

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	20th July 2021	EXECUTIVE FORWARD PLAN REFERENCE:
		E 3305
TITLE:	Revenue and Capital Budget Monitoring, Cash Limits and Virements – April 2021 to June 2021	
WARD:	All	

AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1 – Revenue Monitoring Commentary

Appendix 2 – Key Scheme Capital Monitoring Commentary

Appendix 3 (i) & 3 (ii) – Proposed Revenue Virements & Revised Revenue Cash Limits 2021/22

Appendix 4 (i) & 4 (ii) – Capital Virements & Capital Programme by Portfolio 2021/22

EXECUTIVE SUMMARY

a) Revenue budget

The Revenue budget outturn is currently forecast to be £1.9m over budget. This includes the use of £2m Covid contingency funding to fund the on-going financial pressures resulting from the pandemic.

Significant projected income losses in Heritage Services are behind the £1.9m forecast over budget position. Many services across the Council are also suffering continued income losses, although the government's sales, fees and charges compensation scheme, which runs until the end of June, is helping mitigate some of the impact to the bottom line.

Furthermore, B&NES were allocated £4.1m of additional unringfenced Covid grant funding in the 2021/22 Local Government Finance Settlement. This together with a £0.9m transfer from unearmarked reserves agreed as part of the 2021/22 Budget report created a £5m Covid contingency reserve for 2021/22. Unringfenced Covid grant funding of £0.6m has been carried forward from 2020/21, giving a revised balance on the Covid contingency reserve of £5.6m to help mitigate the on-going and new Covid-19 expenditure pressures.

In addition, there is an in-year SEND placement pressure of £6.3m on the Dedicated Schools Grant (DSG). Mitigation plans are being worked up which includes identifying uncommitted balances within the DSG.

Savings of £8.5m were included in the 2021/22 budget. At present all savings are expected to be delivered, although these will be monitored closely through the year and management action plans identified should delivery of any become at risk.

b) Capital budget

The current position of the 2021/22 Capital Programme is a forecast of £78.5m against a budget of £83.7m. The variance of £5.2m reflects anticipated rephasing requests into future years, mainly from the large Economic Development Project for Bath Western Riverside.

c) Council Tax and Business Rates

There has been a gradual reduction in the cost of the Local Council Tax Support Scheme over the first quarter, in line with a fall in working age claimants, with the cost at the end of June £10.36m. This is currently £0.61m below the budget estimate which would lead to a Council Tax Collection Fund surplus if the position remained at this level at year end.

The government announced that it will continue to provide eligible retail, hospitality and leisure properties in England with business rates relief during 2021/22. As at the end of June, relief of £17.8m had been granted under this scheme. The loss of income will be compensated by government grant.

Empty property relief following business closures has increased from £4.2m to £4.9m in the first quarter of the year. This is £0.4m below the £5.3m allowance for empty property relief included when setting the business rate income forecast for 2021/22.

d) Council Reserves

The current outturn forecast includes the use of £2m from the Council's Covid contingency reserve to fund ongoing pressures resulting from the pandemic.

1 THE ISSUE

- 1.1 This report presents the financial monitoring information for the Authority as a whole for the financial year 2021/22, using information available as at the end of June 2021.

2 RECOMMENDATION

The Cabinet is asked:

- 2.1 To note the 2021/22 revenue budget position (as at the end of June 2021).
- 2.2 To note the revenue virements listed for information only in Appendix 3(i).
- 2.3 To note the capital year-end forecast detailed in paragraph 3.21 of this report;
- 2.4 To note the changes in the capital programme including capital schemes that have been agreed for full approval under delegation listed in Appendix 4(i).

3 THE REPORT

3.1 The Budget Management Scheme requires that the Cabinet consider the revenue and capital monitoring position four times per year.

REVENUE BUDGET

3.2 Service Directors have been asked to outline the actual expected outturn for the year and the reasons to date for over / under budget forecasts. For revenue budgets which are forecast to be over budget, the Directors are expected to seek compensating savings to try and bring budgets back to balance.

