EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Finance and Governance
LEAD OFFICERS:	Director of Finance and Customer Services
DATE:	10th September 2020

PORTFOLIO/S AFFECTED:	All
WARD/S AFFECTED:	All
KEY DECISION:	**YES** ☒ **NO** ☐

SUBJECT: CORPORATE REVENUE BUDGET MONITORING REPORT QUARTER 1 - 2020/21

1. EXECUTIVE SUMMARY

To report the overall revenue financial position of the Council, highlighting any significant issues and explaining variations in the first quarter of the financial year.

2. RECOMMENDATIONS

The Executive Board is asked to approve:

- the portfolio cash limit adjustments outlined in Appendix 1.
- the Earmarked reserves position shown in Appendix 2
- the variations to revenue expenditure, as listed in Section 6, giving rise to a balance of £7.689 million in the unallocated General Fund revenue reserve.

3. BACKGROUND

All portfolios are required to examine their revenue budget position on a monthly basis. Regular reports are submitted to Executive Board for review along with a final report, detailing the financial outturn position.

4. KEY ISSUES & RISKS

a) Actual revenue expenditure at 30th June 2020 in relation to controllable budgets across all portfolios was £29.271 million, which is 18.01% of the current budget. Further details relating to the financial position of each portfolio are outlined in Section 6.

b) Subject to Executive Board approval of the proposed adjustments, General Fund unallocated reserves are £7.689 million at 30th June 2020 compared to the minimum level of unallocated reserves agreed at Finance Council in February 2020 of £4.0 million.

c) Based on the information currently available, Earmarked Reserves available for discretionary use within the Council are £34.586 million at 30th June 2020 compared with a balance of £19.152 million at 31st March 2020, with a further £9.479 million of 'Other Reserves' held mainly in relation to schools.

5. POLICY IMPLICATIONS

The information contained within the report accords with the three year budget forecast within the Medium Term Financial Strategy 2020-23, as approved at Finance Council on 24th February 2020.

6. FINANCIAL IMPLICATIONS

6.1 CASH LIMITS AND REVENUE EXPENDITURE

6.1.1 Revenue Budget Overview

The 2020/21 Budget and MTFS 2020-2023 approved by Finance Council in February 2020 set a balanced budget for the year based on the assumptions made at that time. Since then, the Covid-19 pandemic has created a significant shock to the economy and resulted in significant, unplanned expenditure and income losses for the Council, as set out in previous reports to the Executive Board and Council Forum.

Work will continue over the coming months to monitor and forecast the costs and savings associated with both the pandemic and any other emerging budget pressures. In the meantime, arrangements are in place to scrutinise all existing expenditure plans and Executive Members and their Directors are working to develop potential savings options for consideration.

6.1.2 Performance Against Controllable Budgets

Appendix 1 details the portfolio controllable budgets approved by the Executive Board in February 2020 together with the details of the adjustments recommended to the Board for approval in this report. These include:

- transfers (budget virements) between portfolios
- transfers from Unallocated reserves to support budget pressures
- transfers from contingencies
- transfers from Earmarked reserves in respect of grants / contributions and other budgets approved for carry forward from 2019/20

The principle issues for each portfolio at the end of the first quarter of the year are summarised below:

Summary

Portfolio	Total Forecast (Under) / Over spend 2020/21	Less: Overspend due to Covid-19 related costs/loss of income	Underlying position (Under) / Over spend 2020/21
	£mill	£mill	£mill
Adults & Prevention Services	4.264	(4.901)	(0.637)
Public Health & Wellbeing	2.521	(4.021)	(1.500)
Children, Young People & Education	4.030	(1.180)	2.850
Schools & Education (DSG)	0.000	(0.000)	0.000
Environmental Services	2.258	(1.580)	0.678

Growth & Development	2.000	(1.500)	0.500
Digital & Customer Services	0.232	(0.232)	0.000
Finance & Governance	6.570	(6.570)	0.000
Cross Portfolio pressures	3.946	(3.946)	0.000
TOTAL	**25.821**	**(23.930)**	**1.891**

Covid-19

As stated above, the Covid-19 pandemic has resulted in significant unplanned expenditure and income losses. Following work to refine both the actual costs incurred and income lost due to Covid-19 during the period 1st April to 31st July 2020, and in reviewing and refining assumptions on which the forecasts for these are based for the remainder of the financial year, the fourth COVID-19 Financial Management Return was submitted to MHCLG on 31st July 2020. The return includes the following key figures:

	Covid-19 Impact Full year forecast 2020/21
Additional expenditure	14.00
Income losses – commercial sales, fees and charges	11.30
Total losses due to Covid-19	**25.30**
Less: funding for Test and Trace	(1.37)
Portfolio losses due to Covid-19	**23.93**
Less: General Covid-19 grant funding	(10.90)
Portfolio gap	**13.03**

Note: These figures do not include income losses in respect of Business Rates and Council Tax which are covered in section 6.4 below.

