

# Decision Pathway – Report



**PURPOSE:** Key decision

**MEETING:** Cabinet

**DATE:** 14 July 2020

<b>TITLE</b>	<b>2020/21 Period 2 (May) Finance Report</b>		
<b>Ward(s)</b>	n/a		
<b>Author:</b> Tian Ze Hao	<b>Job title:</b> Senior Finance Business Partner		
<b>Cabinet lead:</b> Cllr Craig Cheney	<b>Statutory Officer lead:</b> Denise Murray		
<b>Proposal origin:</b> Other			
<b>Decision maker:</b> Cabinet Member			
<b>Decision forum:</b> Cabinet			
<b>Purpose of Report:</b>			
<p>The Council budget for 2020/21 was agreed by Council in February 2020 and this report provides the update on the Council's financial performance at Period 2 (end of May) against the approved budget and forecast use of resources for the financial year 2020/21.</p> <p>The Council continues to operate Directorate cash limited budgets and Executive Directors are responsible for ensuring that appropriate action is taken to contain both revenue and capital spending within the directorate's overall budget limit. Budget holders forecasting a risk of overspend which is not related to the pandemic, should in the first instance set out in-service options for mitigation. Where these are considered undeliverable or pressures cannot be contained across the directorate the budget scrutiny process will be triggered and a request may be made for the Executive to consider granting a supplementary estimate redirecting funds from an alternative source.</p> <p>The report includes a separate analysis of the estimated financial impact of the COVID 19 pandemic on the Council's finances; central government funding proposals, indicative residual funding gap, the proposed mitigating actions for 2020/21 and beyond.</p>			
<b>Evidence Base:</b>			
<p>The original budget set in February 2020 was balanced not only for 2020/21 but over a 5 year medium term. For 2020/21 full Council agreed the following:</p> <ul style="list-style-type: none"> <li>○ The General Fund net budget of £395.7m; (forecast variation at P2 £76.8m o/s)</li> </ul> <p>The Ring-fenced Accounts</p> <ul style="list-style-type: none"> <li>○ Housing Revenue Account (HRA) of £122.4m gross expenditure budget (no forecast variation at P2)</li> <li>○ The Dedicated Schools Grant (DSG) budget, including amounts recouped by the Education and Skills Funding Agency for Academies is £374.2m (no forecast variation at P2)</li> <li>○ The Public Health budget is £37.5m ( no forecast variation at P2)</li> </ul> <p>Capital Programme</p> <ul style="list-style-type: none"> <li>○ Capital programme 2020/21 only is £210.9m for General fund and £83m for HRA. (forecast variation at P2 £41.5m u/s)</li> </ul> <p>The Council is facing a set of fresh financial challenges as a result of the COVID 19 pandemic that could not have been foreseen when the budget was set in February 2020. The estimates of the impact on the Council's finances continue to be refined by officers as more actual data becomes available. The current estimates as outlined in this report, reflect the actual expenditure incurred by directorates, commitments to period 2, forecast spend likely to be</p>			

incurred in our continued response to the pandemic and loss to income streams both in the current financial year and beyond.

The forecast general fund net increased costs for 2020/21 are estimated at £76.8m. The Council's budget holders have separated the forecast variances into those that are specifically due to COVID 19, in terms of additional costs incurred in supporting the delivery of key services to our communities (as per the government request), significant loss on income directly related to restricted activities and /or changing economic climate, and those variations that are not aligned to the pandemic. The non COVID 19 forecast variations for 2020/21 equates to a net £8.7m and the COVID 19 forecasted variations equate to £68.1m.

The COVID 19 related forecast excludes any new burdens associated with operating services with appropriate social distancing measure in 2020/21 and collection fund income losses c.£32.9million attributed to the reduction in the levels of Council Tax and business rates collected, which will have a budgetary impact in the 2021/22 financial year and beyond.

The figures reflect the recent changes in government social distancing restrictions and in some areas such as adult social care a six month period of tapered recovery are assumed. There is still significant uncertainty around the figures and should the recovery take longer than the period assumed or local outbreak ensue, increased costs and income losses in 2020/21 will likely to be higher.

At the time of writing this report, the Government has confirmed that income shortfalls will be assessed separately to expenditure. Nationally at least £4.3billion of support has been specifically aligned to local government and the Council's allocation was £30.5m (excl. hardship funds) of which £0.5million was utilised against the Covid-19 financial impact for the month of March 2020 in 2019/20. A new formula has been calculated for this disbursement (still to be confirmed) and the indicative assessment is that Bristol should receive in the order of £4.0 million of additional non-ring-fenced Covid-19 funding.

