

CABINET

Date of Meeting	Tuesday, 14 th July 2020
Report Subject	Interim Revenue Budget Monitoring Report 2020/21
Cabinet Member	Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

The report provides the first overview of the budget monitoring position for the 2020/21 financial year.

The report explains the impacts of the emergency situation and the significant additional costs and income losses incurred across portfolios.

To date there have been three significant announcements to meet the financial impacts of the emergency situation in Wales:-

- COVID19 Hardship Fund of £30m: for general costs and including provision for Homelessness (£10m) and Temporary Mortuaries (£7m) (confirmed to the end of June);
- COVID19 Hardship Fund of £40m: for Free School Meals (confirmed to the end of August); and
- COVID 19 Hardship Fund for Social Care (Adults) of £40m: for additional costs incurred by councils and by commissioned providers (confirmed to the end of June).

A proportion of the additional amount of £78m included in the May Welsh Government Supplementary Budget for local government will be set aside to compensate for income losses. However, this amount is unlikely to be sufficient to cover all twenty-two claims in full. The method of allocation for the loss of income funding is being decided by Welsh Government. Our claim estimate for the period from March to June is £3.0m. A formal announcement on income claims is expected in July with payments to be made in August.

Our ability to mitigate the financial risks from Quarter Two onwards will largely depend on the continuation of funds for hardship and income loss by Welsh Government.

The range of the financial risk for 2020/21 is £2.8m to £5.4m (excluding the outcome of the national negotiations over the annual pay award).

These figures are based on assumptions over the success of our claims to the Hardship Funds and the Income Loss Fund. Based on current advice from Welsh Government we might receive two-thirds of the amount claimed in Quarter One for income loss. If this were to be the case then we would have an additional budget pressure of £1.0m to meet.

The above figures cover the Council Fund only and do not include the future risks to Aura, Newydd, Theatr Clwyd and the principal Community Asset Transfers. This report does not cover the Housing Revenue Account.

RECOMMENDATIONS

1	To note the report and the estimated financial impact on the 2020/21 budget of the emergency situation.
2	To formally request that Welsh Government set aside sufficient funds to compensate local government in full for the significant and ongoing additional costs and income losses they have incurred.

REPORT DETAILS

1.00	EXPLAINING THE REVENUE BUDGET MONITORING 2020/21
1.01	The report provides the first overview of the budget monitoring position for the 2020/21 financial year and is one which reports by exception on variances and financial risks only. The first full monthly in-year budget monitoring report will come in September.
1.02	The Council's response to the pandemic was immediate with an internal command structure led by an Emergency Response Management Team (Gold Command) supported by a number of Silver Tactical Groups including one for Finance. The Finance Tactical Group has a key role in ensuring that all financial impacts are captured, monitored and reported, and that claims for reimbursement and compensation are made to Welsh Government.
1.03	Some examples of the emergency actions which have necessitated additional costs are:- <ul style="list-style-type: none"> • Additional financial support to commissioned adult social care providers • Enabling early discharges from hospital • Significant funding/rate relief to local businesses and residents on behalf of Central Government. • Procuring Personal Protective Equipment (PPE) • Operating school hubs for the children of key workers • Temporary accommodation for rough sleepers • Additional equipment to enable the workforce to work remotely

