

## Manchester City Council Report for Resolution

**Report to:** Executive - 14 October 2020

**Subject:** Revenue Budget Monitoring 2020/21 and Budget Position 2021/22

**Report of:** Deputy Chief Executive and City Treasurer

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### Summary

The report outlines the projected outturn position for 2020/21, based on spend and income as at the end of August 2020 and future projections. It also provides a high level overview of the forecast budget shortfall for 2021/22 to 2024/15.

### Recommendations

The Executive is recommended:

1. To recommend to the Council the approval of the proposed budget transfer of £7.627m from 'third party payments' to 'transfer to reserves' in order to support the 2021/22 budget (See Appendix 1 page 10).
2. To note the global revenue monitoring report and a forecast outturn position of a £271k deficit, which it is anticipated will be balanced by government funding, with any surplus supporting the 2021/22 position.
3. To approve the use of budgets to be allocated, including the 2020/21 pay award, in Appendix 1, page 8
4. To approve the use of grants in addition to that already planned, as detailed in Appendix 1, page 9 and 10.
5. To approve the proposed virements in Appendix 1, page 10.
6. To approve additional COVID-19 grants in Homelessness of £2.000m, made up of £1.600m for the Next Steps Accommodation Programme grant, £100k for cold weather provision, and £300k for incentives to landlords to secure properties in the private rented sector, see paragraph 3.1.
7. To approve additional COVID-19 grants in Adult Social Care of £3.084m for Infection Control round 2, see paragraph 3.1.
8. To approve additional COVID-19 grant in Neighbourhood Services of £453k for Compliance and Enforcement, see paragraph 3.1.

9. To note the application of £0.680m for Test and Trace Support Payments to assist individuals self-isolating following the confirmation of the Government's Self Isolation Scheme; see paragraph 3.1 for further details.

**Wards Affected:** All

**Environmental Impact Assessment** - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

**Full details are in the body of the report, along with any implications for**

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences – Revenue**

The report identifies a projected deficit for 2020/21 of £271k, based on the financial implications of COVID-19, government funding confirmed to date and other identified changes, in year efficiencies and mitigations. It is anticipated this can be met through the Council's share of the tranche of emergency funding for sales, fees and charges income loss (estimated at c£6.4m).

This report focuses on 2020/21, however it is anticipated the implications of COVID-19 will have a significant impact on the Council's finances for a number of years, the current forecast gap for 2021/22 is £136m. With the likely scale of funding pressures and future resource reductions, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year. A report on the longer term position and options for mitigating the position will be presented to the November meeting of Executive.

## **Financial Consequences – Capital**

The revenue budget includes funding to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet such costs.

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### **Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- [Meeting of the Executive 29 July - Global Revenue Budget Monitoring Report to the end of May 2020](#)
- [Meeting of the Executive 29 July - Update on Covid-19 Monthly Update Report](#)
  - [COVID Sitrep Summary](#)
  - [COVID-19 Future Council Sit-rep](#)
  - [COVID-19 Sitrep Economic Recovery](#)
  - [COVID-19 Update Appendix 2](#)
  - [COVID-19 Update Appendix 3](#)
- [Resources and Governance Scrutiny Committee 21 July 2020 - Update on COVID-19 Activity](#)

## 1 Introduction

- 1.1 This report provides an overview of the Council's current financial position and the work underway to develop a balanced budget for 2020/21. It should be noted that the COVID-19 related forecasts included in this report are based on the 6th monthly return submitted to MHCLG on 2 October. The figures will continue to be refined as costs crystalise and income implications become clearer.
- 1.2 The forecast budget shortfall including COVID-19 pressures is £40.7m this financial year, after allowing for identified efficiencies, mitigations and other changes to the end of August. The forecast overall position for 2020/21 is a deficit of £271k after taking account of confirmed government funding. It is anticipated this can be mitigated through the Council's share of the sales, fees and charges emergency funding.
- 1.3 Whilst the position for the current year looks manageable through funding and mitigations this is not the case next year and beyond. After confirmed mitigations to date there remains a significant shortfall in excess of £100m a year from 2021/22. A report will be brought back to the November Executive to consider the longer term position and possible mitigations.
- 1.4 This report includes the following sections:
- Overview of COVID-19 financial implications
  - Additional Central Government funding for COVID-19 response
  - Measures taken to balance the budget in 2020/21
  - Overview of forecast Position 2020/21
  - Budget Position 2021/22 to 2024/25
  - Conclusion
  - Next Steps

