



Report to Overview and Scrutiny Management Committee

3rd September 2020

Report of: Head of Strategic Finance

Subject: Update for OSMC on Council's 2020/21 Revenue Budget

Author of Report: David Phillips, Head of Strategic Finance

Summary:

The Council's 2020/21 Revenue Budget was agreed at Full Council on 4th March 2020. Since the Budget was set in early March the City and Council have been hit by the Covid-19 pandemic. This pandemic has had a very significant effect on the Council's finances and the delivery of its budget. This paper updates the Council's Overview and Scrutiny Committee (OSMC) on these effects.

Type of item: The report author should tick the appropriate box

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| Reviewing of existing policy | |
| Informing the development of new policy | |
| Statutory consultation | |
| Performance / budget monitoring report | |
| Cabinet request for scrutiny | |
| Full Council request for scrutiny | |
| Call-in of Cabinet decision | |
| Briefing paper for the Scrutiny Committee | X |
| Other | |

The Scrutiny Committee is being asked to:

1. Note the additional pressures caused by the COVID crisis, and
2. Note that the Council's current level of reserves provides time for action to be taken strategically in response to the COVID crisis and the more general financial position, but that actions will be needed, on current projections, to maintain financial stability in the medium term. These actions will include further co-operation with other key stakeholders, in particular the NHS.

Background Papers:

1. Report to Cabinet 15 July 2020: Revenue Budget and Capital Programme Monitoring 2020/21 – as at 31/05/2020
2. Report to Cabinet 15 July 2020: Month 2 Capital Approvals

Category of Report: OPEN

Introduction

The Council's 2020/21 Revenue Budget was agreed at Full Council on 4th March 2020. The Revenue Budget sets out a detailed one-year representation of the Council's business plans, and is used to set Council Tax and Services financial and resource allocations.

Since the Budget was set in early March the City and Council have been hit by the Covid-19 pandemic. This pandemic has had a very significant effect on the Council's finances and the delivery of its budget. This paper updates the Council's Overview and Scrutiny Committee (OSMC) on these effects.

The impact of the crisis

- 1. A balanced budget was set in March 2020**

The City Council agreed a balanced revenue budget in March 2020. This budget absorbed £30m of revenue pressures, with a combination of £15m of savings, additional funding from Central Government (for the first time in ten years) and increases in Council Tax and Business Rate (CT & BR) income bridging the gap.
- 2. COVID costs are over £80m**

The Council's costs for the COVID pandemic for 2020/21 are currently (end June 2020) estimated at £82m. However further costs are still emerging, and a second wave could significantly increase these costs.

These costs include slippage on the bulk of the £15m of savings schemes, progress on which has been delayed by the pandemic. Officers are currently working on accelerating the delivery of these schemes.
- 3. This sum breaks down as follows**

Reduced CT and BR £27m.

Slippage of previously agreed savings proposals £15m.

Other areas £40m, for example extra payments to support leisure providers (£12m) & social care providers (£6m), reduced income (£13m), and misc increased costs (£9m). These figures are all net of additional specific funding received.
- 4. Unfunded COVID costs for 2020/21 are currently £11m**

£27m of the above costs relate to forecast reductions in CT and BR income that do not hit our revenue budget until 2021/22 and beyond. In addition CG has to date provided £44m of un ring-fenced funding towards the Council's additional costs and reduced income.