1.04	<p>Emergency Grant Funding – Additional Costs Only</p> <p>To date there have been three significant announcements to meet the financial impacts of the emergency situation in Wales:-</p> <ul style="list-style-type: none"> - COVID19 Hardship Fund of £30m: for general costs and including provision for Homelessness (£10m) and Temporary Mortuaries (£7m) (confirmed to the end of June); - COVID19 Hardship Fund of £40m: for Free School Meals (confirmed to the end of August); and - COVID 19 Hardship Fund for Social Care (Adults) of £40m: for additional costs incurred by councils and by commissioned providers (confirmed to the end of June). <p>Claims need to be submitted retrospectively, for actual costs incurred, on a monthly basis.</p>																														
1.05	<p>Claim History – Additional Costs</p> <p>The table below sets out the latest position on the three claims submitted to date:</p> <table border="1" data-bbox="389 824 1337 1211"> <thead> <tr> <th>Month</th> <th>Claim Value (£m)</th> <th>Funding Received (£m)</th> <th>On Hold (£m)</th> <th>Disallowed (£m)</th> <th>ICT at 50% (£m)</th> </tr> </thead> <tbody> <tr> <td>March</td> <td>0.007</td> <td>0.007</td> <td></td> <td></td> <td></td> </tr> <tr> <td>April</td> <td>0.909</td> <td>0.860</td> <td></td> <td>0.042</td> <td>0.007</td> </tr> <tr> <td>May</td> <td>0.896</td> <td>0.522</td> <td>0.211</td> <td>0.163</td> <td></td> </tr> <tr> <td>Totals</td> <td>1.812</td> <td>1.389</td> <td>0.211</td> <td>0.205</td> <td>0.007</td> </tr> </tbody> </table> <p>Further information will be provided to Welsh Government to challenge the decisions to treat certain parts of the claims as ‘on hold’ or ‘disallowed’.</p> <p>The claim for additional costs incurred in June is to be submitted by 15 July. This is estimated to be in the region of £1.750m.</p>	Month	Claim Value (£m)	Funding Received (£m)	On Hold (£m)	Disallowed (£m)	ICT at 50% (£m)	March	0.007	0.007				April	0.909	0.860		0.042	0.007	May	0.896	0.522	0.211	0.163		Totals	1.812	1.389	0.211	0.205	0.007
Month	Claim Value (£m)	Funding Received (£m)	On Hold (£m)	Disallowed (£m)	ICT at 50% (£m)																										
March	0.007	0.007																													
April	0.909	0.860		0.042	0.007																										
May	0.896	0.522	0.211	0.163																											
Totals	1.812	1.389	0.211	0.205	0.007																										
1.06	<p>Emergency Grant Funding – Income Loss</p> <p>A proportion of the additional amount of £78m included in the Welsh Government Supplementary Budget for local government will be set aside to compensate for income losses. However, this amount is unlikely to be sufficient to cover all twenty-two claims in full. The method of allocation for the loss of income funding is being decided by Welsh Government. Our claim estimate for the period from March to June is £3.0m. A formal announcement is expected in July on grant awards with payments to be made in August.</p>																														
1.07	<p>With the exception of the Free School Meals funding (end August) all other emergency grants are now confirmed to the end of June. The Social Care Hardship Fund was not fully allocated by the original deadline of May and has now been extended for claims until the end of June. Welsh Government is expected to increase the size of this Hardship Fund to sustain the social care sector. Welsh Government is being pressed to extend these funds. The Welsh Local Government Association (WLGA)</p>																														

	<p>are running a survey to collate the estimated additional costs and income losses for Quarter Two of the financial year to inform the discussions and negotiations with Welsh Government for the continuation of special funding support.</p>
1.08	<p>Welsh Government is expected to receive estimated allocations of £30m and £140m from the UK Government as a consequence of new funding allocations announced for local government in England over the past two weeks (allocations made under the Barnett Formula). These allocations and amounts are working assumptions and subject to confirmation. This additional funding would place Welsh Government in a strong position to continue to financially support local government for an extended period and to a higher level.</p>
1.09	<p>OVERVIEW OF THE IN-YEAR BUDGET POSITION</p> <p>The following paragraphs set out the significant variances and financial risks by portfolio.</p>
1.10	<p>Social Services (Up to £0.200m)</p> <p>We aim to recover all additional costs incurred to date. There is an ongoing cost pressure of £0.200m for Ty'r Treffynnon, a former residential home in Holywell that has been re-opened under our management for faster hospital discharges and the prevention of hospital admissions.</p> <p>There will be a need to continue with enhanced financial support for our local commissioned providers. Unless Welsh Government funding is extended this will be a financial risk to the Council.</p>
1.11	<p>Education and Youth (Range of £0.350m to £0.450m)</p> <p>Uncharged school meals have been provided to pupils for the final three weeks of the academic year at a cost of up to £0.120m. We aim to recoup this cost from the Hardship Fund. Eligibility has not yet been confirmed.</p> <p>We aim to recoup the cost of providing uncharged meals to school hubs (from late March to the end of June) of £0.180m. Eligibility has not yet been confirmed.</p> <p>There has been a significant increase in take up for free school meal eligibility with an in-year cost pressure of £0.050m - £0.150m.</p>
1.12	<p>Streetscene & Transportation (Range of £1.557m to £2.507m)</p> <p>Significant additional costs have been incurred for agency staff, fleet and external contractors to introduce essential changes to service provision. We aim to recoup all additional costs from the Hardship Fund for the first quarter. The estimated costs for the remainder of the year range from £0.700m - £1.250m and is a financial risk unless further funding is made available by Welsh Government.</p>

