

<b>Subject:</b>	<b>Targeted Budget Management (TBM) Provisional Outturn 2020/21</b>		
<b>Date of Meeting:</b>	<b>1 July 2021</b>		
<b>Report of:</b>	<b>Acting Chief Finance Officer</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Jeff Coates</b>	<b>Tel: 29-2364</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1 PURPOSE OF REPORT AND POLICY CONTEXT:**

- 1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out the provisional outturn position (i.e. Month 12 year-end) on the council's revenue and capital budgets for the financial year 2020/21.
- 1.2 The final outturn position is subject to the annual external audit review of the council's accounts. The final position will be shown in the council's financial statements which must be signed by the Chief Finance Officer (CFO) on or before 1 August 2021 and the audited set approved by the Audit & Standards Committee by 30 September 2021.
- 1.3 As set out in the General Fund Revenue Budget 2020/21 report to Budget Council, £7.825m was provided for in the budget for reinvestment in identified cost and demand pressures across social care and £7.220m for reinvestment in other priority service areas. These sums were expected to meet identified demand-led, cost and income pressures in 2020/21. The council also set aside a risk provision of £0.750m to mitigate potential demand risks and/or any difficulties in delivering savings targets. However, since setting the budget the Coronavirus outbreak has had a severe financial impact on the city and the council for which significant financial support from government has been required. The financial position has been reported through regular financial update reports to Policy & Resources Committee throughout the year leading up to the setting of the 2021/22 budget at February Budget Council. This report provides the provisional outturn position and includes memorandum information to indicate the element of the forecast attributable to the pandemic.
- 1.4 The provisional outturn is a £9.733m underspend on the General Fund revenue budget. This includes an underspend of £0.989m on the council's share of the NHS managed Section 75 services. This is a further substantial improvement of £4.921m from Month 9 reflecting underlying improvements in income and expenditure as shown in paragraph 4.4 below.
- 1.5 As noted above, the council set aside a £0.750m risk provision to mitigate risks identified at the time of setting the budget. However, £0.575m of this was applied to meet the additional costs of the pay award, confirmed at 2.75%, and the remaining £0.175m has previously been released to support the forecast outturn position. The report also indicates that £2.909m (28%) of the substantial savings

package in 2020/21 of £10.291m was unachieved. Most of this (£2.303m) was due to pressures arising from COVID-19 for which grant support has been provided.

## **2 RECOMMENDATIONS:**

- 2.1 That the Committee note that the provisional General Fund outturn position is an underspend of £9.733m and that this represents an improvement of £4.921m compared to the projected and planned resource position at Month 9 taken into account when setting the 2021/22 budget.
- 2.2 That the Committee note the provisional outturn includes an underspend of £0.989m on the council's share of the NHS managed Section 75 services.
- 2.3 That the Committee approve General Fund carry forward requests totalling £5.321m as detailed in Appendix 5 and included in the provisional outturn.
- 2.4 That the Committee approve the proposed allocation of additional available outturn resources of £4.921m as set out in the table at paragraph 10.4.
- 2.5 That the Committee note the provisional outturn for the separate Housing Revenue Account (HRA), which is an underspend of £0.436m.
- 2.6 That the Committee note the provisional outturn position for the ring-fenced Dedicated Schools Grant, which is an underspend of £0.746m.
- 2.7 That the Committee note the provisional outturn position on the capital programme which is an underspend variance of £7.132m.
- 2.8 That the Committee approve the capital budget variations and re-profiling requested in Appendix 7.
- 2.9 That the Committee approve the creation of the Overdown rise Footpath Maintenance Reserve as set out in paragraph 9.10.
- 2.10 That the Committee delegate the allocation of the Corporate Plan Delivery Risk provision to the Chief Finance Officer following consultation with the Member Budget Review Group as set out in paragraph 10.3iv).

## **3 CONTEXT / BACKGROUND INFORMATION:**

### **Targeted Budget Management (TBM) Reporting Framework**

- 3.1 The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Policy & Resources Committee. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending through effective financial recovery planning together with more regular monitoring of high risk demand-led areas as detailed below.
- 3.2 The TBM report is normally split into the following sections:
  - i) General Fund Revenue Budget Performance
  - ii) Housing Revenue Account (HRA) Performance
  - iii) Dedicated Schools Grant (DSG) Performance
  - iv) NHS Controlled S75 Partnership Performance
  - v) Capital Investment Programme Performance
  - vi) Capital Programme Changes

- vii) Implications for the Medium Term Financial Strategy (MTFS)
- viii) Comments of the Chief Finance Officer (statutory S151 officer)

#### 4 General Fund Revenue Budget Performance (Appendix 4)

- 4.1 The General Fund includes general council services, corporately-held budgets and central support services. Corporate Budgets include centrally held provisions and budgets (e.g. insurance). Note that General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Note also that although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools).
- 4.2 The table below shows the provisional outturn for council-controlled revenue budgets within the General Fund for 2020/21. These are budgets under the direct control and management of the Executive Leadership Team. More detailed explanation of the variances can be found in Appendix 4. Please note that the 'COVID Variance' column is a memorandum-only column identifying the extent of the 'Forecast Variance' attributable to the pandemic.

Forecast Variance Month 9 £'000	Directorate	2020/21 Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	COVID Variance Month 12 £'000	Provisional Variance Month 12 %
765	Families, Children & Learning	90,371	90,449	78	1,655	0.1%
6,115	Health & Adult Social Care	62,949	66,781	3,832	7,302	6.1%
7,830	Economy, Environment & Culture	35,310	41,246	5,936	7,631	16.8%
1,541	Housing, Neighbourhoods & Communities	13,603	15,672	2,069	2,138	15.2%
1,052	Finance & Resources	21,452	22,174	722	255	3.4%
149	Strategy, Governance & Law	6,124	5,666	(458)	296	-7.5%
17,452	<b>Sub Total</b>	<b>229,809</b>	<b>241,988</b>	<b>12,179</b>	<b>19,277</b>	<b>5.3%</b>
(1,220)	Corporately-held Budgets	(46,092)	(46,607)	(515)	373	-1.1%
2,200	Corporate PPE Costs	0	1,847	1,847	1,847	0.0%
(23,244)	COVID-19 Grant	0	(23,244)	(23,244)	(23,244)	0.0%
(4,812)	<b>Total General Fund</b>	<b>183,717</b>	<b>173,984</b>	<b>(9,733)</b>	<b>(1,747)</b>	<b>-5.3%</b>
4,062	Collection Fund Deficit			5,404		
(750)	<b>Total Forecast</b>			<b>(4,329)</b>		

\* The Collection Fund deficit (variance) is shown net of government grant support of 75%.