## 2 Overview of COVID-19 Financial implications

- 2.1 The anticipated financial cost of COVID-19 to the Council is currently £151.6m (including £0.4m in 2019/20). For the 2020/21 element of £151.2m, £25.1m relates to additional expenditure and £126.1m to loss of income

**Table One: COVID-19 Forecast Financial Impact**

	COVID-19 Financial impact £000
2019/20 cost pressures	389
2020/21 forecast cost pressures	25,108
<b>Total forecast cost pressures</b>	<b>25,497</b>
Forecast Income Shortfalls	126,129
<b>Total</b>	<b>151,626</b>

- 2.2 The financial impact of COVID-19 during 2020/21 will fall over two budget years (2020/21 and 2021/22) due to the following factors:

- Any surplus or deficit on the Collection Fund (which covers both business rates and council tax income) is reflected in the year following that in which the income is (or is not) collected. Note the government has proposed to allow billing authorities to spread any 2020/21 deficit over 3 years to smooth the effect. Specific details are still to be confirmed.
- The Council has an airport dividend reserve which means that a significant proportion of the income (£56m) is used a year in arrears and therefore the impact on the budget is next year.
- Finally, the budget shortfall has been adjusted for bus lane and parking lane enforcement income as this impacts on the level of the reserve to fund future commitments.

2.3 This has resulted in the financial effect of COVID-19 for 2020/21 and 2021/22 being as per table two below. This also includes further financial pressures into 2021/22 from anticipated continuing income losses (council tax, business rates, dividend) and further costs from placements in areas such as Adult Social Care, Children’s and Homelessness.

**Table Two: Summary of COVID-19 Impact across 2020/21 and 2021/22 (exc funding announcements)**

	2019/20 £000	2020/21 £000	2021/22 £000
<b>COVID-19 Emergency Funding (Confirmed)</b>		<b>40,841</b>	<b>0</b>
Additional Costs (MCC only)	389	25,108	24,994
<b>Income:</b>			
<b>Loss of Income (MCC only)</b>		126,129	107,840
Adjustment for element of airport dividend not budgeted to use in year		(55,809)	(8,729)
2020/21 Council Tax and Business Rates shortfalls impact a year in arrears		(36,571)	36,571
Bus Lane and Parking Income - impact on reserves capacity		(3,274)	0
<b>Budget impact of lost income</b>	<b>0</b>	<b>30,475</b>	<b>135,681</b>
<b>Total Costs and Net income losses</b>	<b>389</b>	<b>55,583</b>	<b>160,675</b>

*Total forecast COVID-19 cost pressures*

2.4 Dealing with the immediate impact of COVID-19 has resulted in major spending pressures, particularly in social care, but also across all other Directorates. The Council has also worked closely with community partners to ensure vulnerable residents receive essential support in these unprecedented circumstances. This includes costs arising from a number of new functions such as providing the community hub and services for shielding residents as well as sourcing and supplying personal protective equipment (PPE) for other organisations. These all form part of the Government’s expectations of local authorities in delivering the national response in individual communities. The

table below shows the 2020/21 forecast additional spend of £25.1m by directorate.

**Table Three: Forecast COVID-19 additional costs by Directorate**

Service Area	MCC Forecast Cost 2020/21 £000
Children's Services	2,226
Adult Social Care	9,379
Public Health	528
Homelessness	4,987
Corporate Core	1,907
Neighbourhoods	3,772
Growth and Development	294
Community Hub	2,309
<b>Total forecast additional costs</b>	<b>25,108</b>

*Forecast COVID-19 Income Shortfalls*

- 1.1 The total income loss is forecast at £127.192m (with a further £0.040m against the HRA in respect of voids and the increased turnaround time). The net impact on the income budget for 2020/21 (allowing for reliefs announced as part of the budget and to support businesses through COVID-19) is as follows:

**Table Four: Forecast COVID-19 income shortfalls**

Service Area	Income Loss reported 2020/21 £000	Timing Adjustments on budget impact £000	Impact on 2020/21 budget £000
Collection Fund	36,571	(36,571)	0
Corporate Budgets	71,619	(55,809)	15,810
Children's Services	506		506
Homelessness	34		34
Corporate Core	5,689	(3,274)	2,415
Neighbourhoods	6,408		6,408
Growth and Development	5,302		5,302
<b>Total forecast additional costs</b>	<b>126,129</b>	<b>(95,654)</b>	<b>30,475</b>

**3 Additional Central Government Funding for COVID-19 response**

- 3.1 A report to the Executive on 29 July 2020 outlined the additional government funding to be built into the 2020/21 budget. Since then there have been further allocations totalling £5.764m as follows:

- £2.000m from the Ministry of Housing, Local Government and Communities for Homelessness Service
  - £1.600m for the Next Steps Accommodation Programme. This will contribute towards the longer term offer for those who have been sleeping rough prior to the Government's directive of 'Everyone In' linked to the Covid-19 response. The estimated cost of the rough sleeper offer, including the £500k A Bed Every Night (ABEN) shortfall and additional capacity in the winter months, is £3.6m. Including ABEN this is 250 bed spaces available each night from July 2020 to March 2021.
  - £100k has been assigned against cold weather provision for those sleeping rough when the temperature drops below zero.
  - £300k is to be spent on incentives to landlords to secure properties in the private rented sector specifically for people who were rough sleepers and have been provided with accommodation as a result of the Covid-19 response.
  
- Adult Social Care - £3.084m Infection Control Fund Round 2. On 1 October the Dept of Health and Social Care announced Infection Control Fund, to tackle the risk of COVID-19 infections, is to be extended to March 2021 with £546m of additional funding provided nationally. Manchester's allocation is £3.084m. 80% of this funding, £2.467m, is to be provided to care homes within Manchester on a 'per beds' basis and to CQC-regulated community care providers on a 'per user' basis, including to social care providers with whom the Council has no existing contracts. The Council has discretion over the remaining 20%, £0.617m, to provide support to other care settings and wider workforce measures in relation to COVID-19 infection control. This brings total Infection Control funding to £6.426m.
  
- Corporate Core - Test and Trace Support Payments £0.680m. On 28 September the Government introduced the Self Isolation Scheme. Under this scheme individuals who have been formally notified to self-isolate, either because they have received a positive test result or because a person who has tested positive has identified them as a contact, are due a payment of up to £500. This will be available to those who are employed or self employed, unable to work from home and are in receipt of Universal Credit, Working Tax Credit, income-based Employment and Support Allowance, income-based Jobseeker's Allowance, Income Support, Housing Benefit and/or Pension Credit. There will also be some discretionary funding for those who do not meet any of this criteria. The Implementation Guidance for local authorities was issued on 30 September and identified funding in three parts as follows:
  - £25 million for programme costs (costs of payments to applicants), excluding discretionary payments - MCC Share £377k
  - £10 million for administration costs - MCC share £76k
  - £15 million for discretionary payments - MCC share £227k
  
- Neighbourhood Services - Compliance and Enforcement Grant £453k. On 22 September the Prime Minister announced £60 million will be made available to local authorities and the police to support additional compliance and enforcement activities. Of this £60 million, £30 million is

being allocated to all district and unitary authorities to spend on COVID-19 related compliance and enforcement activities.

3.2 The 29 July report to the Executive included the Population Health Test and Trace Grant of £4.837m. It is now expected this will be applied as £1.862m in 2020/21 and £2.975m in 2021/22. The funding is to ensure that appropriate systems are in place for outbreak management and prevention of COVID-19. Responsibility for the Manchester COVID-19 response lies with the Manchester Director of Population Health. The core elements of this response will be delivered from the MHCC Population Health Team, with service specifications in place for any externally contracted elements. The elements of Manchester's public health response to COVID-19 are:

- Infection prevention and control;
- Testing;
- Contact tracing and consequence management;
- Outbreak management and containment; and
- Analysis, interpretation of best available evidence, data and intelligence.