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| 5. In addition non-COVID overspends for 2020/21 are £6m | There are other areas of the Council's budget that are overspending. These overspends are currently forecast to be £5.9m, mainly due to (non-COVID) additional pressures in Physical and Learning Disabilities, unfunded Air Quality scheme costs, and staffing pressures within Customer Services and HR. Officers are working on reducing these overspends. |
| 6. A net overspend of £17m is therefore forecast | The impact of both the above two items is a forecast overspend of £17.4m for 2020/21 as at the end of June 2020. |
| 7. The Council's has £35m of reserves available, plus £13m in its GF balance. Therefore it is <u>not</u> about to become insolvent | <p>The Council's Medium Term Financial Strategy for 2020/21 to 2023/24 approved in Oct 2019 identified that up to £35m of reserves could be made available to support transformational programmes. In addition the Council has £13m in its General fund (GF) un-earmarked balance. This is in effect the Council's emergency fund and must be replenished if it is used. Nevertheless both this fund and the GF reserve can be used to support the Council's financial position.</p> <p>The MTFA for 2021 and beyond is expected to come to Cabinet in the next 2 months.</p> |
| 8. The Council's financial challenge is in the short term less severe than at a number of comparable LAs | <p>A number of other local authorities, including a number of other Core Cities, are indicating that they are under more immediate financial pressure than we are, with their usable reserves likely to be exhausted sooner, and / or they are more exposed to significant losses on their commercial projects.</p> <p>For example Manchester CC has benefited from being a major shareholder in Manchester Airport, and anticipates a significant fall in income as air travel has greatly reduced.</p> <p>Nottingham CC is concerned about the impact of the crisis on income from their associated green energy venture <i>RobinHoodEnergy (RHE)</i>. RHE was already under considerable financial pressure, with cumulative losses of £34m by 31 March 2019, and it has just been the subject of a Public Interest Report from Nottingham's external auditors which criticised the Council for allowing other services to suffer in its efforts to support RHE.</p> <p>Leeds CC appears the worst affected Core City, with public statements that they forecast the costs of the pandemic (even after CG funding) will exhaust their available reserves</p> |

during 2020/21.

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9. **However our medium term position is very challenging**
- We cannot yet fully determine the longer-term impacts on our reduced revenues and increased costs. For example we anticipate there will be additional services needed to support people with mental health issues, or families in crisis, and reduced CT and BR income as businesses close and citizens become unemployed.
- No clarity on longer-term CG funding can be expected until after the CG Comprehensive Spending Revenue is completed late in 2020, and the share allocated to LG is then determined.
- If insufficient support for our continuing COVID costs emerges from this review, then the Council's financial position will become very challenging.
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10. **If sufficient CG support is forthcoming, we will be able to play a full part in the recovery of the City from the pandemic**
- We are keen to play a full role in the recovery of the City from the pandemic. Receipt of sufficient CG funding will enable the City Council to direct these funds to the places which will be the most benefit citizens and regrow the local economy, jobs and prosperity.
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11. **We are taking various actions to control our budget and our longer-term financial position**
- Monitoring and controlling the immediate financial impacts of the crisis
 - Reviewing the delivery of the Council's current agreed savings programme to minimise the delays to implementation caused by COVID
 - Reviewing emerging non COVID-related financial pressures to reduce or eliminate them where possible
 - Learning lessons from the ways of working adopted during the pandemic, including actions that can be taken jointly with other key partners such as Sheffield CCG and Sheffield City Trust, to identify improvements that maintain service levels to the public whilst potentially reducing costs.
 - Re-working the Council's Medium Term Financial Analysis, including identifying any reserves that can be temporarily released to support the financial position.
 - Lobbying Central Government for further support to recognise the short and longer term impacts of the pandemic, and the role the Council can play in

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| | regenerating the economy. |
| 12. The crisis also impacts on the Council's Housing Revenue Account | In addition to General Fund impacts, income received from Housing Rents is expected to fall by around £4.5m in 2020/21. There will however be around £3m of short-term savings in materials costs as repairs have been delayed. However over the medium term, these delayed repairs are estimated to cost between £8m and £12m to resolve. |
| 13. Capital spending will have been delayed by the crisis | Various capital projects have been delayed by the crisis, and a number of schemes will have to be re-assessed for their viability. |
| 14. The Council will need to re-assess its priorities for its revenue and capital spending | In response to the pandemic, and to aid recovery, the Council will need to re-assess its strategic priorities to ensure that it invests its revenue and capital resources to the areas that are most appropriate. |

Conclusions

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| 15. It is recommended that OSMC | <ol style="list-style-type: none"> 1. Note the additional pressures caused by the COVID crisis, and 2. Note that the Council's current level of reserves provides time for action to be taken strategically in response to the COVID crisis and the more general financial position, but that actions will be needed, on current projections, to maintain financial stability in the medium term. These actions will include further co-operation with other key stakeholders, in particular the NHS. |
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