- 4.3 The position above shows an overall improvement compared with TBM Month 9 of £4.921m. The TBM improvement arises from a mixture of improved expenditure forecasts and an improvement in the overall income forecasts offset by a reduction in Sales, Fees & Charges compensation grant.
- 4.4 The Budget Update report to the July 2020 committee meeting took the TBM Month 2 forecast and looked at possible scenarios for the remainder of the

financial year. Officers' best estimate of the position was set out in the 'Moderate View' scenario which started with the TBM Month 2 forecast as the base position. The table below compares the 'Moderate View' scenario reported to committee in July with an updated position as at the end of the year (i.e. month 12).

<b>Updated Scenario (Moderate View)</b>	<b>Moderate View Forecast (July P&amp;R) (£m)</b>	<b>TBM Month 9 Forecast (£m)</b>	<b>TBM Month 12 Forecast (£m)</b>	<b>Movem'nt from July Forecast Better (-) Worse (+) (£m)</b>	<b>Movem'nt from Month 9 Forecast Better (-) Worse (+) (£m)</b>
Base position: TBM Forecast Month 2 (May)	36.003	36.003	36.003	0.000	0.000
Improvement due to speed of recovery (Income)	-5.000	-9.479	-12.198	-7.198	-2.719
Further Mitigations (i.e. cost improvements)	-3.000	-8.678	-11.638	-8.638	-2.960
Capital Programme pauses	-0.500	-0.492	-0.492	0.008	0.000
Further government COVID-19 funding	-10.000	-22.166	-21.408	-11.408	0.758
<b>Revised Outturn Forecast 2020/21</b>	<b>17.503</b>	<b>-4.812</b>	<b>-9.733</b>	<b>-27.236</b>	<b>-4.921</b>
Forecast Collection Fund Deficit 2020/21 *	10.000	4.062	5.404	-4.596	1.342
<b>Total Projected (Surplus)/Deficit 2020/21</b>	<b>27.503</b>	<b>-0.750</b>	<b>-4.329</b>	<b>-31.832</b>	<b>-3.579</b>

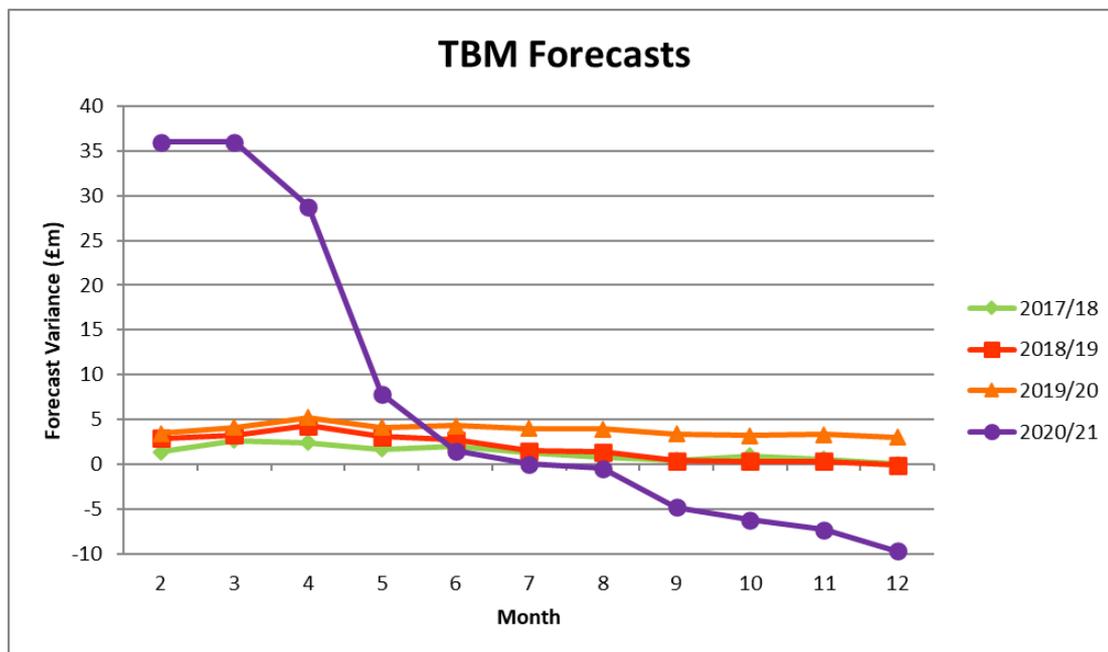
\* The Collection Fund deficit is shown net of government grant support of 75%.

This table is provided to aid understanding of movements since July 2020 when the council undertook detailed analysis of the potential financial impact scenarios arising from the pandemic. The second-to-last column shows that there have been improvements in income, costs and grant forecasts resulting primarily from the following:

- Improved income performance due to the busier than expected summer together with the Sales, Fees & Charges compensation grant of almost £15m. Later lockdowns have also not had the same depth of impact on economic activity;
- Significant additional NHS income of over £8m for discharge-to-assess care placements which is reflected in the Health & Adult Social Care forecast;
- Improved costs through effective financial management across the board including, significantly, a reduced forecast of PPE costs of £0.763m, and a reduced capital financing forecast of £0.466m due to reported delays and pauses to capital schemes which therefore reduces the Minimum Revenue Provision requirement;

- Substantial additional funding support from government for Emergency Response costs (i.e. excluding income losses) and outbreak containment which was £12.166m higher than estimated in July;
- An improved Collection Fund forecast due to a stabilisation of Council Tax Reduction claimants and a lower than expected impact on in-year collection performance together with application of the 75% government grant support for Collection Fund deficits.

