

Report of: Andrew Humble – Head of Financial Planning & Support
Andy Preston – The Mayor

Submitted to: Council, 2 September 2020

Subject: 2020/21 Quarter One Projected Outturn and use of reserves for Covid-19 pressures

Summary

Proposed decision(s)

- That the Council notes the 2020/21 revenue budget Quarter One total projected outturn of £4.435m as reported to Executive on 18 August 2020, representing a £31,000 overspend on non-Covid-19 elements and the estimated financial effect of Covid-19 in 2020/21 of £4.404m, and also notes the proposed actions to address this.
- That the Council approves the proposed use of the General Fund Reserve to fund the total projected overspend of £4.435m in 2020/21.
- That the Council notes that a Medium Term Financial Plan (MTFP) update report will be presented to Executive on 29 September 2020.
- That the Council notes the proposed reductions and additions to the Council's current Investment Strategy, and that these will be submitted for approval by Executive as part of the MTFP update report on 29 September 2020.
- That the Council approves the transfer of the balance on the Investment Fund Contingency Reserve of £4.928m to the General Fund Reserve, to mitigate the effect on the General Fund Reserve of the total projected revenue overspend in 2020/21.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes – over the financial threshold (£150,000)	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Quarterly monitoring, review and action planning plays a central role in ensuring that the Strategic Plan is delivered effectively.		

Ward(s) affected
None.

What is the purpose of this report?

1. This report advises the Council of the Council's financial position at Quarter One 2020/21, including the projected effect of Covid-19 on the Council's finances.
2. The report seeks approval from the Council for the use of the General Fund Reserve to fund the total projected overspend in 2020/21.
3. The report also seeks approval from the Council for the transfer of the balance on the Investment Fund Contingency Reserve to the General Fund Reserve, to mitigate the effect of the use of the General Fund Reserve to fund the total projected revenue overspend in 2020/21.

Why does this report require a member decision?

4. The proposed additional use of reserves outside of the budgetary framework require Council approval.

Report Background

5. The Revenue and Capital Budget – Projected Outturn position as at Quarter One 2020/21 report to Executive on 18 August 2020 noted that there was a total projected outturn overspend at year end 2020/21 of £4.435m, comprising of a £31,000 overspend on non-Covid-19 elements, and the estimated financial effect of Covid-19 in 2020/21 of £4.404m.
6. The report to Executive on 18 August 2020 noted that there was a projected £31,000 overspend in 2020/21 on non-Covid-19 elements, and full details of this were provided in paragraphs 7 to 37 of the Executive report along with the proposed actions to address this in the form of revenue budget spending controls.
7. As widely reported, the Covid-19 pandemic is having a significant impact on the financial position of all local authorities. Covid-19 financial pressures are being monitored separately from the normal non-Covid-19 financial position, and these were reported separately in paragraphs 38 to 60 of the Executive report.
8. The Executive report of 18 August 2020 highlighted that there are a number of issues emerging and it is still early in the process to provide an accurate assessment of the overall financial pressures, particularly as the full extent and timescale of the pandemic remains unclear. The Executive report provided details of the estimated additional costs, reductions in income, unachievable savings, and the potential effect on Council Tax and Business Rates income. It also detailed the Government funding that is estimated to be received, based on assumptions made following Government announcements.
9. The projected financial impact of the Covid-19 pandemic, based on experience in the first 3 months of the financial year, is summarised below along with a breakdown of the estimated funding split between the Government grant funding and the Council, based on assumptions made following the Government announcements detailed in paragraphs 39 to 40 of the Executive report:

	<u>2019/20</u>	<u>2020/21</u>	<u>TOTAL</u>	<u>ESTIMATED</u>	<u>ESTIMATED</u>
				<u>TOTAL</u>	<u>TOTAL</u>
				<u>GOVT</u>	<u>COUNCIL</u>
				<u>FUNDING</u>	<u>FUNDING</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Extra-ordinary costs incurred	0.385	7.333	7.719	7.719	0.000
Estimated loss of income	0.492	6.673	7.164	5.105	2.060
Unachievable Change Programme savings	0.000	2.344	2.344	0.000	2.344
Potential Collection Fund shortfall (due to reductions in Business Rates and Council Tax income)	0.000	3.916	3.916	0.000	3.916
	0.877	20.266	21.143	12.823	8.320
Government Grant Funding currently assumed			12.823		
Net COVID-19 pressures 2020/21 after assumed Government Funding			8.320		
Estimated Collection Fund shortfall transfer to 21/22, 22/23 and 23/24 (due to ability to recover Collection Fund shortfalls over three years)			-3.916		
REVISED COVID-19 GAP 2020/21			4.404		