	<p>Charging for public car parking has been suspended and we aim to recoup the shortfall in income for the first quarter from the income loss fund. Even if car park charges were to be re-instated from September there is the risk of an annual income loss in the region of £0.550m - £0.650m without further reimbursement from Welsh Government from Quarter 2.</p> <p>Trunk Road Agency support services income losses of £0.050m per month are being incurred due to the reallocation of Streetscene operatives away from this support. The total income loss for the Council could be in the region of £0.150m - £0.450m depending on the length of the delay before returning to service resumption and income generation.</p> <p>Other additional in-year pressures have also been identified in School Transport (£0.050m), Social Services Transport (£0.063m) and Children's Services Transport (£0.044m) all of which are demand driven.</p>
1.13	<p>Planning & Environment (Range of £0.540m to £0.772m)</p> <p>Delays in sourcing core materials means that the construction industry is operating at a low level of capacity. This is resulting in a projected Building Control fee income loss of £0.260m in the financial year. We aim to recoup the first quarter loss of £0.065m from the income loss fund. There is a financial risk in the range £0.145m - £0.195m for the remainder of the year unless there is extended Welsh Government support for income loss.</p> <p>There has been a lull in the property market and a reduced need for Land Charge searches. An estimated reduction of 60% on fees and charges would result in a shortfall of £0.120m for the financial year. We aim to recoup the first quarter loss of £0.030m from the income loss fund leaving a financial risk of £0.050m - £0.090m for the remainder of the year unless there is extended Welsh Government support for income loss.</p> <p>Planning Fee income is forecast to reduce by £0.340m for the financial year. We aim to recoup the first quarter losses of £0.085m from the income loss fund leaving a financial risk of £0.190m - £0.255m for the remainder of the year unless there is extended Welsh Government support for income loss.</p> <p>Income reductions in Markets and Minerals & Waste are estimated to be £0.304m for the financial year. We aim to recoup £0.068m from the income loss fund leaving a financial risk of £0.155m - £0.232m for the remainder of the year unless there is extended Welsh Government support for income loss.</p>
1.14	<p>Housing & Assets (Range of £0.428m to £1.232m)</p> <p>There has been a significant impact on income levels for Enterprise Centres and Industrial Units (range of £0.050m-£0.200m), Agricultural Estates (range of £0.050m-£0.125m) and Property Holdings (range of £0.100m - £0.175m). All rental income that has been deferred in quarter one to assist local businesses has been included in the income loss return to Welsh Government.</p> <p>There is a potential cost pressure within the Carelink Service, in the range of £0.100m - £0.150m, arising from grant changes for the Housing Support</p>