4.5 The chart below shows the monthly forecast variances for 2020/21 and the previous three years for comparative purposes, however, the impact of the pandemic clearly makes comparisons difficult as this financial year has a very unusual forecast profile.



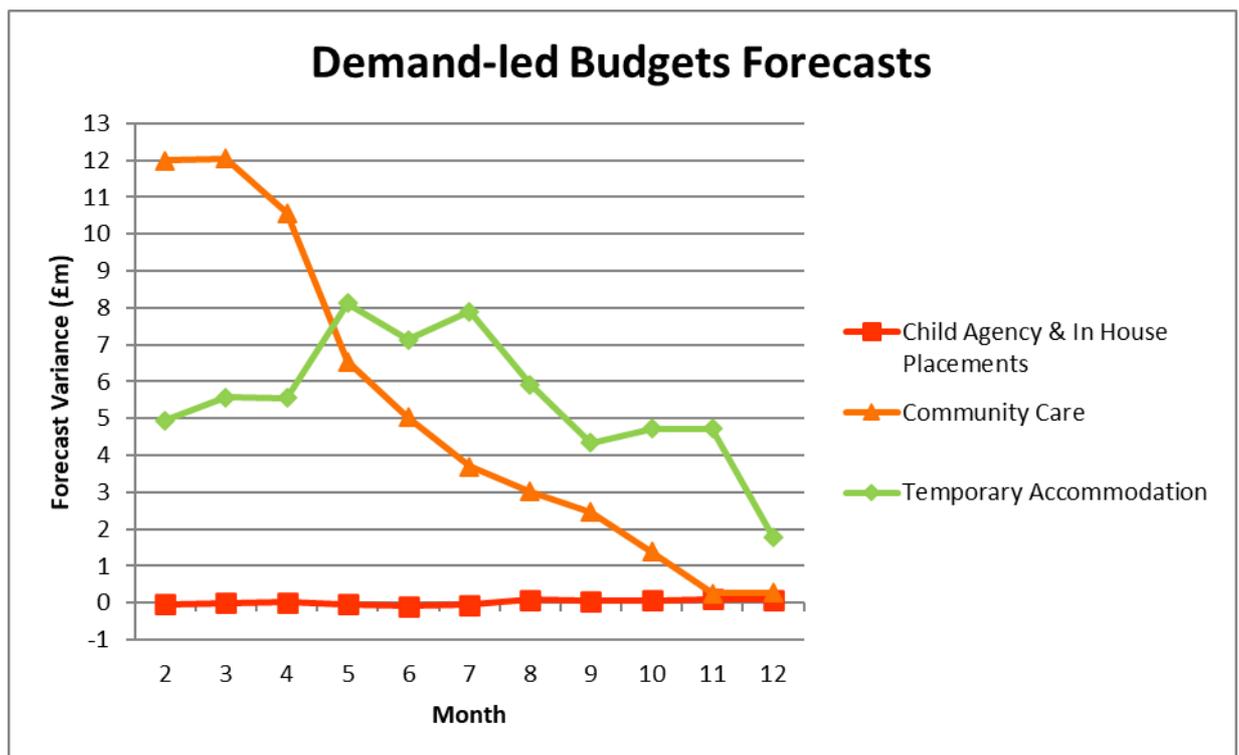
Demand-led Budgets

4.6 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council’s overall financial position. These are budgets of corporate significance where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council’s budget strategy. These can include income related budgets. These therefore undergo more frequent and detailed analysis.

Forecast Variance Month 9 £'000	2020/21 Provisional Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	COVID Variance Month 12 £'000	Provisional Variance Month 12 %
Demand-led Budget					

46	Child Agency & In House Placements	21,997	22,074	77	466	0.4%
2,467	Community Care	70,527	70,802	275	576	0.4%
4,333	Temporary Accommodation	3,352	5,131	1,779	1,703	53.1%
6,846	Total Demand-led Budget	95,876	98,007	2,131	2,745	2.2%

The chart below shows the monthly forecast variances on the demand-led budgets for 2020/21.



It should be noted that the Community Care trend is not a reflection of underlying trends in activity which have remained significantly higher than budgeted. The line has fallen primarily due to substantial NHS income being received during the year in respect of hospital Discharge-to-Assess placements of which over £8m was received in total. Similarly, homelessness (Temporary Accommodation) was supported by successful MHCLG funding bids.

### **TBM Focus Areas**

The main pressures identified at outturn are across parts of Families, Children & Learning, Health & Adult Social Care, Homelessness, Transport, and Culture, Tourism & Sport. Information about these pressures and measures to mitigate them are summarised below:

- 4.7 **Children’s Services:** The outturn position showed significant cost pressures: £1.538m on Services for Children with Disabilities and £0.896m on Home to School Transport. However, this was offset by underspends on Children in Care placements of (£1.165m) together with other underspends of (£1.191m); this resulted in a final outturn of £0.078m at the year end. £1.419m of the overspend related to Covid-19 – this was a combination of loss of income, impact on savings

targets and additional expenditure given the need to mitigate health risks posed by Covid-19.

The position for the Dedicated Schools Grant is an underspend of £0.746m. There are some significant overspends in the high needs block, most significantly mainstream school's top-up funding of £0.212m and education agency placements of £0.373m. These pressures are offset by one-off changes to the apportionment of costs between education and children's social care budgets, and a significant underspend in the early years block mainly due to lower spring term free entitlement levels. It is important to note this underspend will need to be carried forward to fund the retrospective clawback of early years funding that will be applied by DfE in 2021/22.

**4.8 Adults Services:** The service has faced significant challenges in 2020/21 in mitigating the risks arising from increasing demands from client needs, supporting more people to be discharged from hospital when they are ready and maintaining a resilient local provider market. This is alongside supporting vulnerable clients during the coronavirus pandemic, delivering a significant financial recovery plan and developing integration plans through the Better Care Fund.