10. The overall financial position is being regularly reviewed to assess the impact across all areas and it is likely that this will identify additional pressures and also some potential savings.
11. The above table indicates that the current pressures exceed the assumed Government grant funding, and that there will be a potential financial pressure due to Covid-19 of £4.404m in 2020/21. This is subject to the actual Government funding being received in line with the commitments the Government have provided to date.
12. If no further additional Government funding is provided to cover the pressures, it is recommended that this, along with the non Covid-19 projected overspend, is funded from the General Fund Reserve in 2020/21. Based on the current projected scenario and no further Government funding, this would mean that the projected level of General Fund Reserve at year end 2020/21 would reduce to £5.711m as detailed in paragraph 85 of the Executive report. The level of balance of the General Fund Reserve would then need to be replenished back to the minimum level recommended by the Director of Finance of £9.4m.
13. The Director of Finance recommends a minimum balance of £9.4m in the General Fund Reserve in order to insulate the Council's finances against exceptional circumstances. The current pandemic means that the Council is faced with an unprecedented challenge and it is correct that the General Fund Reserve is used to cover relevant pressures.
14. The level of financial challenge and risk associated with Covid-19 has also confirmed the necessity of maintaining proper levels of reserves and the importance of building the General Fund Reserve back up to recommended levels as soon as practical.
15. The Executive approved on 18 August 2020 a revised Investment Strategy to 2022/23, including a revised budget of £58,356,000 for 2020/21.

16. As mentioned in paragraph 62 of the Executive report the current Investment Strategy has been further reviewed in order to determine schemes which can potentially be removed or reduced. The following table provides details of the schemes proposed to be removed from or reduced within the current Investment Strategy, along with the reasons for their removal or reduction. These will be submitted for formal approval by Executive as part of a Medium Term Financial Plan (MTFP) update report which will be presented to Executive on 29 September 2020.

Directorate	Scheme	Total £m	Reason for removal / reduction
Regeneration	Town Centre Related Projects	0.536	Available funding remaining after undertaking all key projects.
Regeneration	Middlehaven Relief Road	0.050	Savings arising following the installation of a strategic road within Middlehaven.
Regeneration	Housing Growth / Infrastructure	1.222	Funds originally provided on the basis that the Council would undertake infrastructure works at Newham Hall. The works will now be undertaken by a developer when the site is sold.
Regeneration	Acquisition of Town Centre Properties	2.260	Savings achieved by the Council from negotiations regarding the acquisition costs.
Regeneration	LED Street Lighting Upgrade (Phase 2)	0.489	Savings achieved from contract costs and no requirement to utilise the contingency provided.
Regeneration	Cultural Transformation Fund	0.180	Available funding remaining after undertaking all key projects.
Regeneration	Dorman Museum	0.021	Savings arising following the completion of building improvements at Dorman Museum and shop.
Environment & Community Services	Purchase Of New Vehicles	0.900	Savings achieved by extending the use of the current fleet of vehicles.
Adult Social Care and Health Integration	Home Assistance Loan	0.184	Funding for this project can be met from existing grants / contributions.
Adult Social Care and Health Integration	Disabled Facilities Grant	0.116	Reduction is in relation to Phoenix Lodge. Funding for this project can be met from existing grants.
Finance	Former Partnership Investment	0.050	The total financial requirement for this scheme has been reviewed and savings have been identified.
Finance	Derisking Sites	0.569	Budget has been reviewed and savings identified that will not impact upon current proposals.
Total of Schemes Proposed to be Removed or Reduced		6.577	

17. As part of the review of the current Investment Strategy it has been determined that additional investment is also required for a number of schemes.

Directorate	Scheme	Total £m	Reason for additional investment required
Regeneration	Teesside Advanced Manufacturing Park	0.100	Additional works regarding the power supply are required to accommodate a tenant. This will produce additional rent income to the Council.
Regeneration	Centre Square Buildings 1 & 2	0.600	Required for fit out costs and fees associated with the change of occupier within Building 1. This will produce additional rent income to the Council.
Environment & Community Services	Hostile Vehicle Mitigation	0.570	New scheme required for the provision and installation of measures which will prevent the use of vehicles in hostile attacks.
Total of Schemes Where Additional Investment Is Required		1.270	

18. The total net reduction (reductions less additions) to the Council's current Investment Strategy across the period to 2022/23 from this further review of Investment Strategy is £5.307m.
19. This reduction would mean that revenue funding within the Investment Fund Contingency Reserve of £4.928m which has been earmarked to fund the current Investment Strategy will no longer be required and so can be released to support the projected revenue overspend in 2020/21 outlined above. Approval is therefore sought from the Council to transfer the balance of the Investment Fund Contingency Reserve of £4.928m to the General Fund Reserve in 2020/21.