	<p>grant allocation. In addition, there is a risk of increased contract prices of up to £0.100m for the year.</p> <p><u>Council Tax Reduction Scheme (CTRS)</u></p> <p>There has been an increase in take up of the Council Tax Reduction Scheme (CTRS) in the first quarter of the financial year. If the trend continues additional benefits subsidy payments of between £0.800m - £1.300m could have to be met by the Council. Welsh Government is expected to allocate additional funds for CTRS in Wales for quarter one. In the short term, the workload increase has been managed using overtime and the teams have been working hard to maintain the high standards our customers expect. However, this is not sustainable, resources cannot be extended any further and the impacts on staff welfare needs to be considered.</p> <p>Since mid-June, the workloads have started to reduce which indicates that the initial impacts have levelled out. However, the position is forecast to change as the economy goes into and through its recovery phase and the Furlough Scheme undergoes a phased exit from August to October. A separate report on this agenda identifies a flexible recruitment plan that has been developed to enable resources to be stepped up and stepped down to meet service demands. The cost of the resources at full capacity would be £0.200m - £0.300m.</p> <p>Utilities and NDR Gas, Electric and Water: low building usage during the lock-down will achieve energy savings in the range of £0.150m to £0.175m. The previous Climate Levy Charge is now shown in the utility invoices as an ongoing contribution, and not as a one off payment as first thought. This change to Levy payments will have a positive benefit of £0.318m for the financial year.</p> <p>National Non-Domestic Rates (NNDR): savings of £0.225m to £0.250m for County Hall are forecast based on an estimated 50% reduction of the building 'footprint' with a further £0.229m saving in the final outturn for 2019/20 (due to the vacation and demolition of Phases 3 and 4 of the complex).</p>
1.15	<p>Corporate Services (Range of £0.145m to £0.165m savings)</p> <p>A saving of £0.145m - £0.165m is forecast based on vacancies and additional income recharges.</p>
1.16	<p>Governance (Range of £0.460m to £0.585m)</p> <p>The national lockdown restrictions have resulted in the cessation of all recovery activities including enforcement duties. Income generated totalled £0.557m in 2019/20 and we aim to claim lost income of £0.137m for the first quarter. Income levels should start to increase once enforcement restrictions are lifted. An additional resource is required to clear the backlog of cases at a cost of £0.050m.</p>

	<p>The level of financial risk will be dependent on how long enforcement restrictions are in place and an income loss range of £0.335m to £0.420m is included at this stage.</p> <p>Within the Registration Service there is an estimated loss of income for the remainder of the year of £0.125m - £0.165m. We aim to recoup £0.070m from the income loss fund for the first quarter.</p>
1.17	<p>Central & Corporate Finance (Range of £0.250m to £0.400m savings)</p> <p>In the previous financial year there was an underspend in employer pension fund contributions of £1.010m, and the budget for 2020/21 was adjusted downward by £0.800m accordingly. Based on the contributions in year to date, and the evidence of the previous year trend, a positive variance between £0.250m and £0.400m is forecast.</p>
1.18	<p>Council Tax Income</p> <p>For the first quarter, Council Tax income collection is down £1.1m on target. Enforcement activity is in progress alongside support and advice for those unable to pay in full or on time. This activity is helping recover debt with many residents co-operating in response to the letter.</p>
1.19	<p>OPEN RISKS</p> <p>Members were advised when setting the annual budget for 2020/21 that there were a number of open risks that would need to be kept under close review. An update on these is provided below.</p> <p>Pay Award</p> <p>The 2020/21 budget provides for a 2% pay award for NJC employees across the Council. National negotiations are ongoing. The latest offer made by the employers is 2.75%. If this were to be agreed and implemented it would mean that we would have to increase our budget provision for 2020/21 by a minimum of £1.0m. This would have to be met from the Contingency Reserve and built into the base budget from 2021/22 onwards.</p> <p>Charging for Post 16 Transport</p> <p>The budget for 2020/21 provided for expected additional income of £0.449m based on the introduction of charging from September. This policy decision was reversed by Cabinet in May. The developing financial solution whereby Coleg Cambria will reimburse the Council for their share of the procurement cost for school to home/college transport, in full, will partially mitigate the in-year financial risk.</p> <p>Out of County Placements</p> <p>Additional funding of £2.7m was included in the budget for 2020/21 to meet the forecast demand. The budget is considered to be sufficient for this financial year based on current and forecast demand.</p>