3.3 Further grant announcements which should improve the reported position include:

- A support package for losses from sales, fees and charges was announced in July. 75% of these losses will be funded by the Government – but only where they exceed 5% of the Council's planned income from sales, fees and charges. There is a separate process for collecting, calculating, and compensating for the relevant losses, and the first claim has been submitted early October. The claim relates to losses April to July and is for £3.5m. Based on current forecasts the full year claim will be in the region of £6.4m.
- Tax Revenue - ability to spread the 2020/21 Collection Fund deficit over three years. The forecast 2020/21 deficit of £40m over 3 years would improve the position by £24.4m in 2021/22, but worsen the following two years by £12.2m each year.
- Commitment to consider the apportionment of irrecoverable Council Tax and Business Rates losses between central and local government as part of the Spending Review

3.4 The COVID-19 related grants notified to date are summarised in Appendix 2. Note only the confirmed emergency funding of £33.7m (of which £0.4m has been applied to 2019/20) and £7.1m, from the July announcements, are available to support the direct additional costs and income shortfalls faced by the Council. The remaining grants are either directly passed on to businesses or residents or earmarked for specific priorities such as test and trace.

3.5 These grants and associated spend are now reflected in the revised budget shown in table six below.

#### **4 Measures taken to balance the 2021/21 budget**



- 4.1 As shown in table five the impact of the COVID-19 additional costs and income shortfalls on the 2020/21 revenue budget is forecast at £55.6m, increasing to £161m next year.
- 4.2 As reported to the July executive meeting all directorates have reviewed budgets, and identified in year savings and mitigations to support the current year position. These figures have been updated for the period five forecast and currently total £12.3m across directorates, with a further £2.5m against corporate budgets, as shown in table five. This left a shortfall of £40.7m which is largely covered by emergency COVID - 19 funding (tranches 1, 2 and part of 3) of £40.5m.
- 4.3 The remaining shortfall for 2020/21 of £271k as shown in the table below can be bridged using the income element for loss of sales, fees and charges of the tranche 3 COVID-19 emergency funding (as referenced in paragraph 3.3).

**Table Five: Confirmed Measures taken to offset the underlying gap in 2020/21**

	<b>Revised 2020 / 21 £000</b>	<b>2021 / 22 £000</b>
Original Gap (pre COVID)	0	22,554
COVID-19 Budget impact of Additional Costs and Net income losses	55,583	160,675
<b>Gross Underlying Gap (inc Covid-19)</b>	<b>55,583</b>	<b>183,229</b>
Savings, mitigations and other changes	(14,860)	(2,427)
COVID-19 Emergency Funding	(40,452)	0
Corporate measures	0	(44,844)
<b>Budget shortfall after confirmed funding/ mitigations</b>	<b>271</b>	<b>135,958</b>

## 5 Overview of forecast Position 2020/21

- 5.1 The following table summarises the spend for 2020/21 by service. The supporting appendix outlines the main reasons for the variation to budget.