3.3 A summary by Portfolio of the revenue position as at the end of the first quarter is shown in the table below:

Portfolio	Revised Budget £'m	Year End Forecast £'m	Variance Over / (Under) £'m
Economic Development and Resources	10.58	14.01	3.43
Climate and Sustainable Travel	1.23	1.30	0.07
Adults and Council House Building	63.51	63.38	(0.13)
Children & Young People, Communities & Culture	31.78	32.01	0.23
Neighbourhood Services	24.14	24.49	0.35
Transport Services	(3.22)	(3.92)	(0.70)
Planning	2.07	2.71	0.64
Forecast Outturn Variance	130.08	133.98	3.90
Use of Covid Contingency Reserve			(2.00)
Quarter 1 Forecast Outturn Position			1.90

Note1: Some of the figures in this table are affected by rounding.

3.4 The current **year-end** forecast is £1.90m over budget position. The forecast includes the projected use of £2m from the Covid Contingency Reserve to mitigate in year pressures.

Portfolio Commentary

3.5 Key variances and associated actions by Portfolio are as follows, a more detailed breakdown can be found in Appendix 1:

Economic Development and Resources (£3.43m over budget)

The on-going pandemic and capacity restrictions are still limiting revenue generation in Heritage Services. When the 21/22 budget was prepared a January to May lockdown was not anticipated and with the Roman Baths, Fashion Museum and Victoria Art Gallery closed for Easter and the first May Bank Holiday, the adverse outturn position is currently forecast at £1.90m. Income from the Thermae Bath profit share is also forecast to be impacted by £0.30m, while the IT service continues to be under pressure from remote working arrangements and is reporting a £0.20m pressure. The Preparing for the Future programme continues to develop new approach to ways of working and how we use our Corporate Estate, but currently there is a £0.67m pressure from unachieved income targets and unbudgeted costs associated with the Bath Community Academy site at Culverhay.

Climate and Sustainable Travel (£0.07m over budget)

A £0.1m staffing pressure in the Transport Planning, Policy and Sustainable Transport relating to the increased volumes of work relating to the Joint Local Transport Plan is offset by a minor underspend on staffing in the Environmental Monitoring service.

Adults and Council House Building (£0.13m under budget)

The current forecast position for Adult Social Care is a balanced position. This reflects the reduced number of package placements seen during 2020/21 which has continued into 2021/22 and allows for the impact of the expected demand in the second half of this year when current health funding arrangements for Hospital discharges end. Future demand on Adult Social Care is expected to return to previously seen levels once we are through this pandemic period, with a risk of additional demand being seen when these levels return, in both package numbers and complexity of social care cases.

The level of future demand is still undetermined but is expected to cause pressure on existing budgets. To balance this, work is continuing on the delivery of the service plans so this demand can be met.

Housing are forecasting a £0.13m favourable budget position and is a result of staffing underspends.

Children and Young People, Communities and Culture (£0.23m over budget)

The Children and Young People segment of this Portfolio is over budget by £0.07m, this includes £0.39m of Covid related expenditure.

This position includes a £0.09m over budget position in the Education Psychology service. This is due to temporary staffing costs that should reduce for 22/23.

Other pressures spread across the Children's Education service area total £0.12m. This is offset by savings of £0.07m in the Children's Commissioned Service, which is due to ongoing (but temporary) alternative funding sources for 21/22, and £0.06m savings in the Children and Young People cashlimit. This saving is due to the successful procurement of an alternative more suitable lower cost package, for an ongoing exceptionally expensive complex placement.

Reduced income for Events due to social restrictions, partly mitigated by the government's sales, fees and charges scheme, are forecast to add a further £0.07m pressure to the portfolio, while savings in Customer Services are currently forecast at risk but plans to mitigate are in development.

Schools DSG (£6.27m over budget, plus an overspend of £5.42m carried forward from 2020-21)

The DSG has a forecast overspend of £6.27m in 20/21 made up of significant pressures on SEND. The SEND pressures are estimated based on current pupils identified with Education, Health and Care (EHC) Plans of £6.8m however mitigating actions have identified £0.5m of savings.

