risks detailed above in paragraph 3.5 summarised as follows:

Key MTFP Assumptions Changed:

- Increase in minimum general fund balance to c£1m (9.0%, up from 7.5%) in recognition of increased risks in the MTFP average £200k increase;
- 1% drop in council tax base and council tax yield due to increase CTRS claimants (£65k rising to £70.5k impact = increased contribution from balances required);
- Fees and Charges - 10% of key risk areas, improving in year 2 and recovering thereafter to 2020/21 original budget levels;
- Collection Fund Deficit – payment over 3 years as required due to Covid;
- Additional Pay Award 2020/21 ongoing impact requiring increased efficiency target £105k.

Key Assumptions Unchanged:

- Future Pay Award 2% - no change;
- Local Government Funding – no change;
- Council Tax Increase – no change £5 maximum each year without referendum;
- New Service Developments/Investments – none included assume to be accommodated in existing base or offset by additional efficiency savings.
- Capital programme delivered as planned.

Summary MTFP Reasonable Scenario (Before Mitigation Measures)

	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
Net Council Budget (approved March 20)	11,229	10,990	11,388	11,703
Mid-Year Review				
Pay Award (0.75%)	104	106	108	110
Collection Fund Deficit	100	100	100	0
Income Reductions (10% risk areas)	650	325	0	0
Recovery Deferred 20/21 Planning Income	(200)	0	0	0
Total - Mid Year Review	654	531	208	110
Mid-Year Review Net Council Budget	11,883	11,521	11,596	11,813
General Fund Balance				
Opening Balance	2,753	1,283	480	(170)
Contribution To/(From) Balance (impact of CTRS increase £70k pa)	(1,470)	(803)	(650)	(541)
Closing Balance	1,283	480	(170)	(711)
Min GF Balance (9% Net Exp) (+1.5% avg impact £200k)	1,069	1,037	1,044	1,063
(Surplus)/Deficit on Balances	(214)	557	1,214	1,774

Without action to mitigate the additional budget impacts the Council General Fund Balance will fall to below minimum levels in 2022/23.

3.6.2 In a worst case scenario income losses may be higher and additional service demand pressures may materialise. For example, each additional reduction in fees and charges income of 5% would cost another £325,000 which would need to be found from further efficiencies.

3.7 Strategy to Secure a Sustainable MTFP – Mitigation Measures

3.7.1 In the absence of additional Government funding, options to maintain a balanced budget and secure a sustainable MTFP include the use of reserves and/or an increase in the efficiency programme in accordance with the themes in the efficiency strategy i.e. service efficiencies, service reductions, income generation. The current approved MTFP assumes the use of the General Fund Balance (above minimum level) to support the budget whilst the current efficiency programme is delivered and whilst the balance could be used earlier than planned to cover covid-related expenditure this will then require the use of earmarked reserves in subsequent years or an acceleration of the efficiency programme to maintain a balanced position.

3.7.2 Availability of Earmarked Reserves

SLT have completed a review of earmarked reserves and identified those without specific commitments that could be reclassified for general use and applied to support the short term budget impacts of Covid-19. As detailed in paragraph 2.1, the use of £320,000 from Earmarked Reserves is now proposed to maintain a balanced budget in 2020/21. The balance projected on Earmarked Reserves at 31 March 2021 currently stands at c£3.6m, and

whilst the majority is set aside to cover specific risk issues e.g. insurance risks, to support approved capital projects, to support ongoing service provision, including ring-fenced partner funds and grants, they may be diverted to support general expenditure should the need arise. In the region of £400,000 remains that does not have specific approved plans which could be reclassified for general use. If spending pressures did arise in those 'earmarked' areas, in-year additional savings would need to be identified at that time. The MTFP efficiency proposal below assumes the reclassification of £400,000 of reserves to provide interim support to the budget, enabling any new efficiency targets to be deferred until later in the MTFP. This provides time for Covid related budget pressures and uncertainties to become clearer and in the event the actual position is better, any new efficiency target can be removed

3.7.3 Potential New Efficiency Target Related to Covid

To secure a balanced MTFP, it may be necessary to include a new ongoing efficiency target in the 2021/22 report to Budget Council in March 2021. This will be based upon the final updated MTFP based on the latest information available in terms of both budget pressures and the actual local government finance settlement, which may include a New Homes Bonus which is not currently anticipated in the MTFP. **For information, based upon current estimates this target would be £400,000 with a recommended delivery profile of £100,000 2022/23 and £300,000 2023/24.** In a worst case scenario of further demand pressures and reductions in income the additional efficiency target would need to increase.