The government has announced additional financial support for councils to meet a proportion of their losses in respect of Sales, Fees and Charges. The extent of this is dependent on the application of detailed guidance and on the returns to be completed over the remainder of the financial year; the first of the returns will be completed in September and will be reported to the Executive Board as part of the Quarter 2 Corporate Revenue Monitoring Report.

Portfolio positions

The underlying budget issues for each portfolio at the end of the first quarter of the year are as follows:

Adults & Prevention Services

At this relatively early stage in the year, on the basis of current levels of demand and information available, the portfolio is predicting an underspend, excluding the costs associated with Covid-19, of £637k for 2020/21.

There are however pressures within the Adults Commissioning budget but the forecast reflects a net underspend across the portfolio due to the changes made through the hospital discharge guidance issued during the Covid-19 pandemic whereby all care costs attributed to hospital discharge, or hospital admission avoidance, are now being paid directly by the NHS. Recently however, this guidance has changed and from September only the first six weeks after discharge will be funded by the NHS. As such, the portfolio is anticipating a significant increase in referrals and in care costs over the coming months. The impact of this, together with the impact of Covid-19 and winter pressures in adult social care, is likely to result in escalating costs over the next few months, however a more accurate estimate of costs is hard to determine at this stage; we expect to have a more refined forecast available at Quarter 2 monitoring.

The Neighbourhoods and Prevention department within the portfolio has identified pressures of £168k but are forecasting to manage these down to a breakeven position by the end of the financial year.

Public Health & Wellbeing

The Public Health department is currently predicting to overspend by around £21k in 2020/21, in respect of Covid-19.

At this relatively early stage in the year, due to the fact that leisure facilities, museum and venues have not been able to operate due to lockdown restrictions, the Leisure and Culture department is forecasting an overspend in the region of £2.5m.

This figure is net of the forecast loss of income due to Covid-19 of approximately £4.0m for although service provision mainly shifted to on-line and digital platforms as part of the Council's pandemic response in supporting the health and wellbeing of both staff, there was an immediate and absolute loss of all income streams across the portfolio. The net loss of income is offset to an extent by reduced expenditure against budget, e.g. cost of events, of approximately £1.5m.

Children, Young People & Education

The portfolio is currently forecasting an overspend of £2.85m against their controllable budgets, of which £1.8m relates to Placement cost pressures. This £1.8m overspend is based on the estimated full year costs of current placements and also includes an estimate for the cost of additional placements that may be made over the course of the year, based on an average of actual numbers and the spend profile over the past few years.

Placements costs are monitored throughout the year and individual placements are regularly reviewed. The department is exploring all options in order to mitigate rising demand and will ensure that we maximise the use of all sources of external grant funding.

Covid-19 related costs are associated with building adaptations to the Limes, Whalley New Road and Apple Trees, as well as additional workforce and residential care pressures.

Dedicated Schools Grant / Schools Block

Services in Schools & Education (DSG) are currently forecast to spend the funding available in 2020/21 through the DSG and Pupil Premium.

Schools and Education funding from DSG is monitored by the Schools Forum and reports are considered on a regular basis.

Environmental Services

The portfolio has identified non-Covid-19 related pressures in respect of recycling and waste disposal services amounting to £516k; in addition, they have identified unbudgeted pressures in respect of the costs of re-lining the cremators of £120k and in Pest Control services of £42k.

Covid-19 income losses within the portfolio include taxi licensing, trade waste, parking services and at the motor vehicle service station (i.e. for MOTs for taxis and HGV testing) which amount to approximately £1.580m

Growth & Development

The portfolio is currently forecasting a non-Covid19 related overspend of £500k which is mainly in respect of the Highways budgets and ongoing pressures on the planned and reactive maintenance budgets, in particular.

In addition to this Covid-19 pressures of £1.5m have also been identified arising from losses of income across the portfolio.