Further work on opening the provision of local SEND places at schools in the area will help reduce the pressure and extensive analysis of the specific cost pressures is being conducted to look to reduce the overspend.

Any overspend on the DSG is currently ringfenced to the grant allocation and the Department for Education (DFE) have issued guidance to restrict the supporting of the pressures from council revenue funding. Further guidance is expected to be released regarding this by the DFE and DCLG shortly.

A recovery plan is being developed to be shared with the DFE and the Schools Forum, so that the overspend can be recovered over an extended period of several years.

Neighbourhood Services (£0.35m over budget)

Further financial support to our leisure operator is causing a £0.20m pressure in the Leisure service, whilst increased staffing, vehicle and tonnage costs, combined with reduced income from trade waste continue to cause the Waste service an on-going budget pressure of £0.19m.

Transport Services (£0.70m under budget)

Parking was allocated £3.5m growth in the 21/22 budget to mitigate the continued expected income losses resulting from the on-going pandemic. When considering sales, fees and charges compensation grant, parking income in April and May has been higher than expected when setting the 21/22 budget. Consequently, forecasts for the remainder of the year are also more optimistic, resulting in a favourable forecast of £0.70m. The forecast is only based on two months of data and therefore demand will be monitored closely, and further information will be provided in the quarter 2 monitoring report.

Planning (£0.64m over budget)

Planning income continues to be significantly impacted by the pandemic, with larger income generating applications remaining low compared to 2019/20 levels. After sales, fees and charges compensation grant and salaries underspends the service is forecasting a £0.37m pressure. Net licensing income is also £0.24m down against budget, whilst the absence of a casino operator is also causing a budget pressure for the portfolio.

REVENUE BALANCES, CONTINGENCY AND RESERVES

3.6 The current forecast revenue position includes planned and approved use of earmarked reserves as set out in the table below.

Key Reserves

3.7 The following table shows the balances of key reserves at the beginning of the year, planned use, and expected balance at the year-end based on current forecast:

	Balance as at 01/04/2021 £'m	2020/21 O/T Report Proposed Transfers £'m	Projected Use / Commitments £'m	Estimated Balance 31/03/2021 £'m
Revenue Budget Contingency	2.94	0.10	(0.54)	2.50
Financial Planning and Smoothing Reserve	3.06	4.61	(0.67)	7.00
Transformation Investment Reserve	1.93	0.70	(0.63)	2.00
Covid Contingency Reserve (Govt grant)	5.62	0.00	5.62	0.00
Restructuring & Severance Reserve	2.18	0.00	0.00	2.18

Reserves and Flexible Capital Receipts

3.8 Flexible Capital Receipts are being utilised for revenue spend that results in ongoing revenue savings. A five-year estimated use of £11.5m was agreed as part of budget setting in February 2021, this has now been updated to reflect the re-profiled requirement and re-phasing into 2021/22 as follows:

	Actual Usage 2017/18 £'m	Actual Usage 2018/19 £'m	Actual Usage 2019/20 £'m	Actual Usage 2020/21 £'m	Est Usage 2021/22 £'m	Est Total Usage £'m
Flexible Capital Receipts	3.12	3.45	1.26	0.10	3.57	11.50

3.9 Unapplied capital receipts of £2.871m was carried forward from 2020/21 and £0.308m has been received in 2021/22 so far with a further £5.1m budgeted for receipt in 2021/22.

General Fund Un-Earmarked Reserve

3.10 The General Fund Un-Earmarked Reserve is retained to meet the Council's key financial risks. The risk assessment has set a range of between £11.6m and £12.8m to meet those risks in the 2021/22 financial year. The reserve has a current uncommitted balance of £12.6m in line with the level reported in the 2021/22 Budget Report.

3.11 There is a further commitment of £3m in 2022/23 to support the revenue budget, this will leave a 2022/23 reserve balance of £9.6m that is within Council benchmark levels for unearmarked reserves as a percentage of net budget. (benchmarked against South West Unitary Authorities).

