

For publication

Budget Update

Meeting: Overview and Performance Scrutiny Forum

Date: 19 November, 2020

Cabinet portfolio: Deputy Leader

Report by: Acting Chief Finance Officer

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Purpose of reviewing the topic	To report on the 2020/21 quarter 2 budget monitoring position and the medium term forecast of the council's general fund budget.
What are the objectives of the review?	<ul style="list-style-type: none">• To review the current position of the council's budget.• To review the medium-term financial forecast for the council's budget.• To understand the current financial impact of the Covid 19 pandemic.
Progress to date	A previous budget update was brought to the Overview and Performance and Scrutiny Forum on 25 June, 2020 in the 'Overview of CBC's Covid-19 response' agenda item.

1.0 Background

- 1.1 The Council approved the original General Fund budget for 2020/21 on 26th February 2020. The Band 'D' Council Tax was set at £169.89. The original budget for 2020/21 was established forecasting a surplus of £16k.

- 1.2 All of the indications were that the medium-term outlook would continue to be challenging. The Medium-Term financial forecast approved by full Council on 26th February 2020 showed increasing deficits of £723k in 2021/22 rising to £827k by 2023/24.
- 1.3 The impact of the coronavirus pandemic and the council's response to it in the first quarter of this financial year led to a revised deficit forecast of £3.246m being reported to members as part of the 'Month 2 Budget Monitoring 2020/21 & Updated Medium Term Financial Forecast' report in July.
- 1.4 This deficit was mainly due to lost income arising from the closure of sports centres, car parks, and venues during the first national lockdown.

2.0 Current Year's Budget

- 2.1 The Council started quarter 2 with a forecast deficit of £3.246m for the financial year 2020/21. At the end of the second quarter this position has improved to an anticipated deficit of £192k at year end. A summary of the key variances is provided in the table below:

2020/21 UPDATED BUDGET FORECAST - TO END OF QUARTER 2		
	£000	Total £000
Surplus at the start of the year		16
Changes reported at month 2		(3,262)
Deficit forecast at the start of quarter 2		(3,246)
Grants and Additional Income:		
MHCLG Covid19 Grant (Tranche 3)	205	
MHCLG Covid19 Grant (Tranche 4)	587	
Coronavirus Job Retention Scheme Grant	197	
Coronavirus Job Retention Scheme Bonus	147	
New Burdens Grant – Business Rates & Discretionary Grants	160	
Derbyshire Business Rates Pool 2019/20	250	
Cultural Recovery Grants (Venues & Museum)	414	
MHCLG Sales, Fees & Charges Compensation	2,000	3,960

Cost Pressures Identified:		
Coronavirus Job Retention Scheme Grant - Contribution to HRA	(319)	
Venues	(151)	
Car Parking	(156)	
Markets & Market Hall	(89)	
Pavements Shopping Centre	(52)	
Business Rates Liability - Vacant Units	(68)	
Commercial Catering	(36)	
Golf Course	(67)	(938)
Other Movements		32
Updated Deficit Forecast		(192)

2.2 Quarter 2 Movements

- 2.2.1 During quarter 2, a third tranche of Covid19 grant was received from the Ministry for Housing, Communities and Local Government (MHCLG) in the sum of £205k (Tranche 3). On the 21st October a further allocation of £587k (Tranche 4) was announced which gives a total to date across all four tranches of funding of £1,889k.
- 2.2.2 The council has continued to submit Coronavirus Job Retention Scheme grant claims to HMRC. The estimate at month 2 was that the council might receive £500k in grant funding through the scheme. It is now anticipated that the council will receive £697k, an increase of £197k. In addition, the council will also be eligible for Job Retention Scheme Bonus payments of £147k on the basis that no furloughed staff have been made redundant. As a proportion of the amount claimed relates to OSD employees, £319k has been transferred to the OSD trading account to offset operational costs.
- 2.2.3 Government has also provided new burdens grant funding of £160k for administering business rates reliefs, and payment of Small Business Grants and Discretionary Grants to local businesses.
- 2.2.4 The council is also set to benefit from an additional windfall payment of £250k from the Derbyshire Business Rates Pool for

2019/20. This will be finalised and paid over once all councils included in the pool have submitted their audited figures. The deadline for this is 30th November 2020.