In addition to the above, the government have pledged to contribute to local authorities whose finances are significantly affected by covering 75p in every pound of losses in some income streams (predominantly sales, fees and charges) beyond the first 5% variations. The indicative value of the government support is expected to be c.£21m, leaving a residual estimated budget shortfall of £12.7m due to Covid-19 and £8.7m risk to overspend not related to the pandemic. This has required some mitigating actions to be put in place to alleviate the short term effect on the Council's finances.

#### COVID 19 Mitigations

There is still significant financial uncertainty around the financial implications to the Council as a result of the COVID 19 pandemic especially in relation to key income streams. This report represents the best estimate of what the effect will be in the current year, whilst recognising that the impact will be medium to longer term. The picture will change as the economic recovery begins, but this recovery is likely to take a significant amount of time and with warnings of an economic recession looming the Council may have to factor in additional financial losses yet to materialise.

The recommended strategy for dealing with the implications in the current year are as follows:

- Corporate capital financing proposals for planned investments have been revised to provide greater liquidity and flexibility to enable a release of revenue going forward.
- Utilising the balance in General Reserves (above the policy compliant level of 5% ) generated from a more favourable 2019/20 outturn and additional business rates s31 grant
- Utilise £2.1m from earmarked resilience reserve, established for variations in future local government funding formulas to support the in-year budget gap.
- Utilisation of the governments coronavirus Job retention scheme - £1.7m

Proposed in year Accounting treatment and budgetary approach is detailed in Appendix A.

It must however be noted that lowering the reserves reduces the financial resilience of the authority and the financial implications of which will need to be factored into the next budget setting round. The ability to retain some reserves to cover in year risks and further shocks is essential.

Taking short term mitigating action now will give time for the financial impacts on the Council's finances to become clearer and enable the Council to give due consideration to all uncommitted expenditure alongside other priorities during the Medium Term Financial Planning process which will commence shortly.

#### Non COVID 19 Mitigations

A net £ 8.7m risk of overspend has also been reported at P2 that is not due to Covid 19, which will require local actions to mitigate. It is customary that directorate recovery plans will continue to be developed and at this stage of the year Directors are anticipating that a range of management actions being considered will enable key service requirements to be delivered and a balance budget position achieved. This position and proposed mitigations will be closely monitored and reported.

#### Future Action

The Council is required to ensure that it has a balanced financial plan after taking into account deliverable cost savings and/or local income growth strategies as well as useable reserves. If during monitoring of the original budget it is considered that significant variations in either expenditure or income may result in an unbalanced budget then alternative action must be taken to bring the budget back into balance. Such action would include drawing-down further from reserves or reducing expenditure.

We recognise that the impact of the pandemic and economic recovery will go beyond a single financial year, therefore significant, sustainable long-term additional finance will be required in order to deliver services in an adverse economic cycle where demand for public services will significantly increase. Work is underway to refresh our Medium Term Financial Plan which will be brought back to Cabinet and Council in the Autumn.

We will continue the consultation and engagement with the Budget Task and Finish Group to work up the details of changes in Budget and MTFP going forward.

**Full detail of revenue spend and forecast is provided in Appendix A**

**Full details of Capital spend and forecast is provided in Appendix B**

**Full details of Decisions taken under emergency delegations Appendix C(i)- C(vi)**

#### **Recommendations:**

##### **That Cabinet Approve:**

1. The incorporation of COVID 19 response funding and Infection control totalling £20.4m into the 2020/21 budget as outlined in Appendix A, Section 3.5.2 and Section 3.5.4,
2. Of the £20.4m above, £3m associated with Track and Trace/ Local outbreak to be retained in an earmarked reserve to be utilised in line with the Local Outbreak Management Plan.
3. The incorporation of £99.3m funding received by the Council and temporarily held for the provision of Business Support Grant Funding to local businesses.
4. The £12.7m mitigating actions proposed against the financial impact of the coronavirus for 2020/21. Appendix A, Section 3.5.6.
5. The creation of a central COVID reserve and the transfer to/ from at the end of the financial year to cover the actual increase of net expenditure in 2020/21 which will remove the requirement for supplementary estimates where new corresponding income is available in this reserve.

##### **That Cabinet note,**

6. Risks to forecast outturn and long-term financial impact on the Council as a result of COVID-19 pandemic
7. The £12.7m COVID 19 funding gap calculated under (Appendix A, Table 6) is indicative, and may be amended reflecting the actual level of government funding to be confirmed and local / national changes to respond as required and agreed.
8. The estimated Collection fund deficit and potential mitigation in future years Appendix A, Section 3.4.
9. A risk of non COVID-19 related overspend on General fund services, an overall forecast overspend of £8.7m

for 20/21 at Period 2, representing 2.2% of the approved budget and that at this point of the financial year it is expected that the forecast overspend will be managed through management actions / mitigations through the rest of the financial year.