SAVINGS PERFORMANCE

- 3.12 The 2021/22 revenue budget approved savings of £8.5m. It is too early to assess the delivery of all agreed proposals. However, these will be monitored over the coming weeks and will be reported in more detail in the quarter 2 monitoring report.
- 3.13 The Council's financial position, along with its financial management arrangements and controls, are fundamental in continuing to plan and provide services in a managed way, particularly in light of the medium-term financial challenge. Close monitoring of the financial situation provides information on new risks and pressures in service areas, and appropriate management actions are then identified and agreed to manage and mitigate those risks.

Revenue Budget Virements

- 3.14 Any revenue budget virements which require Cabinet approval are listed in Appendix 3(i). Technical budget adjustments are also shown in Appendix 3(i) for information purposes, as required by the Budget Management Scheme. Appendix 3(ii) details the reallocation of cashlimits to the new Cabinet Portfolio structure as agreed at the Council Meeting on 4th May 2021.

COUNCIL TAX, COUNCIL TAX SUPPORT AND BUSINESS RATES

- 3.15 The Council saw a large increase in the number of people claiming Local Council Tax Support (LCTS) as result of the economic impact of the pandemic during 2020/21. The 2021/22 tax base allowed for an increase of 5% on the number of working age recipients as at the end of November 2020 with budgeted costs of LCTS set at £10.97m. The cost at the beginning of April was £10.69m and there has been a gradual reduction over the first quarter, in line with a fall in working age claimants, with the cost at the end of June £10.36m. This is currently £0.61m below the budget estimate which would lead to a Council Tax Collection Fund surplus if the position remained at this level at year end. The number of working age claimants at the end of June was 6,489 compared to the budget assumption of 6,915. The reduction is due to claimants ceasing to be entitled to LCTS, for example where they have returned to employment.
- 3.16 The actual outturn position on LCTSS and the impact on the Council Tax collection fund will depend on a number of variables, including the change in number of claimants and the period claimants remain eligible for support whilst seeking employment and this will continue to be monitored closely during the year. Further increases in claimants may feed through as the government furlough support scheme is reduced during July to September, with the scheme due to end on the 30th September 2021.

Business Rates

- 3.17 The government announced, as part of the Chancellor's Budget Statement in early March 2021, that it will continue to provide eligible retail, hospitality and leisure properties in England with 100% business rates relief from 1 April 2021 to 30 June 2021. This will be followed by 66% business rates relief for the period from 1 July 2021 to 31 March 2022, capped at £2 million per business for

properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties.

