

<b>TITLE</b>	<b>Revenue Budget Monitoring report FY2020/21 - Quarter 1</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Thursday, 30 July 2020
<b>WARD</b>	None specific
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers
<b>LEAD MEMBER</b>	Executive Member for Finance and Housing - John Kaiser

## **PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)**

To deliver the Council Priorities for the Community, ensuring the efficient effective and safe use of resources.

The Council agrees and sets its budget in the February preceding the current financial year and this report seeks to update Executive on the budget position throughout the year and provide an estimate of the outturn position and impact on balances at year-end (31 March 2021).

## **RECOMMENDATION**

That the Executive note:

- 1) the Council's strong financial standing leading up to the COVID-19 crisis as illustrated in the Executive Summary as set out in the report;
- 2) the significant financial impact of the COVID-19 crisis as illustrated in the Executive Summary;
- 3) the overall forecast of the current position of the General Fund revenue budget, Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG) illustrated in the Executive Summary and appendices attached to the report;
- 4) the ongoing work to manage the budget and ensure the financial viability of the Council as set out in the Executive Summary;
- 5) to approve the revenue implications of capital borrowing for £288k for the purchase of hessian sacks which will have the effect of increasing recycling levels and generating a beneficial financial impact far in excess of the cost of borrowing.

## **EXECUTIVE SUMMARY**

This report is to allow the Executive to note the current expenditure to date (as at 30 June 2020) for the first quarter of the current financial year and to inform the Executive of the forecast outturn positions for 2020/21 for the Council's net revenue expenditure, its General Fund Balance (GFB), the Housing Revenue Account (HRA), and the Schools' Block funding.

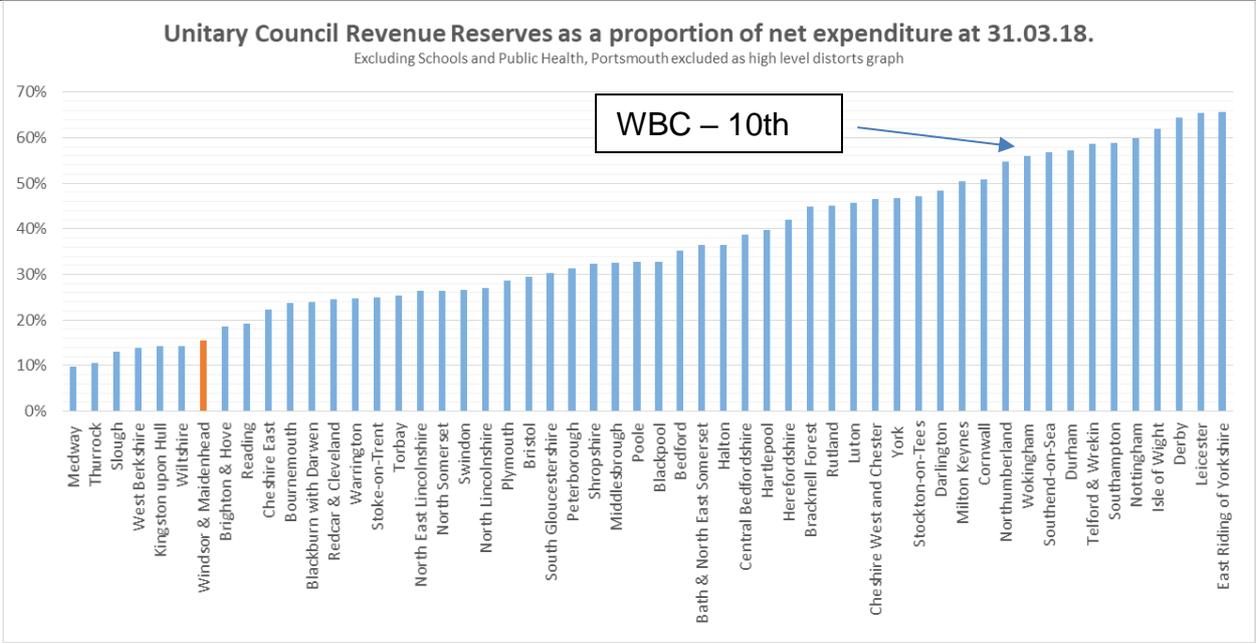
### **Recommendation 1 – Council Strong Financial Standing**

Leading up to the Covid-19 pandemic, the Council had a strong financial standing. Achieved through good financial management, the Council has built up financial resilience and sustainability, despite years of austerity from Central Government funding.