- Service pressure funding of £3.900m, including Better Care and Winter Pressure funding, was applied in 2020/21 and used to fund budget pressures resulting from the increased demands and complexity in the city. However, £1.550m was needed to backfill recent reductions in CCG funding contributions. Over the last two years there has been an overall £3.750m reduction in CCG funding due to pressures on local NHS budgets, however, this has all been borne by the HASC budget although CCG funding also relates to services in other directorates.
- At the end of the financial year, £2.962m of the total financial recovery plan of £4.387m was unachievable. This is predominantly due to COVID-19 impacts.
- Overall, HASC has overspent by £3.832m in 2020/21 which clearly indicates the scale of the current challenges. Actions are focused on attempting to manage demands on and costs of community care placements across Assessment Services and making the most efficient use of available funds. The majority of the overspend is a result of:
  - COVID-19 related spend £7.301m (excluding substantial PPE costs held corporately);
  - Unfunded element of cumulative CCG funding reductions of £0.400m;
  - £0.300m due to System control issues following the implementation of new software in April 2018, which have since been identified and are being addressed.
- The HASC directorate has a Modernisation Programme which aims to implement a consistent strengths-based approach across key work streams, ensuring robust pathways are in place, developing a community reablement offer and re-designing the front door service. Currently the Health & Social Care system is under considerable pressure and this is generating additional costs for the council due to:
  - Pressures on NHS budgets resulting in reduced funding contributions from the CCG;

- Significant pressures on the acute hospital resulting in increased costs to support timely discharge into residential and nursing home care;
- Ongoing transformation of GP practices and enhancement of their clinical screening and general medical services which contribute to preventative support;
- Pressures on NHS outreach and other preventative services including community nursing (known as Integrated Primary Care Teams); and
- There is also focus nationally on improving rates of hospital discharge in order to accommodate winter pressures.

The funding of all care packages is scrutinised for Value for Money, ensuring that eligible needs are met in the most cost-effective manner which will not always meet people's aspirations. Established safeguards are in place to provide assurance within this process.

**4.9 Housing Services and Temporary Accommodation:** The 2020/21 outturn position for Temporary Accommodation (TA) including the accommodation for rough sleepers and those at risk of rough sleeping in hotels as part of the 'everyone in' initiative is an overspend of £4.903m. However, use of one-off funding from the Flexible Homelessness Support Grant of £2.463m and further Housing Benefit income of £0.661m for those in hotel accommodation means that the net position is an overspend of £1.779m. Since the forecast at month 9, there have been further costs relating to those in hotels including more food costs and higher than expected costs of repairs works on TA properties. The total overspend of £4.903m relates to the following:

- Overspend of £1.139m for the continued higher volumes of temporary accommodation being required for 'business as usual' (estimated 105 households). The budget was originally set at an average of 36 units of spot purchase accommodation throughout the year, but it proved very difficult to prevent homelessness and move people on during the pandemic, hence the overspend. This is in part due to the competing pressure for available accommodation to 'move on' people accommodated due to the pandemic and is also due to the continuing local pressures. The teams have been overwhelmed by the numbers of people needing accommodation during the pandemic, all of whom require move on plans to be developed and this has resulted in longer stays in temporary accommodation as those assessments are worked through. The service has seen continued levels of overspending as in 2019/20 on other areas of TA such as income collection and repairs costs which means that £0.350m of savings have not been met.
- A further net overspend of £1.870m in relation to housing those assessed as at risk of rough sleeping as part of the response to the 'everyone in' initiative from the Government, during the pandemic. As at the end of January 2021, an additional 145 clients were housed over and above the 105 units in spot purchase at the start of the year (so 250 units of spot purchase on 31st January 2021). However, by the end of March 2021 the 250 had reduced to 198 (but still an increase on business as usual clients of an additional 93 units).
- A further cost £2.194m net of grant for the cost of hotel and university accommodation and move on costs for housing rough sleepers and those assessed as at risk of rough sleeping to 31 March 2021 as part of the 'everyone in' initiative by the Government. The underlying gross costs of £4.523m are higher than the forecast at month 9 (£4.290m) mainly due to

more hotel rooms than forecast being required in the last few months of the financial year.

- An underspend of £0.300m relating to the new investment funding for an enhanced level of service for emergency short term accommodation. This procurement of this contract has been delayed due to the pandemic.

The service is planning to move all those housed under the 'everyone in' initiative (COVID 1 and COVID 2 cohorts) into more sustainable accommodation by 30th September 2021 and details are contained in the Next Steps and Rough Sleeping Accommodation report to P&R Committee 18 March 2021. Further funding was agreed as part of the Allocation of Contain Outbreak Management Fund (COMF) report to P&R (Recovery) Sub-committee 28 April 2021.

Housing is undertaking an overarching Temporary Accommodation 'end to end' Improvement Programme with support resource from Performance and Improvement team. This work includes considering how to reduce the use and length of stay in Temporary Accommodation and be linked to improving homeless prevention and enabling move on to more sustainable accommodation. The review also includes an assessment of void turnaround processes, income collection and repairs.

- 4.10 **Environment, Economy & Culture:** The Directorate has substantial income budgets for parking, planning and venues and for the council's commercial property portfolio, all of which are dependent on visitor numbers and commercial activity. There has also been a challenging additional income target for Parking Services of £3.800m for 2020/21. These activities and services have been heavily impacted by the COVID-19 lockdown and the outturn reflects significant income shortfalls compared to budget for 2020/21 in all these areas.

The final outturn position has improved from that for Month 9 due to higher Parking PCN income, reduced costs in Parking Services, improvements to commercial waste income, lower costs for suppliers relief and improvements to Seafront Property Income in Sport & Leisure. These improvements are partially reduced by greater arrears for commercial rents resulting in greater contribution to bad debt provision.