**Table Six: Overall forecast position as at 31 August 2020**

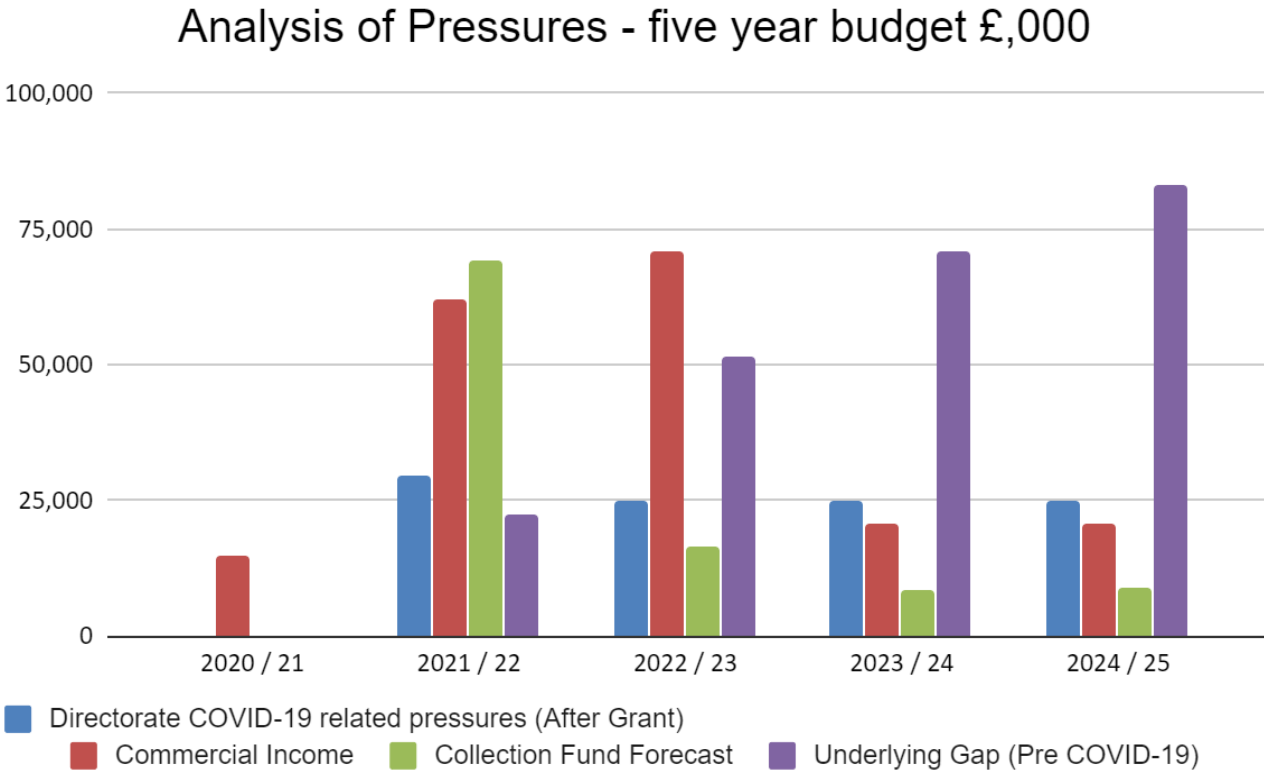
Forecast as at 31 August 2020						Memo: Breakdown of variance			
	Original Approved Budget	Revised Budget	Forecast Outturn	Total Forecast Variance	Movement from last report	COVID related Expenditure	COVID related income reduction	Other over / under spends	Total Forecast Variance
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Total Available Resources</b>	(666,125)	(827,470)	(812,604)	14,866	33	0	15,810	(944)	14,866
<b>Total Corporate Budgets</b>	126,761	264,202	262,634	(1,568)	(1,192)	0	0	(1,568)	(1,568)
Children's Services	130,320	130,540	131,198	658	(6,021)	2,226	506	(2,074)	658
Adult Social Care	221,253	232,291	239,165	6,874	(1,491)	9,907	0	(3,033)	6,874
Homelessness	15,285	17,292	22,120	4,828	(2,316)	4,987	34	(193)	4,828
Corporate Core	69,958	77,598	78,893	1,295	(2,414)	1,907	2,415	(3,027)	1,295
Neighbourhoods	93,802	94,841	103,282	8,441	2,497	3,772	6,408	(1,739)	8,441
Growth and Development	8,746	10,706	16,035	5,329	(2,264)	2,309	5,302	(2,282)	5,329
<b>Total Directorate Budgets</b>	<b>539,364</b>	<b>563,268</b>	<b>590,693</b>	<b>27,425</b>	<b>(12,009)</b>	<b>25,108</b>	<b>14,665</b>	<b>(12,348)</b>	<b>27,425</b>
<b>Total Use of Resources</b>	<b>666,125</b>	<b>827,470</b>	<b>853,327</b>	<b>25,857</b>	<b>(13,201)</b>	<b>25,108</b>	<b>14,665</b>	<b>(13,916)</b>	<b>25,857</b>
<b>Total forecast over / (under) spend</b>	<b>0</b>	<b>0</b>	<b>40,723</b>	<b>40,723</b>	<b>(13,168)</b>	<b>25,108</b>	<b>30,475</b>	<b>(14,860)</b>	<b>40,723</b>
COVID 19 Government grant income (tranche 1, 2 and 3) - Confirmed				(40,452)	0	(40,452)			(40,452)
Proposed Corporate mitigations				0	7,963			0	0
<b>Net forecast over / (under) spend</b>				<b>271</b>	<b>(5,205)</b>	<b>15,131</b>		<b>(14,860)</b>	<b>271</b>