The medium term financial plan (MTFP) which was agreed by Council in February 2020, set out the Council's budget plans for the next 3 years. The general fund (unallocated reserve) balance was estimated to be £8.5m by 31st March '20 and £10.4m by March '21. As reported in Outturn Report to Executive on 28th May '20, the general fund reserve balance had increased to £9.1m at 31st March '20. By adding the £1.979m budgeted increase in the MTFP, the general fund balance was estimated to be £11.056m for March '21 (pre impact of Covid-19). The General Fund balance is held to provide a general contingency for unavoidable or unforeseen expenditure as well as providing some stability for longer term planning particularly in uncertain economic times. Professional guidance from the Chartered Institute of Public Finance and Accountancy recommends a minimum general fund reserve of 5% of net expenditure. This equates to a recommended level of £6.1m at 31st March 2020.

The Council also holds non-general fund reserves that are earmarked for specific future expenditure and risks the Council may face. If the general fund position becomes perilously low, the Council will assess risks and potential options to transfer balances to the general fund reserve.

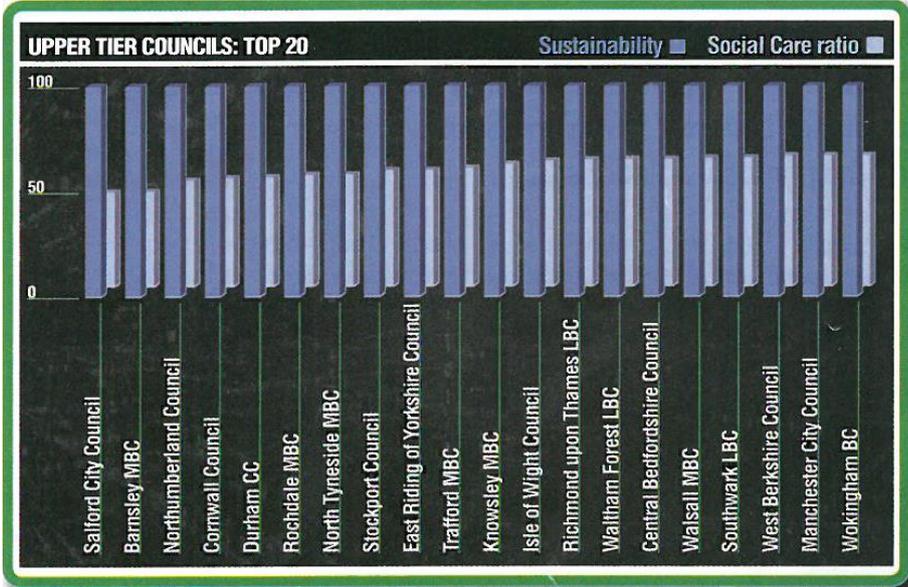
The graph below highlights the Council's strong financial reserves. Taken from the CIPFA report on RBWM, the following graph shows Wokingham rank 10<sup>th</sup> across all unitary authorities in relation to the level of reserves as a % of net expenditure during 2017/18. Since 2017/18, the Council have continued to strengthen reserve balances.



### CIPFA Finance Resilience Index

As published in 'the MJ' on the 9<sup>th</sup> January '20, the results from CIPFA's finance resilience index were announced. The resilience index looked at all local authorities in England across a range of financial measures which included financial sustainability.

As shown below, Wokingham were highlighted in the **top 20** for financial sustainability across all upper tier authorities. Financial sustainability was measured by looking at authority's ability to hold reserves during funding cuts from central government. Wokingham achieved the maximum score of 100.



Source – The MJ – 9<sup>th</sup> January 2020

## **2018/2019 Financial Audit**

As set out in the Annual Audit letter available on the Councils website, our external auditor (Ernst & Young (EY)), provided the Council with an “unqualified” opinion meaning the financial statements present a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.

In relation to ‘Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness’, the report concluded that the Council has “put in place proper arrangements to secure value for money in your use of resources”. The report also highlighted that the Council’s budgeting processes are strong and the medium term budgets are fully balanced.