#### **Carry Forward Requests (Appendix 5)**

- 4.11 Under the council's Financial Regulations, the S151 Chief Finance Officer<sup>1</sup> may agree the carry forward of budget of up to £0.050m per member of the Corporate Management Team (up to a maximum of £1m in total) if it is considered that this incentivises good financial management. However, due to the challenging financial situation, all requests are being presented to this committee for consideration. Similarly, carry forwards have only been proposed where there is clear evidence of a fully-funded, prior commitment that was not able to be completed or undertaken by the end of the financial year. This will normally be supported by a contractual or purchase order commitment.
- 4.12 Carry forward requests include grant funded and non-grant funded carry forwards totalling £5.321m and have been assumed in the outturn figures above. The principles outlined in paragraph 4.11 above also apply. An analysis of these is provided in Appendix 5 split into two categories as follows:

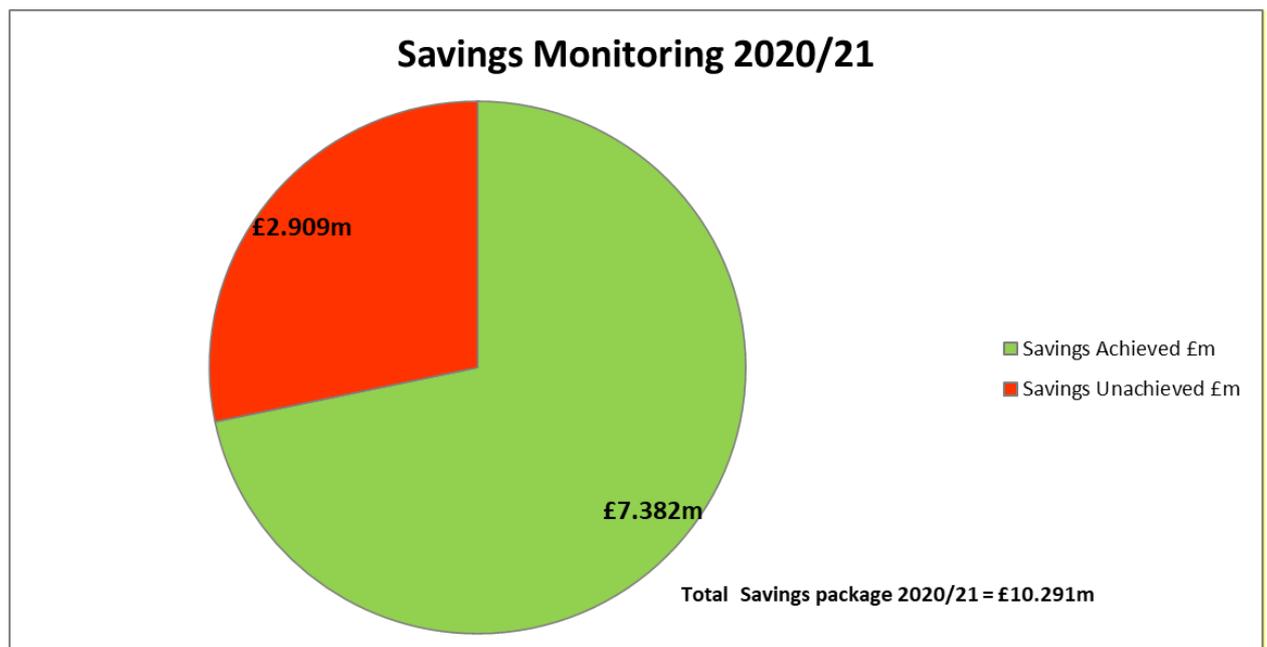
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<sup>1</sup> The term 'Director of Finance' is used in Financial Regulations and has the same meaning as the council's appointed S151 Chief Financial Officer.

- i) The non-grant funded element of carry forwards totals £2.023m. These items have been proposed where funding is in place for contractual commitments, existing projects or partnership working that cross over financial years and it is therefore a timing issue that this money has not been spent in full before the year-end.
- ii) The grant funded element of carry forwards totals £3.298m. Under current financial reporting standards, grants received by the council that are unringfenced or do not have any conditions attached are now recognised as income in the financial year in which they are received rather than in the year in which they are used to support services. Carry forward is therefore required to ensure the grants are available to fund the commitments against them next year. The total also includes a sum of £0.746m relating to the Dedicated Schools Grant. Under the Schools Finance Regulations, the unspent part of the DSG must be carried forward to support the schools budget in future years.

### Monitoring Savings

- 4.13 The savings package approved by full Council to support the revenue budget position in 2020/21 was £10.291m following directly on from a £12.236m savings package in 2019/20. This was very significant and followed 9 years of substantial packages totalling over £165m that have been necessary to enable cost and demand increases to be funded alongside managing reductions in central government grant funding.
- 4.14 Appendix 4 provides a summary of savings in each directorate and indicates in total what was achieved or unachieved. Appendix 5 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the latest position and indicates that £2.909m (28%) was not achievable. All of this was in respect of pressures relating to Covid-19.



## **5 Housing Revenue Account Performance (Appendix 4)**

- 5.1 The Housing Revenue Account is a separate ring-fenced account within the General Fund that covers income and expenditure related to the management and operation of the council's housing stock. Expenditure is generally funded by Council Tenants' rents, Housing Benefits and Universal Credit. The provisional outturn is an underspend of £0.436m and includes the setting up of a provision of £0.450m to be used for backdated harmonisation costs for transferred Repairs & Maintenance staff. More details are provided in Appendix 4.
- 5.2 The underspend on Repairs & Maintenance works has increased by £0.376m since Month 7 and therefore this sum will be set aside for repairs and maintenance catch up works in 2021/22 in accordance with the recommendations in the TBM Month 7 report, which was on the December Policy & Resources Committee agenda. The transfer of this reserve is detailed in the TBM Month 2 report also on this committee agenda.

## **6 Dedicated Schools Grant Performance (Appendix 4)**

- 6.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant which can only be used to fund expenditure on the schools budget. The schools budget includes elements for a range of services provided on an authority-wide basis including early years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The provisional outturn is an underspend of £0.746m and more details are provided in Appendix 4. Under the Schools Finance Regulations any underspend must be carried forward to support the schools budget in future years.

## **7 NHS Managed S75 Partnership Performance (Appendix 4)**

- 7.1 The NHS Trust-managed Section 75 Services represent those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Foundation Trust (SPFT) and include health and social care services for Adult Mental Health and Memory and Cognitive Support Services.
- 7.2 This partnership is subject to separate annual risk-sharing arrangements and the monitoring of financial performance is the responsibility of the respective host NHS Trust provider. Risk-sharing arrangements result in financial implications for the council where a partnership is underspent or overspent at year-end and hence the performance of the partnership is included within the provisional outturn for the Health & Adult Social Care directorate. The provisional outturn is an underspend of £0.989m and more details are provided in Appendix 4.