3.7.4 Summary MTFP Position Including Proposed Mitigation Measures

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
<u>Mid-Year Review Net Council Budget</u>	11,883	11,521	11,596	11,813
<u>Mitigation</u>				
Use of Earmarked Reserves	(100)	(300)	0	0
New Efficiency Target Covid Impact	0	(100)	(400)	(400)
New Efficiency Target Pay Award	(105)	(105)	(105)	(105)
Total - Mid Year Review Mitigation	(205)	(505)	(505)	(505)
Mid-Year Review Net Council Budget	11,678	11,016	11,091	11,308
<u>General Fund Balance</u>				
Opening Balance	2,753	1,489	1,192	1,048
Contribution To/(From) Balance	(1,264)	(297)	(144)	(35)
Closing Balance	1,489	1,192	1,048	1,013
Min GF Balance (9% Net Exp) (+1.5%)	1,051	991	998	1,018
(Surplus)/Deficit on Balances	(438)	(201)	(50)	5

3.7.5 The potential mitigation measures are at a level that not only achieve balances at broadly minimum levels but also deals with the structural imbalance that exists in the current MTFP of £360,000 which needs to be addressed. This would provide an improved baseline position as the MTFP is rolled to include 2025/26 and the inflationary pressures that will bring.

3.8 MTFP Review - Conclusion

3.8.1 Whilst the full impact of the Covid-19 pandemic remains incredibly uncertain, it is expected to have an ongoing impact on Council finances but the amounts are as yet unknown. In the absence of any additional government grant funding or recognition of additional resource requirements in the upcoming Spending Review, this will present a challenge for the Council in continuing to maintain a balanced budget, a sustainable MTFP and reserve balances at an adequate level, and so enable the delivery of the Gedling Plan and that excellent Council services can continue to be provided.

3.8.2 The 2021/22 budget process is currently underway and recommendations will be made to budget Council in March 2021 for any actions that are required to secure a balanced MTFP in light of the local government finance settlement and the most up to date covid related budget pressures. This may include recommendations for new efficiency targets and the use of earmarked reserves. Any new service development proposals will need to be offset by additional efficiency plans unless schemes are funded by grants or available earmarked reserves.

3.8.3 As the Council does not have substantial reserve balances to fall back it cannot be complacent and timely action to address risk issues will be imperative. In the event of a worst case scenario or non-delivery of agreed efficiency plans, emergency savings plans may need to be instigated e.g. interim service reductions.

3.8.4 The Council has a strong track record of good financial management which will continue to ensure that financial resilience and sustainability is secured.

4. Alternative Options

Option – Not to amend the original Council approved budgets during the year to reflect the latest projected outturn position.

Advantages:

- The final outturn position of the Council can be easily compared to its original intentions when the budget was set and areas of budget risk identified.

Disadvantages:

- Budgets not aligned to current budget pressures resulting in increased likelihood of budget overspend and emerging Council priorities not being addressed;

- Restrict the effectiveness of medium term planning process and preparation of the forward budget if pressures and areas of efficiency are not readily identifiable during budget preparation;
- Budget not reflective of latest performance information.

Reason for rejection – the option is not likely to result in the best outcomes in financial management or support delivery of priorities.

5 Financial Implications

- 5.1 The nature of the report is such that it has significant resource implications across the Council. The report itself demonstrates how resources are being managed.

6 Legal Implications

- 6.1 None arising directly from this report.

7 Equalities Implications

- 7.1 None arising directly from this report.

8 Carbon Reduction/Environmental Sustainability Implications

- 8.1 None arising directly from this report.

9 Appendices

Appendix 1 - General Fund Revenue Budget 2020/21 – Budgetary Control Report

Appendix 2 - Use of Reserves and Revenue Fund Budgets

Appendix 3 - Capital Programme 2020/21 – Budgetary Control Report

10 Background Papers

Detailed Quarterly Budgetary Control Exception Reports

11 Reasons for Recommendations

- 11.1 To align the budgets to the current pressures and priorities and ensure the delivery of Council objectives is supported.

Statutory Officer Approval

Approved by: Chief Financial Officer
Date: 4 November 2020

Approved by: Monitoring Officer
Date: 26 October 2020