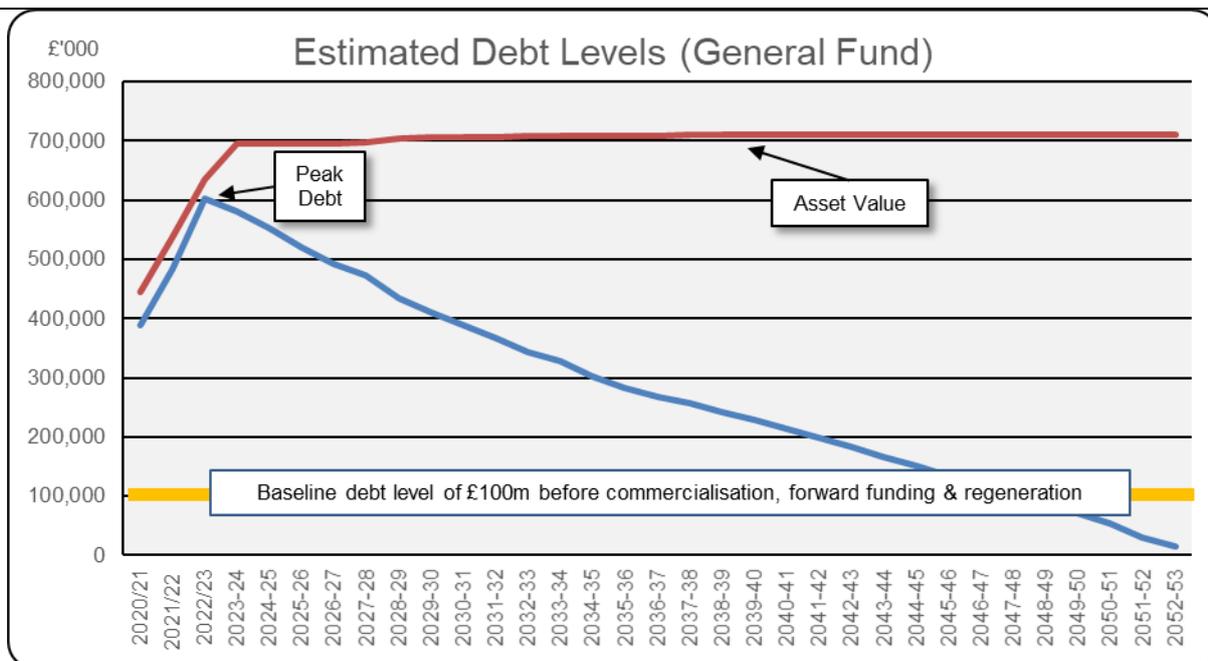
The report continued to say that the Council has appropriate reporting flows and processes in place to ensure that the MTFP is properly prepared and approved in line with the Council’s financial and governance framework. EY also determined that the decision-making processes are strong and that key financial decisions are properly challenged and subjected to a good level of scrutiny, all of which is made available to external stakeholders.

### **Capital Expenditure and Debt**

The COVID 19 pandemic has had an unprecedented impact on the Council’s finances, in terms of both its revenue and capital resources. It is therefore essential that the Capital programme is closely reviewed to assess the assuredness of funding sources and if there have been any changes in service requirements. The Council on the other hand must recognise that capital investment will play an important role in local and regional recovery from the impact of the crisis.

Capital expenditure is important to consider from a general revenue financial management view where debt costs such as interest affect the revenue budget, impact on revenue running costs and ability to deliver ongoing revenue savings.

As highlighted in the MTFP and the graph below, the Council continue to invest in the capital programme with debt increasing over the next 3 years before reducing significantly as income generation increases, developer funding and capital receipts are received in order to pay back debt. As debt reduces, the asset value from capital investment is prudently assessed to remain constant.



## **Recommendation 2 – Financial Impact of Covid-19**

Like all councils across the country, Wokingham have been impacted by the Covid-19 pandemic. This unprecedented event has had immediate financial implications (for example spend on PPE to support the local community, loss of income from closed services.) and has longer lasting financial implications (health of national / local economy). Central Government have been pro-active in supporting Local Authorities with emergency funding and upfront grant payments to ease cashflow. The key financial announcements from Central Government include;

- £3.2 billion of emergency grant funding over 2 tranches. Wokingham received £7.287m in total (£2.575m tranche 1 and £4.712m tranche 2)
- Approx. £10 billion in business rate reliefs. Wokingham have awarded £20.151m in rate reliefs.
- £500 million council tax hardship fund. Wokingham received £0.416m.
- £600 million infection control support fund. Wokingham received £1.873m
- £63 million to support food and essentials. Wokingham awaiting allocation.
- £50 million reopening high street safely fund. Wokingham received £0.152m
- The Council have received and paid across £18.080m in business support grants to cover small businesses and extended retail. In addition, £0.837m has been paid out in discretionary business support payments. Further payments are still being made.

On the 2<sup>nd</sup> July, a further funding support package was announced which included

- A further £500 million of funding to cover local authority spending pressures
- A co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income
- Phased repayment of Collection Fund deficits over the next 3 years
- A commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review

Whilst any additional funding packaged is welcomed, the Council are awaiting further details and guidance to understand the financial benefit. All additional funding and support is needed and greatly appreciated. However, the Council are still estimating a significant financial impact as highlighted in the 'High Level Financial Impact' table below.