- 2.2.5 During quarter 2, MHCLG launched an income compensation scheme which partially reimburses local authorities for lost income from sales, fees and charges in 2020/21 as a result of the pandemic. We have recently submitted the first claim to MHCLG for the period April to July for £998k. We estimate that this will provide around £2m of income to the council by year end. MHCLG have indicated that claims will be subject to assurance testing before payment is made. A breakdown of the £998k claimed to date by service area is detailed below: -

Service Area	Net Claim (April to July) £000's
Car Parking	383
Sport Facilities	486
Cultural Venues	101
Commercial Catering	28
Total	998

- 2.2.6 Estimates of the initial impact of Covid19 on income generation were reflected in the month 2 budget monitoring report to members. These have been revised based on the latest position and assumptions at quarter 2. This has resulted in further reductions in income at Venues (£151k), Car Parking (£156k), Markets and Market Hall (£89k) and the Pavements Shopping Centre (£52k). Some of these income losses are partially offset by MHCLG's income compensation scheme. However, the income compensation scheme excludes reimbursement for lost rental income.
- 2.2.7 Demand for industrial/commercial and retail units has fallen due to the Covid19 pandemic. This has resulted in an additional cost pressures of £68k as the council is liable to pay business rates on void units.
- 2.2.8 Sheffield International Venues have recently advised the council that the current lease arrangements for Tapton Park golf course are no longer viable and have requested financial assistance to allow them to continue to operate the facility. The impact of agreeing a rent holiday for 2020/21 has been included in the quarter 2 financial position.

2.3 Balancing the 2020/21 General Fund Revenue Account

- 2.3.1 All of the council's budget holders have been tasked with carrying out fundamental reviews of the cost centres for which they are responsible in order to identify and agree further savings as part of the in-year annual budget review and resetting process. This will be followed by a 'check and challenge' process involving Assistant Directors and the accountancy team with a curb on all non-essential spend. It is hoped that these activities will bring the General Fund Revenue Account for 2020/21 back into balance.
- 2.3.2 A review of current reserves and provisions is also underway to identify any earmarked monies that could be repurposed to finance any shortfall that the afore mentioned activities fail to address.
- 2.3.3 The outcome will be reported to Cabinet with the first draft of the 2021/22 budget in December.

3.0 Medium Term Outlook

- 3.1 The medium-term financial plan approved at Council on 26th February 2020 evidenced a more challenging outlook from 2021/22 onwards with annual forecast deficits of at least £700k.
- 3.2 In response to this position, Council approved an action plan to eliminate the forecast deficits over the life of the medium-term financial plan. These were to be developed by officers and approved by members during 2020/21 so that savings could be realised for the start of 2021/22, placing the medium-term financial plan on a path to a balanced position through 2024/25.
- 3.3 However, the impact of Covid19 has meant that in the first six months of the financial year, officer time has understandably been diverted to managing the council's response to the pandemic and to supporting our residents, businesses and communities through the response and recovery stages.
- 3.4 Immediate steps are now being taken to determine how much of the action plan can be delivered between now and the end of the financial year to avoid the need for more difficult decisions to be made as part of the 2021/22 budget setting process.

3.5 The table below compares the latest medium-term financial plan with that approved on 26th February 2020:

	Budget Forecasts				
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
February 2020 budget Deficit / (Surplus)	(16)	723	767	827	742
Increase / (Decrease) Month 2	3,262	349	242	288	141
Increase / (Decrease) Quarter 2	(3,054)	272	95	99	104
Latest Forecasted Deficit / (Surplus) Quarter 2	192	1,344	1,104	1,214	987

3.6 Due to the accounting arrangements for council tax and business rates income, the consequences of any reduction in collection rates in the current financial year will not be felt until the following financial year. The current forecasts in the table above do not include any provision for this.