1.20	<p>Summary of Overall Financial Impact</p> <p>Our ability to mitigate the financial risks will largely depend on the continuation of funds for hardship and income loss by Welsh Government.</p> <p>The range of the financial risk for 2020/21 is £2.8m to £5.4m (excluding the outcome of the national negotiations on the annual pay award)</p> <p>These figures are based on assumptions over the success of our claims to the Hardship Funds and the Income Loss Fund. Based on current advice from Welsh Government we might receive two-thirds of the amount claimed in Quarter One for income loss. If this were to be the case then we would have an additional budget pressure of £1.0m.</p> <p>The above figures cover the Council Fund only and do not include the future risks to Aura, Newydd, Theatr Clwyd and the principal Community Asset Transfers. These are summarised below.</p>
1.21	<p>Alternative Delivery Models (ADM's) and Community Asset Transfers (CAT's)</p> <p>Theatr Clwyd</p> <p>Theatr Clwyd was closed in March in line with UK Government advice and has modelled a number of scenarios for the financial year. The theatre has secured support under the Furlough Scheme, accessed rate relief and made financial savings through largely being non-operational to mitigate the impact. The net impact for Quarter One is a budget pressure of £0.201m (full year estimate £0.443m). Welsh Government will receive an additional £59m from the UK Government as a consequential of the recent announcement of a national 'rescue package' for the arts, cultural and entertainment industries in the UK. As one of the top three clients funded by the Arts Council of Wales, we expect a significant additional grant for Theatr Clwyd.</p>
1.22	<p>Newydd</p> <p>Newydd have been impacted by the loss of school meal income. Some of this loss has been mitigated by the provision of a funded free school meal delivery service and by supporting the school hubs for key workers. Newydd have secured support under the Furlough Scheme. The net impact for Quarter One is a budget pressure of £0.274m (full year estimate £0.895m).</p>
1.23	<p>Other ADM's and CAT's</p> <p>The Council has funding agreements in place with Aura, Holywell Leisure and Cambrian Aquatics for the provision of services. Leisure centres have been heavily impacted by enforced closure and are likely to be one of the last businesses to be reopened following the lockdown. Government support has been secured from the Furlough Scheme, business rate relief and government grants/loans. The net impact for Quarter One is estimated to be:-</p>

	Aura - £0.301m (full year estimate £2.279m) Holywell Leisure Centre - £0.044m (full year estimate £0.303m) Cambrian Aquatics: being calculated (full year estimate £0.033m)
1.24	<u>UNEARMARKED RESERVES</u> The level of Council Fund Contingency Reserve brought forward into 2020/21 was £2.370m as detailed in the 2019/20 outturn report. This is the amount available for general purposes following the set-aside of £3.0m for a COVID-19 Emergency Fund. There will be a minimum additional requirement of £1.0m as an outcome of the national pay award negotiations.

2.00	RESOURCE IMPLICATIONS
2.01	As set out within the report.

3.00	IMPACT ASSESSMENT AND RISK MANAGEMENT
3.01	The financial impacts of the emergency as set out in the report are a combination of actual costs and losses to date, and estimates of costs and losses for the future. There is the possibility that the estimates will change over time. The budget will be monitored closely and mitigating actions taken wherever possible.

4.00	CONSULTATIONS REQUIRED/CARRIED OUT
4.01	None specific.

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Various budget records.

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Dave Ledsham Strategic Finance Manager Telephone: 01352 704503 E-mail: dave.ledsham@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	<p>Budget: a statement expressing the Council’s policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.</p> <p>Council Fund: the fund to which all the Council’s revenue expenditure is charged.</p> <p>Financial Year: the period of twelve months commencing on 1 April.</p> <p>Housing Revenue Account: the Housing Revenue Account (HRA) is a local authority account showing current income and expenditure on housing services related to its own housing stock. The account is separate from the Council Fund and trading accounts and is funded primarily from rents and government subsidy.</p> <p>Intermediate Care Fund: Funding provided by Welsh Government to encourage integrated working between local authorities, health and housing.</p> <p>Projected Outturn: projection of the expenditure to the end of the financial year, made on the basis of actual expenditure incurred to date.</p> <p>Reserves: these are balances in hand that have accumulated over previous years and are held for defined (earmarked reserves) and general (general reserves) purposes. Councils are required to regularly review the level and purpose of their reserves and to take account of the advice of the Chief Finance Officer.</p> <p>Revenue: a term used to describe the day-to-day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.</p> <p>Variance: difference between latest budget and actual income or expenditure. Can be to date if reflecting the current or most up to date position or projected, for example projected to the end of the month or financial year.</p> <p>Virement: the transfer of budget provision from one budget head to another. Virement decisions apply to both revenue and capital expenditure heads, and between expenditure and income, and may include transfers from contingency provisions. Virements may not however be approved between capital and revenue budget heads.</p>