Whilst the Council await the results of the recent funding support package announced on 2<sup>nd</sup> July, based on the funding over the first 2 tranches, in a recent article on 1st May on the BBC website, Wokingham's funding per person was put in context of other LAs.

### Lowest extra funding per person

Share of the £3.2bn to support councils



For shire areas figures include grants to district and county councils combined

Source: MHCLG for funding, ONS for population



With regards to the response of the pandemic, the Council took immediate action to set up robust, enhanced financial monitoring and reporting. Financial trackers were introduced across all Directorates with a Council wide tracker developed at both a summary level and a detail level. The Council's finance team have prioritised the monitoring of the financial impact, working closely with all services across the Council to understand the implications. This has been a complex task, not least with the situation emerging on a daily basis at a national level but also the significant impact the pandemic has had across all services of the Council.

As the pandemic looks to be moving into the recovery phase, the financial monitoring and reporting has continued, and now further work is underway to understand the longer term financial implications beyond the 20/21 financial year. Implications will need to be considered as part of budget setting for the 21/22 financial year.

The Council continue to report on a regular basis to MHCLG, in addition to working with partners (e.g. CCG, Leisure operator) and other local authorities to further understand the impact.

Adult Social Care services have seen significant increases in demand during the pandemic, delivering on;

- Welfare Calls - 4,703 welfare checks generated by Govt and GP practices. Contacting 1,800 customers known to the Council.

- Community Response - 2,135 unique clients helped by Citizen Advice one front door. 4,726 deliveries to 892 households by food hub. 2,916 residents allocated a Link visiting scheme volunteer, 1,258 people are called every fortnight.
- PPE - Over 555,000 pieces of PPE have been supplied to the social care market. Regular advice and guidance including financial sustainability and infection control- over 500 calls to care providers. Testing for staff with symptoms – more than 250 staff tested.

### High Level Financial Impact

The table below shows the current estimate of the financial impact from Covid-19. It is important to note with the situation changing almost on a daily basis, the short term and long term financial effect from Covid-19 is difficult to predict. Assumptions have been made using actual costs incurred to date and estimates for the costs during recovery phases over the financial year.

	£,000
Additional Expenditure	12,876
Lost Income	5,010
Delayed Saving Plans	1,181
3 <sup>rd</sup> Party Income (CCG, grants)	(6,048)
<b>Impact from Covid-19</b>	<b>13,019</b>
<i>Less: Government Funding</i>	<i>(7,287)</i>
<b>Net Impact from Covid-19</b>	<b>5,732</b>

### Recommendation 3 – Current Position

The Executive has agreed to consider Revenue Monitoring Reports on a quarterly basis. In February 2020, the Council agreed and set its net General Fund (Revenue) budget at £143.480 million; following year end, this is to be further adjusted to account for agreed carry forward of budget. This gives a working budget for each of the Councils Directorates. The working budgets, spend to date and forecast outturn are shown in the table below.

Directorate	2020/21 – net budget position - as at 30 June 2020				
	Approved (Working) Budget*	BAU** Forecast (Excl. Covid Impact)	Excl. Covid Net over / (under) spend	Covid Forecast	Incl. Covid Net over / (under) spend
	£,000	£,000	£,000	£,000	£,000
	a	b	c = b - a	d	e = c + d
Adult Social Care & Health	51,766	51,566	(200)	3,125	2,925
Chief Executive	9,374	9,374	0	0	0
Children's Services	35,408	35,408	0	1,486	1,486
Communities, Insight & Change	0	0	0	329	329

Place and Growth	35,871	35,871	0	1,850	1,850
Resources and Assets	11,061	11,271	210	3,717	3,927
Other (Direct covid spend + Impact on Ctax base)	0	0	0	2,512	2,512
Emergency Covid grant funding from Government	0	0	0	(7,287)	(7,287)
<b>Revenue Expenditure Total</b>	<b>143,480</b>	<b>143,490</b>	<b>10</b>	<b>5,732</b>	<b>5,742</b>

\* Approved Working Budget is based on budget agreed at Council in February '20 plus any restructures, and currently excludes carry forwards.

\*\* BAU = Business as usual.

Further details of the outturn forecast position and variances are also shown at Appendix A. The main items of BAU variance identified to date are:

Adult Social Care & Health – underspend of £0.200m. The Covid-19 pandemic has had a significant impact on Adult Social Care services. There continue to be many variables to understand as we work through the next phase specifically relating to hospital discharges and how this may change or end. Taking these factors into account our initial work on the forecast suggests a small underspend of £200k in relation the BAU budgets which we will continue to monitor closely.