## **8 Capital Programme Performance and Changes**

- 8.1 The Capital programme spans more than one financial year and therefore monitoring is different to that of the revenue budget. Performance needs to be looked at from 5 different viewpoints at the end of the year as follows:
- i) Variance: The 'variance' for a scheme or project indicates whether it has broken-even, underspent or overspent. Information on how forecast overspends will be mitigated is given in Appendix 7. If the project is completed, any underspend or overspend will be an outturn variance. Generally, only explanations of significant forecast variances of £0.100m or greater are given.

- ii) **Budget Variations:** These are changes to the project budget within year, requiring members' approval, and do not change future year projections. The main reason for budget variations is where capital grant or external income changes in year.
- iii) **Slippage:** This indicates whether or not a scheme or project is on schedule. Slippage of expenditure from one year into another will generally indicate overall delays to a project although some projects can 'catch up' at a later date. Some slippage is normal due to a wide variety of factors affecting capital projects, however substantial amounts of slippage across a number of projects could result in the council losing capital resources (e.g. capital grants) or being unable to manage the cashflow or timing impact of later payments or related borrowing. Wherever possible, the council aims to keep slippage below 5% of the total capital programme.
- iv) **Reprofiling:** Reprofiling of budget from one year into another is requested by project managers when they become aware of changes or delays to implementation timetables due to unforeseeable reasons outside the council's direct control. Reprofiling requests are checked in advance by Finance to ensure there is no impact on the council's capital resources before they are recommended to Policy & Resources Committee.
- v) **IFRS changes:** These accounting adjustments are only applied at year-end and are necessary for the council to comply with International Financial Reporting Standards (IFRS) for the Statement of Accounts. This concerns the determination of items of expenditure as either capital or revenue expenditure. Only items meeting the IFRS definition of capital expenditure can be capitalised; expenditure not meeting this definition must be charged to the revenue account.

For many capital schemes there may be instances where some of the costs are of a day-to-day servicing nature and are not true capital expenditure. It would be impractical for an authority to assess every item of expenditure when it is incurred as to whether or not it has enhanced an asset. A practical solution is therefore applied instead and as part of the closure of accounts process an assessment is made by capital programme managers and Finance to determine the correct classification of capital or revenue. Where an element of the scheme is deemed to be revenue, the capital budgets are reduced by the same amount as the items that are subsequently charged to the revenue account to ensure no overall budgetary impact. These changes are designated as 'IFRS Adjustments' in Appendix 7.

8.2 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall underspend of £7.132m which is detailed in Appendix 7.

Forecast Variance Month 9 £'000	Directorate	Reported Budget Month 12 £'000	Provisional Outturn Month 12 £'000	Provisional Variance Month 12 £'000	Provisional Variance Month 12 %
0	Families, Children & Learning	11,739	11,694	(45)	-0.4%
0	Health & Adult Social Care	738	223	(515)	-69.8%

10	Economy, Environment & Culture	35,877	34,453	(1,424)	-4.0%
0	Housing, Neighbourhoods & Communities	2,164	2,013	(151)	-7.0%
(5,128)	Housing Revenue Account	42,944	38,169	(4,775)	-11.1%
(222)	Finance & Resources	3,096	2,874	(222)	-7.2%
0	Strategy, Governance & Law	747	747	0	0.0%
(5,340)	<b>Total Capital</b>	<b>97,305</b>	<b>90,173</b>	<b>(7,132)</b>	<b>-7.3%</b>

(Note: Summary may include minor rounding differences to Appendix 7)

- 8.3 Appendix 7 shows the changes to the 2020/21 capital budget. Policy & Resources Committee's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval in the Month 9 report.

<b>Summary of Capital Budget Movement</b>	<b>Reported Budget Month 12 £'000</b>
Budget approved as at Month 9	141,007
IFRS changes	(1,268)
New schemes to be approved in this report	0
Variations to budget (to be approved)	1,829
Reprofiling of budget (to be approved)	(40,487)
Slippage (to be approved)	(3,776)
<b>Total Capital</b>	<b>97,305</b>

- 8.4 Appendix 7 also details any slippage into next year. In total, project managers have forecast that £3.776m of the capital budget may slip into the next financial year and this equates to approximately 0.91% of the capital budget. The Committee will note the unusually high reprofiling requirement which is a direct consequence of the pandemic that has caused a wide range of delays due to working restrictions, supply chain issues, impacts on consultation processes and many other impacts.

## **9 Implications for the Medium Term Financial Strategy (MTFS)**

- 9.1 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to Policy & Resources Committee and full Council. This section highlights any potential implications for the current MTFS arising from in-year TBM monitoring above and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.

### **Capital Receipts Performance**

- 9.2 Capital receipts are used to support the capital investment programme. For 2020/21 a total of £7.700m capital receipts (excluding 'right to buy' sales) have

been received. Disposals during the year include the sale of Oxford Street car park and Greenways Corner cottage; overage from Shoreham Airport; the transfer of dwellings to the HRA for new homes from Gladstone Court and Graham Avenue; plus the transfer of sites at Belgrave Centre and Coldean Lane land toward the housing joint venture.

- 9.3 The Government receives a proportion of the proceeds from 'right to buy' sales with a proportion required by the council to repay debt; the remainder is retained by the council and used to fund the capital investment programme. The total net usable receipts for 'right to buy' sales in 2020/21 is £2.316m including £1.652m available for replacement homes.

#### **Collection Fund Performance**

- 9.4 The collection fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police & Crime Commissioner and East Sussex Fire Authority, whereas any forecast deficit or surplus relating to business rates is shared between the council, East Sussex Fire Authority and the government.
- 9.5 The council tax collection fund ended the year with a deficit of £6.645m, an increase of £0.743m, and the council's share of the overall deficit is £5.637m. The main contributors to the deficit are set out in the table below:

<b>Council Tax Element</b>	<b>Gain/(Loss) compared to Taxbase Estimate £m</b>	<b>BHCC Share £m</b>
Expected losses in collection relating to both the current year and the collection of arrears	(2.633)	(2.234)
Cost of increased Council Tax Reduction (CTR) awards	(1.813)	(1.538)
Ongoing increase in Severely Mentally Ill (SMI) exemptions (including backdated elements)	(0.405)	(0.344)
Shortfalls in liability in part due to less properties being added to the valuation list	(0.785)	(0.665)
Higher net awards of other discounts (includes Single Person Discounts and disregards for students and SMI claimants),	(0.495)	(0.420)
Reduction in student exemptions	0.355	0.301
Other net exemptions and disregards	(0.339)	(0.288)
Brought Forward 2019/20 Deficit	(0.530)	(0.449)
<b>Council Tax Loss compared to Taxbase Estimate</b>	<b>(6.645)</b>	<b>(5.637)</b>

- 9.6 The business rates collection fund ended the year with a net deficit of £5.364m after allowing for S31 compensation grant funding. The main reasons are the impacts from Covid-19 on reduced collection of business rates income of £3.580m and increased empty relief £1.057m. There was also a net increase to the appeals provision of £0.253m. The council's 49% share of the net deficit is £2.628m.