20. Following approval of this transfer the projected balance on the General Fund Reserve at year end 2020/21 would be £10.639m, comprising of the £5.711m outlined in paragraph 12 of this report and the addition of £4.928m funding from the Investment Fund Contingency Reserve as outlined above. This level of General Fund Reserve would be above the minimum level recommended by the Director of Finance of £9.4m.
21. The use of the General Fund Reserve and the subsequent transfer between the Investment Fund Contingency Reserve and the General Fund Reserve would not usually occur at these levels during a normal financial year, however they are required in 2020/21 due to the projected financial effect of Covid-19 on the Council.

What decisions are being asked for?

22. That the Council notes the 2020/21 revenue budget Quarter One total projected outturn of £4.435m as reported to Executive on 18 August 2020, representing a £31,000 overspend on non-Covid-19 elements and the estimated financial effect of Covid-19 in 2020/21 of £4.404m, and also notes the proposed actions to address this.
23. That the Council approves the proposed use of the General Fund Reserve to fund the total projected overspend of £4.435m in 2020/21.
24. That the Council notes that a Medium Term Financial Plan (MTFP) update report will be presented to Executive on 29 September 2020.
25. That the Council notes the proposed reductions and additions to the Council's current Investment Strategy, and that these will be submitted for approval by Executive as part of the MTFP update report on 29 September 2020.
26. That the Council approves the transfer of the balance on the Investment Fund Contingency Reserve of £4.928m to the General Fund Reserve, to mitigate the effect on the General Fund Reserve of the total projected revenue overspend in 2020/21.

Why is this being recommended?

27. To enable the effective management of finances, in line with the Council's Local Code of Corporate Governance, the Scheme of Delegation and agreed corporate financial regulations.

Other potential decisions and why these have not been recommended

28. Not applicable.

Impact(s) of recommended decision(s)

Legal

29. The proposed recommendations are consistent with and will promote the achievement of the Council's legal duty to achieve Best Value.

Financial

30. As reported to Executive on 18 August 2020 the Council's total projected outturn position for 2020/21 is an overspend of £4.435m, representing a £31,000 overspend on non-Covid-19 elements and the estimated financial effect of Covid-19 in 2020/21 of £4.404m.
31. If the approvals requested in this report are agreed the balance on the General Fund Reserve at year end 2020/21 is projected to be £10.639m.

Policy framework

32. The Strategic Plan(s) and associated budgets form part of the Council's Policy Framework. All proposed variations set out in this report are in line with authority delegated to the Council.

Equality and diversity

33. No negative differential impact on diverse groups and communities is anticipated from the decisions.

Risk

34. In line with the Council's Risk Management Policy, the corporate Strategic Risk Register has been reviewed in the quarter, and this was reported to Executive on 1 September 2020 as part of the Strategic Plan 2020-23 – Progress at Quarter One 2020/21 report.

Actions to be taken to implement the decision(s)

35. If approved, the Council's General Fund Reserve will be used to fund the Council's total projected overspend for 2020/21.
36. If approved, a transfer of the balance on the Investment Fund Contingency Reserve of £4.928m will be made to the General Fund Reserve.
37. The proposed reductions and additions to the Council's current Investment Strategy will be submitted for formal approval to Executive on 29 September 2020 as part of the MTFP update report.
38. As previously approved by the Executive, a fundamental review of the MTFP will be undertaken by the Section 151 Officer and presented to the Executive on 29 September 2020. This review is likely to trigger further mitigating activity if pressures continue and no further funding for Covid-19 response and recovery is provided by the Government.

Appendices

39. There are no appendices to this report.

Background papers

15/01/20	Council	Priorities of the Elected Mayor and Strategic Plan 2020-2023
26/02/20	Council	Revenue Budget, Council Tax, Medium Term Financial Plan and Capital Strategy 2020/21
16/06/20	Executive	Strategic Plan 2020-23 – Progress at Year-end 2019/20
18/08/20	Executive	Revenue and Capital Budget – Projected Outturn position as at Quarter One 2020/21

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