Chief Executive – no BAU material variances identified.

Children's Services – no BAU material variances identified.

Communities, Insight & Change – no BAU material variances identified.

Place and Growth – no BAU material variances identified.

Resources and Assets – overspend of £0.210m in relation to reduction of shared service income from Royal Borough of Windsor and Maidenhead in operational property service. Work ongoing to review options to mitigate this pressure.

### **General Fund**

Taking account of the net overspends above and the effect of Covid-19 pressures (if assuming no further government funding), the balance on the General Fund as at 31 March 2021 is estimated to be £5.061m.

See Appendix B for further details.

### **Housing Revenue Account (HRA)**

There are no material variances (favourable or non-favourable) forecast in the HRA on the business as usual for quarter one.

Covid-19 has had a financial impact on the HRA as a result of estimated rent losses of £387k for this financial year and some direct spending in relation to temporary sheltered accommodation, £24k.

Including the impact of Covid-19, the balance on the HRA reserve is forecast to be £0.544 million at 31<sup>st</sup> March 2021. See appendix C for further detail.

### **Dedicated Schools Grant (DSG)**

The DSG is currently forecasting an in year variance of £1.526m against an expenditure budget of £150.744m. Taking account of this variance, the estimated DSG reserve for 31<sup>st</sup> March '21 will be £4.889m in deficit. See appendix D for further detail.

Covid-19 has had a small financial impact on the DSG in relation loss of income across nurseries, £126k. DfE recovery routes is under review for all schools.

### **Recommendation 4 - Enhanced Financial Management**

Following the Covid-19 pandemic, the Council have reacted quickly to enhance financial management during the crisis. The Council's finance staff are working closely with Directors to challenge and update forecasts based on a continually changing rationale.

This includes;

- Ensure there is clarity with regards to genuine expenditure decisions with regard to COVID 19 related spend (as opposed to the necessity to discharge our statutory responsibilities).
- Seek to maximise opportunities to deliver on MTFP savings plans, recognising that staff remain significantly diverted to the Response phase.
- Explore reduced expenditure opportunities arising as a result of COVID-19 or otherwise, including a review of Special Items.
- Maintain a weekly financial review of the COVID-19 impact including collection rates and Direct Debit failure rates on major income streams.
- Initiate an early MTFP review process tailored to identify areas of relative financial certainty and high-risk areas of greater ambiguity.
- Review non-General Fund balances to assess risks and potential options to transfer balances to the General Fund reserve (if the General Fund position becomes perilously low).
- Continue to make representations for additional funding through Government Returns, Regional Conference calls and MPs.
- Undertake benchmarking across Berkshire authorities and other local authorities of a similar characteristic (e.g. population) to Wokingham to ensure our assumptions around Covid-19 impact (Short term and Long Term) are sound and reasonable.

### **Recommendation 5 – Revenue implications of Capital Borrowing**

The Executive are asked to approve the revenue implications of additional capital borrowing of £288k. Changing global paper markets have created an increasingly restrictive approach towards wet waste. This emerging issue together with the Council's commitment towards higher recycling targets (consistent with its Climate Emergency declaration) makes it necessary to replace the current open black plastic boxes with sealable hessian sacks. The annual costs of the new sacks and an extra vehicle and crew to maintain existing collection standards with a sealable sack receptacle is estimated at £295k p.a. The financial benefit arising from increased recycling and reduced disposal costs, as a result of this initiative, is estimated at £698k p.a. There would therefore be a net saving of £403k p.a.

The approval for the capital budget is referenced in the quarter one capital monitoring report.

### **FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

***The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	MTFP net budget of £143.480 million	No – forecast o/s of £0.010 million	Revenue
Next Financial Year (Year 2)	MTFP Budget gap of £5.024 million		Revenue
Following Financial Year (Year 3)	MTFP Budget gap of £4.675 million		Revenue

### **Other Financial Information**

Effective monitoring of budgets is an essential element of providing cost effective services and enables any corrective action to be undertaken, if required. Many of the budgets are activity driven and can be volatile in nature.

### **Stakeholder Considerations and Consultation**

None

### **Public Sector Equality Duty**

Public Sector Equality Duty assessment are undertaken during individual business cases.

***Climate Emergency – This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030***

None

<b>List of Background Papers</b>
Appendix A – Revenue Monitoring Summary Appendix B – General Fund Balance Appendix C – Housing Revenue Monitoring Summary Appendix D – DSG Monitoring Summary

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