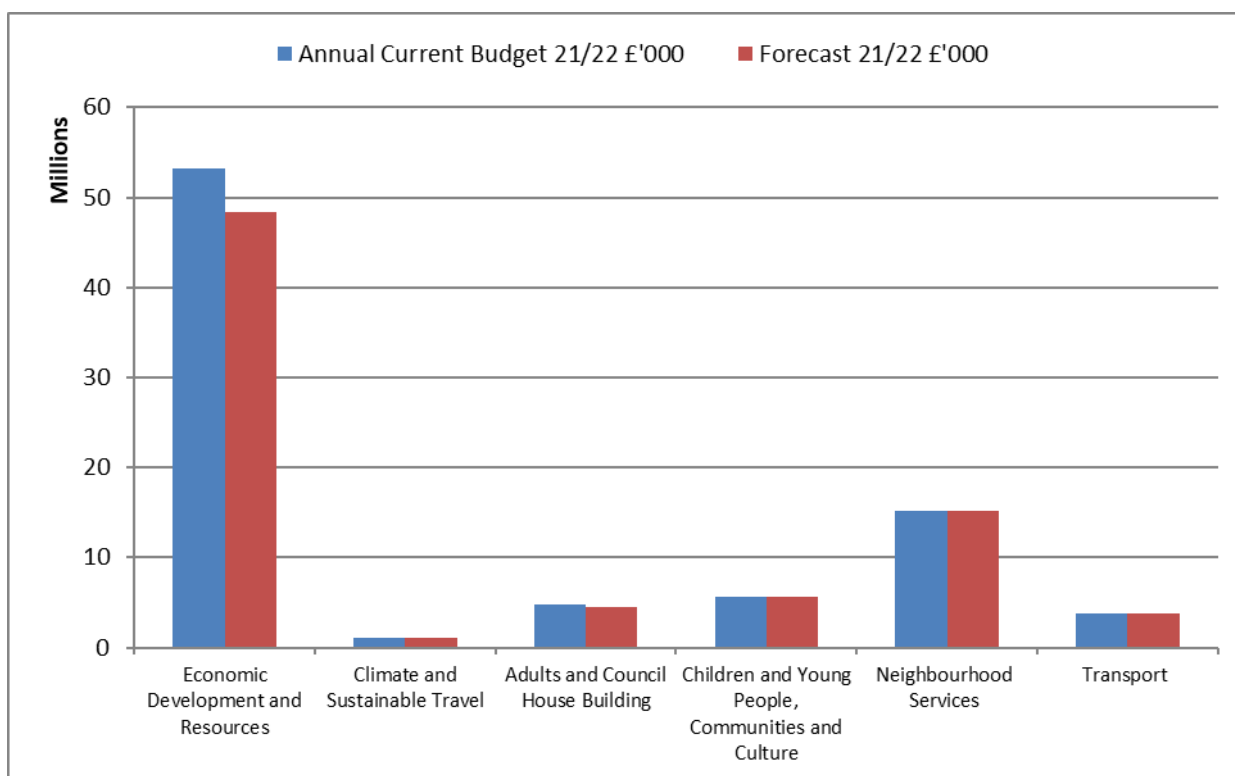
- 3.18 The Council will be recompensed for the reduction in business rate income arising from this relief via a s31 compensation grant. The announcement was made after the 2021/22 budget for business rate income was set, so the award of the relief will create a collection fund deficit which will be offset by the s31 compensation grant income received into the Council's revenue account. As at the end of June retail relief of £17.8m had been granted.
- 3.19 Empty property relief following business closures has increased from £4.2m to £4.9m in the first quarter of the year, but currently remains below the £5.3m allowance included when setting the business rate income forecast for 2021/22. The forecast overall impact on the business rates collection fund position will be reviewed during the second quarter and the position in relation to reliefs will be closely monitored.
- 3.20 As set out in the Budget Report, any surplus or deficit on the Business Rate Collection Fund and associated income will be transferred to or from the Business Rates Reserve for consideration as part of the Business Rates calculations for future years and this position will be reflected in the 2022/23 budget. The balance on the Business Rate Reserve as at 1st April 2021 was £3.684m, this includes the £2.8m transfer from the reserve approved in the 2021/22 budget report.

CAPITAL BUDGET

- 3.21 The current position of the 2021/22 Capital Programme is a forecast of £78.5m against a budget of £83.7m. The variance of £5.2m mainly reflects the large Economic Development Project for Bath Western Riverside. The following table show a summary of the current position by Cabinet Portfolio. The full breakdown of the Capital Programme by Portfolio can be found in Appendix 4(ii) with key scheme commentary in Appendix 2. Appendix 4(ii) sets out budget changes actioned since the February Budget setting and also illustrates the rephasing from 2020/21 reported for approval in the Revenue & Capital Outturn 2020/21 report, which is also on this meeting's agenda.

Portfolio Summary Monitor	Annual Current Budget 2021/22 £'000	Forecast 2021/22 £'000	In-Year Variance 2021/22 £'000	Forecast Re-phasing to 2022/23 £'000	Other Variance 2021/22 £'000
Economic Development and Resources	53,264	48,335	4,929	4,929	0
Climate and Sustainable Travel	1,017	1,017	0	0	0
Adults and Council House Building	4,784	4,484	300	300	0
Children and Young People, Communities and Culture	5,679	5,679	0	0	0
Neighbourhood Services	15,216	15,216	0	0	0
Transport	3,760	3,760	0		0
Grand Total	83,720	78,491	5,229	5,229	0

The graph below illustrates the value and forecast against budget for all in year capital budgets by Cabinet Portfolio:



Capital Commentary

3.22 The key in year variances on the programme by portfolio include:

- **Economic Development and Resources**- £4.9m for Bath Western Riverside scheme where phasing needs to be aligned with Homes England Grant.
- **Adults and Council House Building** – Pemberley Place affordable housing scheme delayed due to the pandemic, grant funding of £300k now expected to be re-phased into 22/23.