Digital & Customer Services

The portfolio is currently predicted to break even over the course of the financial year excluding £232k of Covid-19 related income losses across Registrars, Customer Services and a reduction in the capitalisation of IT staffing costs, as planned IT projects have had to be deferred in order to accommodate the immediate priorities and resource pressures arising from the pandemic.

Finance & Governance

The portfolio has identified cost pressures of £3.87m and income losses of £2.7m solely due to Covid-19. The significant pressures and losses included within this are;

- purchases of personal protective equipment for use by all departments across the Council and by adult social care providers (£1.77m),
- the costs of establishing and operating a Food Hub which has supported the most vulnerable of the Borough's residents during the lockdown (£1.502m),
- forecast income losses from commercial rents including Cathedral Quarter and the Council's income share from the Mall.

6.2 General Fund Unallocated Reserves

Summary of movement	£million
Unallocated reserves as per the 2019/20 Outturn Executive Board Report	7.173
Transfers (from) Unallocated reserves	
Increased net costs in respect of interest and debt repayment (Note 1)	(0.176)
Increase in Strengthening Communities Volunteering in Lancashire (SCVL) Earmarked Reserve – adjustment to carry forward from 2019/20	(0.023)
Transfers to Unallocated reserves	
Increase in reserve agreed as part of 2020-21 budget strategy	0.500
Increase in non-ringfenced grant income:	
Housing Benefit Administration Grant	0.106
Extended Rights to Free Travel Grant	0.031
Social Care Support Grant	0.019
Adjustment re reduction in contribution to Greater Lancashire Plan via NNDR 75% Pilot Pool	0.059
Balance on Unallocated General Fund reserves at 30 June 2020	7.689

Note 1 – The amount of £176k above comprises:
- Interest and dividends foregone as part of the agreement to sell the Council's shares in the Local Education Partnership (LEP) - £100k
- An increase in MRP as a result of lower capital receipts received in 2019/20 - £76k

6.3 Earmarked reserves

Taking account of the adjustments highlighted at Appendix 2, the level of Earmarked reserves held for discretionary use by the Council at 30th June 2020 will increase to £34.586 million compared with a balance of £19.152 million as at 31st March 2020.

Summary of movement	£million
Balance of reserves at 31st March 2020 (as reported to Executive Board in June 2020)	19.152
Use of reserves to support the 2019-20 budget strategy (Note 1)	(0.370)
Release to portfolios of grants and budgets carried forward from 2019/20 into 2020/21 (incl in Appendix 1)	(1.892)
Use of Developers contributions (Section 106) Reserve to finance capital expenditure	(2.536)
Use of Future Maintenance of Wainwright Bridge reserve to finance capital expenditure	(0.200)
Creation of reserve for Compensation for lost Business Rates income (Note 2)	16.324
Increase in COVID-19 Reserve (2nd tranche of grant)	4.085
Increase in Strengthening Communities Volunteering in Lancashire (SCVL) Reserve (to adjust outturn positon)	0.023
Balance on Earmarked reserves at 30 June 2020	34.586

Note 1 - The amount of £370k above comprises:

- Transfer from the Office Accommodation and Property Improvements reserve to finance capital expenditure on Griffin Lodge - £300k
- Transfer from the Improvement to Support Business Rates Growth reserve to fund the Local Plan - £150k
- Transfer to earmarked reserves for Future Maintenance of Witton Park 3G Pitches (£50k) and for "pay back" of leisure equipment (£30)

Note 2 - A new reserve has been created from government funding to reimburse the Council for the loss of business rates income due to the award of the Expanded Business Rates Retail Discount and a new Business Rates Nursery Discount in response to the coronavirus pandemic. The impact of the lost business rates income will be carried forward into the 2021/22 budget as a deficit on the Collection Fund. The new earmarked reserve above will then be utilised to offset the Collection Fund deficit and to support the 2021/22 budget process.

Other Earmarked reserves, held largely in respect of schools, are £9.479 million.

Details of the requested applications of reserves are outlined in the Appendices to this report.

6.4 Collection Fund

Business Rates

In the 2020 Budget, and in subsequent announcements throughout March, the government has gradually increased the Retail and Rural Businesses discounts with 100% relief applying to occupied retail, leisure and hospitality properties in the year 2020/21, with no limit on the rateable value to which this applies or in the application of the State Aid limit on the amount of relief given. A new Nursery (Childcare) Discount 2020/21 has also been introduced. None of the eligible properties covered by the reliefs will pay business rates in 2020/21.