- 5.2 The original approved Directorate budget was £539.4m, and this has increased by £23.9m to a revised budget of £563.3m which reflects:
- £2.250m allocations for inflationary pressures as follows:
    - £0.805m annual contractual inflationary increase on the waste collection and disposal contract;
    - £364k for a 2% inflationary increase on in house foster care allowances;
    - £200k inflationary uplift for external residential placements on the North West Regional Group network;
    - £91k annual inflationary increases on the Street Lighting PFI unitary charge;
    - £32k increase for ongoing management costs of two landfill sites;
    - £40k increase for Bereavement Services;
    - £57k External Foster care inflationary uplift for increases of 1.5% on the North West framework applied to any new placements from 1 April 2020;
    - £0.6m Security contract increase to support the commitment that the workforce should be paid the Manchester Living Wage as a minimum which has added 15% to the cost of the service for which there is no budget provision. This was agreed as part of the re-tender process and Mitie have agreed to work with the council to try to identify further savings.
    - £61k inflationary increase in business rates across the operational and investment estate
  - £100k investment in Domestic Violence services for a trauma informed response that provides an opportunity to resolve issues, preventing the escalation of risk and demand on services such as the Independent domestic violence advisory (DVA) and the Multi Agency Risk Assessment Conference (MARAC).
  - £22.867m increase to resources and directorate budgets for specific grants and spend relating to COVID-19, see Appendix 2.
  - Reductions of £1.109m relating to a change in the Employer Pension Contribution rate following completion of the Pensions Actuarial Review. This was budgeted to save £0.8m therefore a further £309k was released to support the bottom line position;
  - Reduction of £204k following re-procurement of the Council's utilities provision, saving 8% on electricity and 7% on gas from 1 October 2020, with gas saving increasing to 10% in 2021
  - There has also been £1.140m virements between Directorates to reflect the movement of services and other changes.
- 5.3 The increase in total available resources of £160.892m is due to:
- £22.867m increase to both resources and directorate budgets for specific grants and spend relating to COVID-19, see Appendix 2.
  - £138.478m section 31 grant to reimburse the council for loss of Business Rates income due to Extended Retail Relief. This will be held in a reserve to offset the associated collection fund deficit that is required to be funded in 2021/22.
- 5.4 All variances to forecast outturn are measured against the revised budget.

## 6 Budget Position 2021/22 to 2024/25

6.1 Executive Members will recall that prior to Covid-19 there was an underlying budget gap of c£20m for 2021/22 rising to c£80m by 2024/25. This was to be addressed in the Medium Term Financial Planning process. The impact of covid-19 outlined in the above section of this report is in addition to this. At this stage no COVID-19 related funding has been confirmed beyond 2020/21 and no further announcements are anticipated until the outcomes of the Comprehensive Spending Review, expected in late November 2020, which will indicate the intentions of the Government. However, detailed funding allocations for the Council will only be made available as part of the Local Government Finance Settlement, normally fairly late in December.

6.2 The diagram below summarises the financial challenge faced by the Council over the period 2020-25.



6.3 The pressures are presented over four blocks as follows:

- Underlying local authority budget pressures have not gone away, these are c£20m for 2021/22 rising to c£80m by 2024/25, represented by the purple bar.
- The blue bar shows the forecast additional directorate C19 costs and income losses which will continue to be felt over the five year period. These are forecast at c£25m ongoing - recognising the social care needs (Adults and Children’s) arising from COVID-19 are likely to be severe and will require an ever increasing share of Local Authority budgets. Note the

2020/21 directorate costs and income losses total £40.7m which is met by emergency grant funding.

- Every local authority will have different specific issues which impact. For Manchester its commercial income of c£15m lost this year increasing to £71m before recovering somewhat from 2023/24 as shown by the red bar.
- The Collection Fund (green bar) shows the forecast impact on council tax and business rates which is expected to be a pressure over the 5 years.