RISKS

The key risks to the budget were outlined in the Councils 2021/22 Budget Report, in compliance with the Council's decision-making risk management guidance. These have been reviewed with the additional risks added below, including risks that specifically relate to the Covid-19 pandemic:

Risk	Likelihood	Impact	Risk Management Update
Continued government restrictions in the event of new variants impacting vaccine success	Possible	High	This is certainly a material risk, whilst not one the Council has direct control over, every step is being put in place to follow government guidance following the recommendations of our Director of Public Health.
Operational budget pressures due to latent demand and backlog	Possible	High	There is the risk of built up demand on Council services and backlog because of operational activity being diverted to managing the Covid pandemic. This may result in one-off cost pressures to clear the

			backlog.
Long term impacts on the Councils Commercial Estate over and above anticipated levels.	Possible	High	Current modelling has been prudent anticipating a material impact in 2021/22. The roll back of the furlough programme could impact business viability and therefore risk of further voids will be monitored closely over the coming weeks and months.
The income from Heritage Services may not recover in the short term.	Possible	High	Continue to monitor income levels and impact on business plan in light of capacity restrictions. We anticipated income will not fully recover in the medium term and growth was built into the medium terms financial plan for the next three years.
Impact on Reserves	Possible	High	Without additional government grant in recognition of Covid related financial pressures there is the risk that Council reserve levels are not enough to manage in-year and future years risk.
Interest rates increase	Possible	Medium	A reserve is available for borrowing to manage market risk and long-term borrowing costs have been factored into the longer-term MTFS. The current forecast from our treasury management advisors is that borrowing rates will remain at current low levels in the medium term until economic growth prospects improve. The Council will continue to consider shorter term borrowing options alongside the PWLB.
Volatility and uncertainty around business rates	Likely	High	The impacts of Covid-19 will increase the volatility and uncertainty around business rate income. In 2021/22 this risk will be partly offset by the extension of the business rate relief scheme for Retail, Leisure and Hospitality businesses. We continue to monitor arrears, CVAs, and liquidations with a specific reserve held to manage in-year volatility.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Possible	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. An assessment is made as part of the budget process to ensure that revenue reserves are sufficient to meet these risks. The capital programme methodology looks to de-risk projects wherever possible.
Changes to Government Policy that affects future funding	Likely	High	Need to monitor and continue to highlight impact
Brexit risks	Likely	Medium	The short to medium term impacts of Brexit on the Councils supply chain may result in contractual cost pressures from customs tariffs that previously did not apply.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations.
Capital receipts in the areas identified are insufficient to meet target	Possible	Medium	There is a risk that a depressed market will impact on current values, in the short to medium term the Council should not rely on capital receipts as a key funding source.

4 STATUTORY CONSIDERATIONS

4.1 The annual medium-term financial planning process allocates resources across services with alignment of these resources towards the Council's corporate priorities. This report monitors how the Council is performing against the financial targets set in February 2021 through the Budget setting process.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The financial implications are contained within the body of the report.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.

6.2 The substance of this report is part of the Council's risk management process. The key risks in the Council's budget are assessed annually by each Strategic Director, with these risks re-assessed on a monthly basis as part of the budget monitoring process.

7 CLIMATE CHANGE

7.1 The Medium Term Financial Strategy and budget process aligns resources towards the corporate priorities and objectives set out in the Corporate Strategy, which includes tackling the climate emergency. This report monitors the Council's financial performance against those budgets, and therefore does not include any decisions that have a direct impact on Climate Change.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Strategic Directors, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

9.2 Consultation was carried out at meetings and via e-mail.

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Background papers	N/A
Please contact the report author if you need to access this report in an alternative format	