

City Council – 5 October 2020

Report of the Portfolio Holder for Finance, Growth and the City Centre

Interim Budget 2020/21

1. Summary

- 1.1. This report sets out the proposals for the Interim Budget 2020/21 in response to the impact of Covid-19 on the City Council's in-year financial position.
- 1.2. This report is based on the 'Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24' as considered by Executive Board on 22 September 2020 which comprised plans for a balanced 2020/21 budget based on the latest monitoring information, using the release of earmarked reserves, additional in-year savings and assumed Government funding.
- 1.3. This report should be read in conjunction with the detailed contents of the associated Executive Board reports.

2. Recommendations

- 2.1. Executive Board recommends that the following be approved, the detail of which can be found in the report and minutes of the Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24 item considered by Executive Board at its meeting on 22 September 2020:
 - (1) the Interim Budget for 2020/21, including;
 - (a) the recommendations of the Strategic Director of Finance / Chief Finance Officer in respect of the robustness of the estimates made for the purpose of the budget calculations and the adequacy of reserves;
 - (b) the delegation of authority to the Strategic Director of Finance / Chief Finance Officer in consultation with the Portfolio Holder for Finance, Growth and the City Centre to finalise the revised in-year portfolio budgets;
 - (c) the delegation of authority to the Corporate Leadership Team to implement the new 2020/21 savings and efficiency proposals as appropriate;
 - (d) the continuation of spending controls within the City Council, including a vacancy freeze and the ceasing of all non-essential spend;
- 2.2. the following be noted:
 - (1) the reserves strategy approved by the Executive Board on 22 September 2020;
 - (2) the refreshed Medium Term Financial Outlook (MTFO) and draft Medium Term Financial Strategy (MTFS) as approved by the Executive Board on 22 September 2020.

- (3) a final refreshed MTFS, including a review of the Capital Programme and Capital Investment Strategy, will be brought back for consideration at the December 2020 Executive Board.

3. Reasons for recommendations

- 3.1. The City Council has been operating in a difficult financial environment, due to insufficient Government funding, for many years and as a consequence has had to make cumulative budget savings totalling **£271.4m** in the period from 2010/11 to 2019/20.
- 3.2. The Medium Term Financial Plan (MTFP) approved by City Council on 9 March 2020 set a balanced 2020/21 original budget after identifying a further **£15.6m** savings.
- 3.3. In providing critical services and support to its citizens during the Covid-19 pandemic the City Council has incurred extra costs, while the impact of lockdown and the economic slowdown has also meant significant loss of income. This leaves the original budget no longer relevant to the current circumstances.
- 3.4. Whilst the Government initially promised that it would “stand shoulder to shoulder” and fully support local government for Covid-19 the additional funding announced to date has been insufficient to cover our increased costs and lost income. This underfunding leaves a projected shortfall of **£38.6m** to be addressed by the City Council.
- 3.5. It is the statutory duty of the Strategic Director of Finance / Chief Finance Officer under section 151 of the Local Government Act 1972 to keep the budget position and financial arrangements under constant review and to ensure the City Council can continue to deliver a balanced budget.
- 3.6. This Interim Budget is an important first step in response to the challenging financial situation in which the City Council finds itself. If no remedial action is taken now the possible requirement to issue a public notice under Section 114 of the Local Government Finance Act 1988 will be greatly increased.

4. Other options considered in making recommendations

- 4.1. Throughout the Interim Budget process, a large number of cost reduction, income and reserves options have been considered. This is a complex process with many iterations and possibilities too numerous to present as discrete options. This report presents the final overall package of detailed proposals which together seek to address the in-year financial position and ensure a continued balanced 2020/21 budget.

5. Background (including outcomes of consultation)

- 5.1. The service and financial challenges brought by Covid-19 have required much earlier and exhaustive review of the City Council’s financial position than would ordinarily be required.
- 5.2. The Executive Board has to date approved three financial reports on the financial impact of Covid-19 and our forecast outturn:
- 29 June 2020 – Council Financial Position – Financial Risk Assessment
 - 21 July 2020 – 2020/21 Budget Update

- 22 September 2020 – Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24

- 5.3. All these reports outlined the significant budget shortfall caused by Covid-19 and identified the further actions required to ensure the City Council continues to balance its 2020/21 budget.
- 5.4. The local financial impact of Covid-19 has been regularly reported to Government via monthly returns to the Ministry of Housing, Communities and Local Government.

Budget Consultation

- 5.5. The Interim Budget process has been supported by an online survey carried out between July and September 2020.
- 5.6. To date **232** responses have been received with the results contained within Annex 1 of the 'Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24' report to Executive Board on 22 September 2020.
- 5.7. Appropriate action has been taken in relation to any representations made and feedback from the consultation has been taken into account in finalising the proposals within this report.