6.4 In July this year, a forecast budget gap of £162.5m for 2020/21 was reported to the Executive. This incorporated the forecast COVID-19 impact of £162.4m and the original 2021/22 budget shortfall of £22.5m, partly offset by a number of measures totalling £22.4m to help reduce the shortfall including:

- Use of net income from the airport loan, after allowing for the costs of interest and minimum revenue provision (MRP), to support the revenue budget rather than the capital programme:
  - Loan advanced in 2020/21 - £14.9m (2 years including 2020/21 and 2021/22)
  - Loan advanced in 2018/19 - £5m (income due 2021/22)
- Ongoing increase of £1m on the Retained Business Rates budget due to the late announcement of Public Health allocation for 2020/21 which increased the Council's Baseline Funding Level and reduced the Tariff payment due to the Government.
- Other changes totalled £1.2m and included the ongoing impact of 20/21 mitigations such as utilities savings (£0.4m), pension contribution decrease in addition to that budgeted (£0.3m) and an underspend on additional allowances payments (£0.2m).

6.5 Since that point there have been further changes to the funding position for 2020/21 which has reduced the need to use reserves in this financial year and other corporate measures identified which have reduced the 2021/22 gap further to £136m. The £26m improvements includes:

- Use of capital fund reserve £2.8m
- Minimum revenue provision saving £2.4m
- Additional income of £5.7m in 2021/22 returned from GMCA made up of Waste and Business Rates rebates;
- Use of funds which were originally planned to be shared with GMCA (business rates pilot growth) now used to partly offset the business rates deficit in 2021/22 £6.3m
- income from airport loan advanced in 2018/19 - £5m (income due 2021/22)
- Use of bus lane income to support the transport levy costs of £2m in 21/22 and £1m thereafter
- Reduced COVID-19 forecast income losses £1.7m

6.6 Finally some further government support is anticipated with the ability to smooth the collection fund deficit of £36.6m over three years and funding for sales, fees and charge. This will enable the Council to defer use of reserves that were planned to support the budget from 2020/21 to 2021/22. This further improves the position for 2021/22 to a gap of £105m.

6.7 The table below shows the forecast five year budget position after taking account of expected funding and mitigations to date.

**Table Seven: The budget gap 2020/21 to 2024/25**

	Revised 2020 / 21	2021 / 22	2022 / 23	2023 / 24	2024 / 25
	£000	£000	£000	£000	£000
Original Gap (pre COVID)	0	22,554	51,508	70,714	83,110
COVID-19 Budget impact of Additional Costs and Net income losses	55,583	160,675	112,361	54,189	54,492
<b>Gross Underlying Gap (inc Covid-19)</b>	<b>55,583</b>	<b>183,229</b>	<b>163,869</b>	<b>124,903</b>	<b>137,602</b>
Directorate Savings, mitigations and other changes	(14,860)	(2,427)	(1,758)	(1,320)	(846)
COVID-19 Emergency Funding	(40,452)	0	0	0	0
Corporate measures	0	(44,844)	(15,310)	(13,440)	(13,365)
<b>P5 Budget shortfall after confirmed funding/ mitigations</b>	<b>271</b>	<b>135,958</b>	<b>146,801</b>	<b>110,143</b>	<b>123,391</b>
Sales, fees and charges support (estimate)*	(6,400)	0	0	0	0
Smooth Collection Fund over 3 years:	0	(24,381)	12,190	12,190	0
Defer planned use of reserves to balance the budget	6,129	(6,129)			
<b>Total - Potential Budget Gap</b>	<b>0</b>	<b>105,448</b>	<b>158,991</b>	<b>122,333</b>	<b>123,391</b>

\*subject to MHCLG confirmation of eligibility

6.8 Such a reduction requires cuts of c20% of the budgets for the delivery of services unless further government support is forthcoming. This is on top of cumulative cuts of £379m and workforce reductions of around 40% (c4,000 FTE) over the last decade.