Central government have allocated funds to fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003). In addition, as additional reliefs have been introduced after the NNDR1 (initial Business Rates estimate return) has been submitted, the s31 grant allocations are based on the full Collection Fund impact, to cover the "overpayment" of central share and preceptor instalments as fixed by the NNDR1.

An initial allocation of £16.324 million has been made to the Council however we will be asked to provide outturn data on the total "actual" cost of providing the reliefs, as per the usual process, i.e. via the NNDR3 forms for 2020/21, when reconciliations will be completed between the figures. The regulatory framework for business rates requires that the section 31 grants must be credited to the General Fund, which will initially cause a surplus in 2020/21 as the Council is compensated for the lost business rates income; this will ultimately be reflected in the distribution of the Business Rates Collection Fund deficit in 2021/22.

The Business Rates Collection Fund budget has been re-profiled to reflect the impact of the changes in the various discounts given on the amount of income due. The current rate of collection for business rates is, however, below that normally expected at this point in the year mainly due to the deferment of collecting direct debt payments during the period April to June. The Council has also only recently recommenced recovery action and so it is envisaged that a more accurate position will be evident as the year progresses. Due to the changes in recovery process arising from Covid-19 (i.e. application of discounts/reliefs from the government and deferrals in collections) comparison with previous years is very difficult to undertake.

The current projected year end position for the Business Rates Collection Fund is a deficit carried forward into 2021/22 of £16.6 million, comprising:

	£million
Increase in reliefs compensated by s31 grant (largely Retail Discount)	17.100
Assumed reduction in collection	1.400
Projected in year deficit 2020/21	**18.500**
Less: a larger than anticipated surplus carried forward from 2019/20	(1.900)
Projected deficit carried forward 31/03/2021	**16.600**

Blackburn with Darwen's share of this deficit is £7.68 million.

We await the guidance from central government, due in the autumn, in respect of the option to spread the Collection Fund deficit over 3 years and/or to utilise the reserve established from the £16m section 31 grant received during 2020/21.

Council Tax

As part of its response to Covid-19, the Government has provided local authorities in England with £500 million of new Council Tax Hardship Grant funding. The purpose of the grant is to compensate billing authorities in England for the council tax foregone in 2020-21 due to additional council tax reliefs provided to working age recipients of local council tax support during the Covid-19 emergency. Blackburn with Darwen Borough Council's allocation amounted to £2,194,182 and was received in April 2020. Due to the different regulatory framework for Council Tax, this grant must be credited to the Collection Fund to directly offset the reduced income.

The Council's current rate of collection for council tax is around 0.82% below expectations. This is largely due to agreed deferrals in instalments for April, May and June, for example due to customers having reduced levels of income if they have been furloughed. The Council has now recommenced its collection and recovery processes, the impact of which will hopefully be seen in an improvement in the overall collection rate over the coming months. However, it is anticipated that the number of local council tax support claimants will increase further following the phasing out of the job retention scheme, which will in turn reduce income further and possibly impact on collection rates.

Taking all these factors into account, the current projected year end position for the Council Tax Collection Fund is a deficit carried forward into 2021/22 of £1.4 million, made up of:

	£million
A lower than anticipated growth in chargeable properties	0.200
An assumed increase in local council tax support claimants	0.800
An assumed reduction in the collection rate from 97.5% to 97.0%	0.400
Projected deficit carried forward 31/03/2021	**1.400**

Blackburn with Darwen's share of this deficit is £1.2 million, which would be a pressure on the 2021/22 budget.

As for business rates, we await the guidance from central government, due in the autumn, in respect of the option to spread the Collection Fund deficit over 3 years rather than in the following financial year (i.e. in 2021/22), as is the current requirement

7. LEGAL IMPLICATIONS
The Council has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

8. RESOURCE IMPLICATIONS
None.

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9. EQUALITY AND HEALTH IMPLICATIONS
Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 ☒ Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 ☐ In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 ☐ In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

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10. CONSULTATIONS
Not applicable.

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11. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The

recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting.

VERSION:	**V3**

CONTACT OFFICER:	**Julie Jewson** **Senior Finance Manager** **Tel 585893**
DATE:	1st September 2020
BACKGROUND PAPER:	N/A