- 9.7 The combined collection fund deficit of £8.265m will be spread over three years and partially offset partly by government funding (at 75%) which provides for identified Covid-19 impacts on the tax base but does not cover any impacts on collection performance as the government does not want to disincentivise recovery of debt. This leaves a net Collection Fund deficit of £5.404m to be managed over the 3 years.

### **Reserves, Budget Transfers and Commitments**

- 9.8 The creation or redesignation of reserves, the approval of budget transfers (virements) of over £0.250m, and agreement to new financial commitments of corporate financial significance that are not provided for in the approved budget and policy framework require Policy & Resources Committee approval in accordance with the council's Financial Regulations and Standard Financial Procedures.
- 9.9 As normal, the council's reserves and provisions have been fully reviewed as part of the annual closure of accounts process and a schedule of the reserves is shown at Appendix 8. Current reserves and balances are considered to be appropriate to meet normal risks, commitments and liabilities, although one new reserve is proposed – see paragraph 9.10 below. Similarly, provisions identified during the closedown process are considered appropriate and reasonable and will be subject to review by the external auditor to ensure they adequately reflect identified liabilities and obligations.
- 9.10 It is proposed to establish an Overdown Rise Footpath Maintenance Reserve of £0.020m. This is required because it has been agreed with the owner of the land that the footpath will become a designated right of way and maintenance responsibility will transfer to the council. The owner has paid a sum of £0.020m for future years' maintenance and it is proposed that this be held in a reserve and drawn down as required. Committee approval for creation of the reserve is sought.

## **10 PROPOSED ALLOCATION OF ADDITIONAL RESOURCES**

- 10.1 The provisional outturn position for 2020/21 indicates that additional resources of £4.921m are available to support the council's financial position.
- 10.2 Before considering allocation of these resources, the committee is advised that the following items are currently placing pressure on the council's financial resilience and level of available reserves:
- i) **Financial Smoothing:** In setting the budget for 2021/22, Budget Council agreed to the use of Financial Smoothing (i.e. internal borrowing from reserves) in the sum of £3.971m to balance the 2021/22 budget, to be repaid over 10 years starting in 2022/23. While the final use of Financial Smoothing is significantly below earlier projections made prior to government Covid funding announcements, the use of any reserves to balance the annual budget is not a financially healthy position for any authority. Ideally, reserves should therefore be replenished at the first opportunity in order to provide mitigation against any future financial risks or shocks.
  - ii) **Collection Fund deficits spread over 3 years:** The council's Business Rate and Council Tax collection was significantly impacted by the pandemic resulting in large Collection Fund deficits. These require further one-off resources of £1.238m to be identified in both 2022/23 and 2023/24 to meet the balance of the 2020/21 Collection Fund deficit remaining after government Covid funding and following the government's announcement

that local authorities would be allowed to spread the deficit over 3 years. These sums will need to be identified from available one-off resources in 2022/23 and 2023/24 otherwise further financial smoothing (borrowing from reserves) may be required.

- iii) **Summary of all reserve calls:** Together with the Financial Smoothing above, the council has approved the use of reserves to support other initiatives on a temporary basis pending repayment. While these reserves will therefore be returned, it does mean that the level of cash-backed reserves available is suppressed until these are fully repaid. The reserves currently 'loaned' and the relevant payback periods are as follows:

Item/Reserve	Amount £m	Repayment Period	Repayments Start
Financial Smoothing of the 2021/22 General Fund Budget	3.971	10 years	2022/23
Term Time Only (TTO) back pay settlement for schools	3.300	10 years	2021/22
Surface Water Action Management Plan	0.385	10 years	2020/21
Waste PFI	0.170	4 years	2021/22
Royal Pavilion & Museums Trust Cash Facility	4.000	Up to 10 years	2021/22
Brighton Youth Centre	0.325	6 years	Est 2022/23
<b>Total Borrowed</b>	<b>12.151</b>		

- iv) **The National Joint Council (NJC) pay offer:** The employers' side of the NJC has made a pay award offer of 1.5% under the national pay bargaining mechanism. Brighton & Hove City Council, as in previous years, followed the government's Spending Review assumptions for pay which was for a pay freeze, except for those earning £24,000 or less for which provision was made in the council's budget. A 1.5% pay award (the minimum now likely) will cost £1.680m more than the current provision and will need to be addressed on a one-off basis in 2021/22 and permanently from 2022/23.

10.3 There are a small number of priority one-off costs that the committee are recommended to consider for allocation as follows:

- i) **Moulescoomb Primary School £0.317m:** The school is currently designated for transfer to Academy status in 2021/22 under a statutory order. However, the school is currently in deficit and this is continuing to grow during 2021/22. At the point of transfer the deficit is estimated to be approximately £0.301m. In addition, there are legal and pension actuary costs relating to the TUPE transfer of staff estimated at £0.016m. The committee is therefore recommended to set aside £0.317m from the General Fund underspend for the potential transfer of the school to Academy status, which would otherwise need to be funded from the Dedicated Schools Grant following consultation and agreement with the Schools Forum.
- ii) **The World Reimagined £0.160m:** The council has the opportunity to become one of 10 cities participating in this mass participation project which explores the impact of the Transatlantic Slave Trade over hundreds of years through to modern day barriers and looking into the future. This council has made a public pledge to work towards being actively anti-racist and this initiative could make a significant positive contribution to this commitment.