6.9 Prior to COVID-19 the Council had established a Medium Term Financial Plan and Balance Sheet strategy with capacity to offset shocks and provide investment where necessary. This had included for example using the majority of the airport dividend in arrears and smoothing budget investment in social care. However, the depth and breadth of this pandemic could not have been foreseen and the Council, like many other Authorities across the Country, is facing a significant and long term financial challenge which cannot be met through the use of one-off reserves alone. The Council maintains reserves for a number of specific risks and requirements, including ring fenced reserves for

the Housing Revenue Account, statutory reserves and those required to cover risk, such as the Insurance Reserve where the council self insures. Around £53m of reserves has already been earmarked to help offset the gap prior to any potential deferral from 2020/21, however, this is not a sustainable solution and does not offer resilience for future years. Taken together with the already planned use of reserves, it is estimated that at the end of the five year period only around £94m of ring-fenced reserves will remain, which are likely to be required to support the lead in time to the delivery of cuts, and, in particular, the position for 2022/23.

- 6.10 Officers have been working on options to reduce budget requirements on how the cuts can be achieved, noting that capacity is also stretched with the significant volume of work associated with the ongoing response to the pandemic, recovery planning and delivering council services and business as usual. At this stage this will not fully close the funding gap.
- 6.11 It is proposed to bring a further report back to the November Scrutiny and Executive cycle outlining the initial officer options for consideration and a further update on the position.

## **7 Conclusion**

- 7.1 Taking into account the forecast financial implications of COVID-19, the directorate work to date on identifying additional savings and any other known budget changes, and confirmed and anticipated government funding it is anticipated the budget will be balanced for 2020/21.
- 7.2 Whilst the position for 2020/21 looks manageable the financial position in 2021/22 becomes much more challenging. Over the next two years, the social care needs arising from COVID-19 are likely to be severe and will require an ever increasing share of Local Authority budgets. It is not reasonable to depend on Business Rates, Council Tax or commercial income to meet increased costs as these are also expected to decline over the same period. Whilst some fees and changes income is expected to recover later this financial year the majority of income risks will go beyond this year such as airport dividend, business rates and Council Tax base and other commercial and fee income.
- 7.3 Given the high levels of risk and uncertainty the planned Spending Review will be important in determining the future needs and resource envelope for local government. Funding beyond 2021/22 also remains subject to the Fair Funding Review and business rates reforms, which have been delayed until April 2022. In the meantime work will continue to plan for a number of scenarios. There will be a longer term focus on the more strategic approaches to deliver differently to reduce spend and increase income, including access to external funding/grants. Inevitably this work will be dependent on further announcements from Government regarding funding and flexibilities, as well as the latest guidance on the approach to tackling and/or living with COVID-19 including any associated costs and income losses.

7.4 The consequences of COVID-19 are profound and local government finance is facing a daunting and difficult future with fundamental challenges to its ability to deliver essential services. A successful and swift economic recovery will only be possible if the short and medium term financial risks arising from COVID-19 can be resolved and some degree of certainty is established through a long term needs based funding settlement.

## **8 Next Steps**

8.1 The scale of the challenge is significant and the full extent will not be clear until the Spending Review and finance settlement later this year. The level of spend reduction anticipated indicates fundamental changes will be required. This means that a programme of savings will need to be put forward before the Spending Review (expected late November) and the Local Government Finance Settlement (expected mid-late December) are announced.

8.2 Consultation will need to start in November and decisions can be assessed in the light of the Settlement and the outcome of any consultation. From the scenarios, officers have prepared a set of options for consideration based on their knowledge and expertise and the best way of mitigating the impact of the necessary spending reductions on the Council's priorities. These will be presented to Scrutiny Committees and Executive for consideration in November.

8.3 The proposed next steps are as follows:

- Officer Options will be presented to the November Scrutiny Committees (3-5 November) and 11 November Executive. These will be developed in collaboration with partners and subject to consultation.
- Spending Review expected by the end of November and the Local Government Finance Settlement in December. The outcome will be reported back to January Scrutiny Committees (12-14 January) and Executive (20 January).
- February Scrutiny Committees (9-11 February) and Executive (17 February) receive proposed budget
- Resources and Governance Budget Scrutiny - 1 March
- 5 March Council - approval of 2021/22 budget

## **9 Recommendations**

9.1 The recommendations appear at the front of this report.