3.7 For council tax, the collection rate at the end of September was 56.7% compared to 57.6% at the same time last year. For business rates, the collection rate was 58.0% compared to 58.4% at the same time last year.

3.8 The Government has indicated that any deficits on the collection fund can be spread over 3 financial years rather than the normal one-year period. An analysis of the impact of this on future years' budgets will be included in the final budget reports to Cabinet and Council in February 2021.

4.0 Barriers/obstacles

4.1 The Medium-Term financial forecast is based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and pressures are outlined below:

- **Delivering budget savings** at the required level and at the right time continues to be a challenge. The Council has a good track record of tackling budget deficits and delivering savings although it has become more difficult to achieve as

easier options are exhausted. Future budget savings proposals are now focused on several larger savings programmes rather than those delivering smaller savings. Significant savings from the ICT Improvement Programme have been included within the Medium-Term financial forecast and timely delivery of this element of the savings plan is fundamental to achieving a balanced budget in future years.

- **Fees and charges** income may be affected by further closures imposed by local lockdowns in response to Covid-19 and the state of the economy due to continuing uncertainty around Covid-19/Brexit. This may have a significant impact on the substantial annual income that the council generates from car parks, leisure, cultural events and planning fees.
- **Property rents** from our industrial, commercial and retail units are also affected by the state of the economy. Current occupancy levels remain high and the Council continues to invest in its rental properties. However, income from the council's interests in the Pavements and Vicar Lane Shopping Centres continues to decline, placing an additional adverse pressure on the Medium-Term financial forecast.
- **A programme of capital receipts** from the sale of surplus assets has been a significant source of funding for the capital programme. The pipeline of assets sales is reducing which will mean that future capital projects will have to be funded from borrowing. The costs of servicing this borrowing will create further pressure on the Medium-Term financial forecast; though the council will always look to mitigate this through investing in income-generating assets and schemes.
- **The Council tax referendum limit** for 2021/22 may be capped at 1.99%. This contrasts with the position in 2020/21 where district councils were able to increase council tax by up to 2% or £5. A 1% reduction in council tax equates to £50k per annum.

5.0 Future plans

- 5.1 The budget preparation process started in September when budget working papers and guidelines were issued to budget holders.

- 5.2 The draft budget and medium-term forecasts will be reported to Cabinet on 15th December 2020.
- 5.3 The final budget and medium-term forecasts will be reported to Cabinet on the 23rd February 2021 and Council on the 24th February 2021.

6.0 Conclusion

- 6.1 The Covid19 pandemic has had a seriously detrimental effect on the budget position for 2020/21 and future financial years. The current forecast deficit for the year is £192k. Councils have a legal duty to balance their budgets and we must therefore identify appropriate courses of action to eliminate the current deficit.
- 6.2 Officers are reviewing their respective budgets and work will continue to identify and agree further savings in 2020/21 as part of the budget setting process to reduce the in-year deficit to a position which will require only minimal recourse to the use of reserves if necessary.
- 6.3 The one-off use of reserves to cover any residual deficit forecasts will have an adverse impact on our financial standing going forward and our ability to fund service developments in future years; and is therefore an option of last resort.
- 6.4 The outlook for future years is also impacted. The ability to deliver the agreed in-year action plan to achieve savings to address predicted deficit forecasts in future financial years is at risk as officers prioritise the council's continuing response to the pandemic. Further revenue pressures are also expected as a result of the pandemic undermining the council's ability to deliver a balanced medium-term financial plan. Work is ongoing to identify those elements of the in-year action plan that are deliverable between now and the end of the financial year.
- 6.5 At the same time there are several risks that could add further pressure to the forecast deficits in future years e.g. Business Rates income, Universal Credit, the Fair Funding review, retail rents, inflation and the state of the economy (post Covid-19 and Brexit).

7.0 Suggested scrutiny activity

- 7.1 Continue with bi-annual updates to the Overview & Performance Scrutiny Forum.

Document information

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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Appendices to the report	
	None