6. Interim Budget

- 6.1. The latest estimated 2020/21 impact of Covid-19 is **£78.4m**. The Government has provided non ring-fenced funding of **£23.5m** and a compensation scheme for lost income might eventually provide up to a further **£16.3m**. This leaves the projected shortfall of **£38.6m**.
- 6.2. Management action with regard to non-essential spend controls and an ongoing vacancy freeze has delivered a net **£5.8m** favourable underspend in non-Covid related services which can be used to help address the budget gap.
- 6.3. A consultation package of **£12.5m** new savings for 2020/21, including voluntary redundancies, was recommended for public consultation by the 21 July 2020 Executive Board. The Interim Budget assumes the implementation of this package.
- 6.4. Provision of **£51.0m** has been made for a number of corporate items and Group Company pressures. This includes **£38.2m** for Robin Hood Energy, **£5.0m** for potential provision for Group Company debt, **£1.0m** for additional provision for workforce costs and **£6.8m** contribution to repay the 2019/20 overspend. The **£38.2m** for Robin Hood Energy represents the total provision for expected losses under International Financial Reporting Standards (IFRS9) that has been made over the last 3 years (**£24.4m** in 2018/19, **£7.9m** in 2019/20 and a further **£5.9m** in 2020/21).
- 6.5. The size and scale of the financial challenges has necessitated the use of earmarked reserves as part of the strategy for closing the in-year budget gap. A comprehensive review has identified **£38.7m** earmarked reserves that can be permanently released and a further **£31.3m** that can be borrowed and paid back over the next 5 years.
- 6.6. Currently the use of **£1.2m** general reserve will be required to close the remaining gap. However management action will continue to take place throughout the year with the hope that the final non-Covid underspend might eventually allow the reversal of this item.

6.7. **Table 1** sets out the Interim Budget adjustments and the net change in portfolio budgets as recommended by the 22 September 2020 Executive Board.

Table 1: Revised Portfolio Budgets							
Portfolio	Initial Period 4 Net Budget £m	Interim Budget Adjustments					Revised Period 4 Net Budget £m
		Net Covid Impact £m	Non-Covid BAU Forecast £m	New Savings £m	Other / Reserves £m	Net Moves £m	
Adult Care & Local Transport	102.123	2.662	(7.688)	(1.833)		(6.859)	95.264
Children & Young People	55.269	0.077	3.396	(0.245)		3.229	58.498
Communities, Highways & Strategic Transport	8.452	4.045	(0.308)	(0.988)		2.749	11.201
Employment & Community Protection	8.805	0.140	(0.300)	(0.521)		(0.681)	8.124
Energy, Environment & Democratic Services	20.959	1.251	(1.345)	(0.598)		(0.692)	20.267
Finance, Growth & the City Centre	9.513	2.324	0.225	(1.324)		1.225	10.738
Health, HR & Equalities	(6.817)	0.288	(0.469)	(0.448)		(0.629)	(7.446)
Housing, Planning & Heritage	6.335	0.152	0.302	(0.125)		0.329	6.664
Leisure, Culture & IT	11.899	4.259	0.168	(0.562)		3.866	15.765
Regeneration, Schools & Communications	(13.902)	7.082	0.209	(0.540)		6.750	(7.152)
Portfolios	202.636	22.281	(5.811)	(7.182)		9.287	211.923
Companies / Corporate	45.424	16.305		(5.323)	50.954	49.225	107.36
Use of Earmarked Reserves					(70.022) ^A	(73.952)	(70.022)
Use of General Reserves					(1.202)	(1.202)	(1.202)
Total	248.059	38.585	(5.811)	(12.505)	(20.270)	0.000	248.059

^A Includes the use of reserves from 2018/19 to 2020/21 in relation RHE

6.8. The resetting of portfolio budgets provides clarity on how the City Council aims to maintain a balanced position for 2020/21 and will assist in the continued monitoring of financial performance against allocated budgets.

7. Finance colleague comments (including implications and value for money)

7.1. These have been considered in the 'Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24' report to Executive Board on 22 September 2020.

8. Legal and Procurement colleague comments (including risk management issues, and legal, Crime and Disorder Act and procurement implications)

8.1. These have been considered in the 'Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24' report to Executive Board on 22 September 2020.

8.2. The recommendations within this report fall within the City Council's functions under the Act, the Local Government Act 1972 and other enabling legislation.

9. Equality Impact Assessment (EIA)

9.1. Has the equality impact of the proposals in this report been assessed?

No

An EIA is not required because:
(Please explain why an EIA is not necessary)

Yes

An EIA has been carried out and was detailed in Appendix 8 of the 'Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24' report to Executive Board on 22 September 2020.

Due regard has been given to the equality implications identified in the EIA

10. List of background papers other than published works or those disclosing confidential or exempt information

10.1. Budget working papers

11. Published documents referred to in compiling this report

11.1. Previously published documents are available on the following pages:

Interim Budget 2020/21, Medium Term Financial Outlook and Draft Strategy 2021/22 to 2023/24
<https://committee.nottinghamcity.gov.uk/documents/b28790/Supplement%20Agenda%20-%20Urgent%20Item%2022nd-Sep-2020%2014.00%20Executive%20Board.pdf?T=9>

Council Financial Position – 2020/21 Budget Update, 21 July 2020 Executive Board
<https://committee.nottinghamcity.gov.uk/documents/s105034/Council%20Financial%20Position%20-%20202021%20Budget%20Update.pdf>

Council Financial Position – Financial Risk Assessment, 29 June 2020 Executive Board
<https://committee.nottinghamcity.gov.uk/documents/s104181/Council%20Financial%20Position%20-%20Financial%20Risk%20Assessment.pdf>

Medium Term Financial Plan (MTFP), 18 February 2020 Executive Board
<https://committee.nottinghamcity.gov.uk/documents/s100482/MEDIUM%20TERM%20FINANCIAL%20PLAN%20MTFP.pdf>

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