The project will see trails of large globe sculptures in cities across the UK in the summer of 2022, created by artists to bring to life the impact of the Transatlantic Slave Trade. The trails will be the centre of a broader education and engagement programme, with schools, community groups, sports and cultural institutions across the country. At the end of the project, The World Reimagined will auction a large number of the sculptures to raise money for people and organisations doing important work for racial justice.

It costs £0.085m to participate in The World Reimagined but, as a London-led scheme, there would need to be linked projects provided locally, estimated to cost £0.075m. Full engagement over the project content with relevant local groups will be programmed over the summer with the details of the project being relayed to and agreed at the September Tourism, Equalities, Communities & Culture (TECC) committee. The projects would take place over 2021/22 and 2022/23 and therefore the request at this stage is to ring-fence £0.160m from the available outturn resources to secure the council's commitment to this initiative.

- iii) **Services for Young People with Special Educational Needs & Disability (SEND) £0.025m:** A key third sector provider in the city has suffered a large, unexpected loss of Big Lottery Funding which will put in jeopardy a number of important services for vulnerable young people with SEND. In the interim, the provider is furloughing some staff to reduce costs while it explores other fund raising opportunities but has requested additional temporary funding support from both the City Council and East Sussex County Council to ensure continuity of services. These services contribute to many of the outcomes identified in the City Council's SEND strategy 2021 to 2026 and provide important peer support and careers advice for young people with SEND. A contribution of £0.025m is recommended.
- iv) **Corporate Plan Delivery Risk Provision £0.239m:** The council's Corporate Plan was supported by investment in priority areas in the 2021/22 revenue and capital budget. This included significant investments for carbon reduction and sustainability, including the Warmer Homes initiative, as well as a wide range of support for other priorities including housing, homelessness, tackling inequality, environmental and biodiversity improvements, seafront infrastructure, and sustainable transport initiatives.

The budget identified some additional resources to support delivery of these priorities but the ongoing impact of the pandemic through to at least July, has caused further delays to existing and planned programmes of work, including capital investment schemes, and has continued to divert staffing resources to the management of the pandemic. It is proposed that this sum be set aside to help to manage delivery risks and provide necessary short term resources to ensure advancement of projects and programmes including those relating to work already underway to address disadvantage, narrowing the attainment gap and providing safe routes and active travel to schools.

The requirement for resources is likely to fluctuate across programmes depending on current capacity and the impact of the pandemic on services, which does not fall evenly. To determine the use of this resource, it is therefore proposed to delegate allocation to the Chief Finance Officer following consultation with the Member Budget Review Group (BRG) attended by the Finance Leads of the three main groups.

- 10.4 Based on the information above and pursuing the recommended action of repaying Financial Smoothing from any outturn underspend, as set out in

paragraph 5.26 of the General Fund budget report in February 2021, the following allocation of available outturn resources is proposed:

<b>Proposed Allocations</b>	<b>Amount (£m)</b>
One-off provision for the 2021/22 Pay Award	1.680
Moulsecoomb Academy Transfer Costs	0.317
The World Reimagined	0.160
Services for Young People with SEND	0.025
Corporate Plan Delivery Risk Provision	0.239
Repayment of 2021/22 Financial Smoothing	2.500
<b>Total Proposed Allocation</b>	<b>4.921</b>

Note that repaying £2.500m financial smoothing will reduce the level of recurrent financial commitments in 2022/23 by £0.250m and is therefore preferred over holding funds for years 2 and 3 of the Collection Fund deficit.

- 10.5 In the event that the pay award is agreed at a higher level than the current (rejected) offer, the pay award provision will be increased and the amount set aside to repay Financial Smoothing will be correspondingly reduced.

## **11 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 11.1 The provisional outturn position on council controlled budgets is an underspend of £9.733m including the council's risk-share of the provisional underspend on NHS managed Section 75 services of £0.989m. This is an improvement of £4.921m compared with the projected position at month 9 providing additional resources for either repayment of reserves, or allocation to other priorities or reserves.

## **12 COMMUNITY ENGAGEMENT & CONSULTATION**

- 12.1 No specific consultation has been undertaken in relation to this report.

## **13 CONCLUSION AND COMMENTS OF THE CHIEF FINANCE OFFICER (S151 OFFICER)**

- 13.1 The overall resource position has improved by £4.921m compared with the position at Month 9 and assumed in the 2021/22 Revenue Budget report to Policy & Resources Committee and Budget Council in February 2021. This represents a good outcome for 2020/21 compared to early forecasts in the financial year before government Covid-19 funding support became clear. There remain underlying pressures across income generating areas and, in particular, homelessness and rough sleeping, which will need a smooth and orderly exit from the pandemic in order to avoid similar costs building up again in 2021/22.

## **14 FINANCIAL AND OTHER IMPLICATIONS**

Financial Implications:

- 14.1 The financial implications are covered in the main body of the report. Financial performance is kept under review on a monthly basis by the Executive Leadership Team and cross-party Budget Working Group and the management and treatment of strategic financial risks is considered by the Audit & Standards Committee.

*Finance Officer Consulted: Jeff Coates Date: 07/06/2021*

Legal Implications:

Decisions taken in relation to the budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

*Lawyer Consulted: Elizabeth Culbert Date: 21/06/21*

Equalities Implications:

- 14.2 There are no direct equalities implications arising from this report.

Sustainability Implications:

- 14.3 Although there are no direct sustainability implications arising from this report, the council's financial position is an important aspect of its ability to meet Corporate Plan and Medium Term Financial Strategy priorities. The achievement of a break-even position or better is therefore important in the context of ensuring that there are no adverse impacts on future financial years from performance in 2020/21.

Risk and Opportunity Management Implications:

- 14.4 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a recommended minimum working balance of £9.000m to mitigate these risks. The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments and which also help to manage unexpected financial shocks.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Financial Dashboard Summary
2. Revenue Budget Performance RAG Rating
3. Revenue Budget Movements since Month 9
4. Revenue Budget Performance
5. Year-end Carry Forward Requests
6. 2020/21 Savings Progress
7. Capital Programme Performance
8. Schedule of Reserves

### **Documents in Members' Rooms:**

None.

### **Background Documents**

None.