10. A forecasted balanced position with regard to the Housing Revenue Account.
11. A forecasted balanced position for the Dedicated Schools Grant (DSG)
12. A forecasted balanced forecast position for Public health.
13. A forecast £41.5m underspend against the approved Capital Programme, which requires budget re-profiling at the end of Q1.
14. A revised MTFP will be bought back to Cabinet in the autumn followed by new Business and Service plans with new Budget proposition for 2021-22 and beyond.
15. The decisions taken under emergency / urgent payments. Appendix C:
  - o The WOE Small Business Grant Discretionary Fund. Appendix C (i)
  - o The WOE Small Business Grant Discretionary Fund Cohort 2. Appendix C (ii)
  - o Officer Executive decision for Payment Tranche 1, 2, 3 & 4 – totalling £1. 420m
  - o Additional payments of £0.440m made for Education Vouchers as set out in Appendix C(iii).
  - o Additional payments of £4.756m to be made to care providers as set out in Appendix C(iv, v &vi)

**Corporate Strategy alignment:** This report sets out progress against our budget, part of delivering the financial plan described in the Corporate Strategy 2018-23 (p4) and acting in line with our organisational priority to ‘Be responsible financial managers’ (p11).

**City Benefits:** Cross priority report that covers whole of Council’s business.

**Consultation Details:** n/a

<b>Revenue Cost</b>	See Above	<b>Source of Revenue Funding</b>	Various
<b>Capital Cost</b>	See Above	<b>Source of Capital Funding</b>	Various
<b>One off cost</b> <input type="checkbox"/>	<b>Ongoing cost</b> <input type="checkbox"/>	<b>Saving Proposal</b> <input type="checkbox"/>	<b>Income generation proposal</b> <input type="checkbox"/>

**Required information to be completed by Financial/Legal/ICT/ HR partners:**

**1. Finance Advice:** The resource and financial implications are set out in the report.

**Finance Business Partner:** Michael Pilcher (Chief Accountant)

**2. Legal Advice:** The report, including the detail set out in the appendices, will assist Cabinet to monitor the budget position, the ongoing impact of COVID 19 and mitigations put in place, with a view to meeting the Council’s legal obligation to deliver a balanced budget.

**Legal Team Leader:** Nancy Rollason, Head of Legal Service

**3. Implications on IT:** There are no additional IT implications arising from production of this report.

**IT Team Leader :** Simon Oliver, ICT

**4. HR Advice:** Expenditure on staffing is monitored on a monthly basis. Managers are required to manage expenditure within the agreed staffing budget that has been set for 2020/21. As part of the work to refresh of the Medium Term Financial Plan, the workforce implications arising from estimated reductions in the Council’s income will require consideration.

**HR Partner:** Mark Williams, Head of Human Resources

<b>EDM Sign-off</b>	Denise Murray	
<b>Cabinet Member sign-off</b>	Cllr Cheney	
<b>For Key Decisions - Mayor’s Office sign-off</b>	Mayor’s Office	

<b>Appendix A – P02 Revenue Budget Monitoring Report</b>	<b>YES</b>
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<b>Appendix B – P02 Capital Budget Monitoring Report</b>	<b>YES</b>
<b>Appendix C – Decisions taken under emergency / urgent payments</b> <ul style="list-style-type: none"> <li>○ Appendix C (i) - The WOE Small Business Grant Discretionary Fund Cohort 1 Policy</li> <li>○ Appendix C (ii) - The WOE Small Business Grant Discretionary Fund Cohort 2 Policy</li> <li>○ Appendix C(iii) Decision 002 – Free School Meal Vouchers</li> <li>○ Appendix C(iv) Decision 003 – Social Care Provider second COVID Payment</li> <li>○ Appendix C(v) Decision 004 – Infection Prevention Control - Allocation 1 - 75%</li> <li>○ Appendix C(vi) Decision 005 – Infection Prevention Control - 25%</li> </ul>	<b>YES</b>
<b>Appendix D – Risk assessment</b>	<b>NO</b>
<b>Appendix E – Equalities screening / impact assessment of proposal</b>	<b>NO</b>
<b>Appendix F – Eco-impact screening/ impact assessment of proposal</b>	<b>NO</b>
<b>Appendix G – Financial Advice</b>	<b>NO</b>
<b>Appendix H – Legal Advice</b>	<b>NO</b>
<b>Appendix I – Combined Background papers</b>	<b>NO</b>
<b>Appendix J – Exempt Information</b>	<b>NO</b>
<b>Appendix K – HR advice</b>	<b>NO</b>
<b>Appendix L – ICT</b>	<b>NO</b>