

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

28 JULY 2020

Title:

CONTINGENCY REVISED BUDGET 2020/21

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Part Exempt

Note pursuant to Section 100B(5) of the Local Government Act 1972

An Annexe to this report contains exempt information by virtue of which the public is likely to be excluded during the item to which the report relates, as specified in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, namely:

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

1. Purpose and summary

1.1 The COVID-19 emergency continues. This report outlines the latest projections of income and expenditure against budget in 2020/21 and highlights the significant projected net adverse variances from budget which arise as a result of the known impacts of the COVID-19 pandemic on the Council's services and finances. The extent of any further funding from government is currently unknown and therefore this report presents contingency proposals to address the latest projected budget shortfall on an emergency basis. These proposals have been prepared jointly by officers and the Executive and have been considered by the Value for Money Overview and Scrutiny Committee in pre-decision scrutiny ahead of the Executive meeting and the special Council meeting in early August.

1.2 This report contains the following Annexes:

Annexe 1 – Schedule of projected variations from general fund budget in 2020/21

Annexe 2 - Proposed mitigation measures to address budget shortfall

Annexe 3 – Options and alternative mitigation

Annexe 4 – Schedule of projected reserves and balances

Annexe 5 (Exempt) – Leisure Centre operator impact and proposals

2. Recommendations

That the Executive recommends to Council:

1. To acknowledge the forecast variations from the 2020/21 general fund budget listed in annexe 1 and approve the mitigation measures set out in annexe 2 including revisions to approved budgets, the cancellation of approved contributions to reserves and the drawing down of earmarked reserves.
2. That in the event of additional government grant being secured and/or the overall projection set out in annexe 1 being more favourable than forecast, the net budget surplus arising from this accrues to the business rate equalisation fund, property investment fund and working balance.
3. That a full revision of the approved Medium Term Financial Plan is undertaken which will assess the adequacy of the contingency budget, consider the other options identified but not included at value at this stage, and the wider economic factors – to be reported to Council no later than its December meeting.
4. That in relation to the Leisure Centre issues, the recommendations included in the Exempt annexe be approved.

3. Reason for the recommendation(s)

The annual budget is a major decision for the Council and setting a balanced budget is a statutory requirement. As a result of the sudden and unexpected need to review the 2020/21 budget in the light of the COVID-19 impact, the Council must act quickly to ensure the significant projected net budget shortfall is addressed so that the Council can continue to function. Pre-decision scrutiny of the revised budget proposals, as undertaken by the VFM O&S committee on 13 July, demonstrates democratic transparency and good governance

4. Background

- 4.1 In February 2020 the Council agreed its Medium-Term Financial Plan and set its revenue and capital budget for 2020/21. Councils are required by law to have a balanced budget. There is no set definition in law of 'balanced budget' but the Chief Finance Officer (CFO) must work with the Council to ensure that the budget is robust and sustainable. A prudent definition of a sustainable balanced budget would be a financial plan based on sound assumptions which shows how income will equal spend over the short and medium term. Legislation provides a description to illustrate when a budget is considered not to balance, which is:
 - Where the increased uncertainty leads to budget overspends of a level which reduces reserves to unacceptably low levels, or
 - Where a council demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors
- 4.2 In the budget-setting report each year, the CFO makes a statutory statement about the adequacy of reserves, robustness of estimates and effectiveness of monitoring arrangements. These statements have been updated later in this report to reflect the revised budget proposals put forward. Whilst the 2020/21 budget included a range of estimates based on assumptions, at the time the budget was set the budget was deemed to be robust and deliverable overall. With regard to monitoring, this is undertaken by officers on a monthly basis and

reported to Councillors with the quarterly reports. Normally, in-year variations to budget can be addressed with management action under the Council's Financial Regulations and the approved scheme of virements. However, the sudden, unexpected and material adverse impact of the COVID-19 pandemic has necessitated a thorough review of the Council's budgets and assumptions which has identified a projected budget deficit of £6.6m. This is explained in detail in this report. There is a risk that the Council may not have yet identified all of the impacts and that the pandemic may not be controlled as currently envisaged.

4.3 In May, the Executive considered a report on the Council's response to the COVID-19 pandemic which included a summary of the emerging financial impact at that time. That report identified a potential range of budget deficit of £3m to £9m in 2020/21 and set out four interim actions to take, including preparing a report setting out options for reinstating the £1m working balance used to temporarily prop up the budget pending a full review into the financial impact. The Council is reporting the impact to government each month.

4.4 This report focuses on the urgent action needed to re-balance the 2020/21 general fund budget. Elsewhere on this agenda is a report which sets out the Council's 'Recovery, Change and Transformation' work programme which includes a comprehensive review of the longer-term effect on the approved Medium-Term Financial Plan and considers the Council's future financial resilience, taking account of the wider economic conditions. This will be reported to Councillors in the Autumn.

2020/21 Revised Budget Projections

4.5 Throughout June, the Head of Finance and Property led an exercise with the finance team and all Heads of Service to revisit all budgets and assumptions, identify the budgets impacted and produce a revised forecast for the year based on the best information available. The majority of budget heads were considered to be appropriate and achievable this financial year and the £698k of savings measures approved by council in February are on track. However, a number of budgets are showing a material variance projected. A summary of the main headings is included in the table below and a detailed schedule is at Annexe 1.

| | £ |
|----------------------------------|--------------|
| Leisure facilities | £2.7m |
| Car park income | £2.0m |
| Property income | £0.7m |
| Planning and land charges income | £0.6m |
| Other costs and loss of income | £0.6m |
| Total | £6.6m |

The financial impact of the pandemic on the Council's budget can be broadly summarised as follows:

- Direct costs. The Council's staff have been redeployed to its own services and to implement government-mandated schemes. The Council has incurred

overtime costs and has not made use of the furlough scheme. The Council was already implementing budgeted savings of £0.7m.

- Direct income losses. The government enforced facility closures, including leisure centres and museums, through secondary legislation and thereby triggered contract clauses that impose cost burdens directly on the Council.
- Consequential losses (e.g. car park income, and slow recovery following reopening of facilities)

Proposed Mitigation for budget deficit in 2020/21

4.6 In late April 2020 when the full potential impact on the Council's finances became clearer, Management Board took the decision to suspend all non-critical recruitment, review all external staff costs and suspend non-urgent spending where possible. This was an interim measure to help reduce costs. Furlough was considered but was not possible as most functions of the council continued to operate and some areas experienced significantly greater demand. In addition to business as usual, the government and the Surrey Local Resilience Forum required Waverley to implement a range of COVID-19 support measures on the ground, such as business grants and housing rough sleepers, so staff in lower priority service areas were voluntarily redeployed. The government also communicated to councils that the furlough scheme was not intended for public service organisations, except in limited circumstances.

4.7 The government has so far given the Council £1.427m of COVID-19 support grant towards its £6.6m projected budget deficit, leaving a balance of £5.2m to be mitigated. On 2nd July the government announced further £500m of financial support to local authorities, plus compensation for lost income from fees and charges. Waverley's share of the £500m is £146k (included in the figure above) and the indication is that the government will also provide grant to cover 75% of 95% of lost income. However, at the time of publishing this report the details of what is in scope and the precise amount that Waverley may receive is not known. It is clear from the Government's announcement that the additional funding, whilst welcome, will not be sufficient to offset the full impact and will probably leave a substantial deficit still to address. Therefore, until clarity is given by the Government, £5.2m of budget mitigation must be identified and put forward to Council for approval.

4.8 The exercise undertaken with Heads of Service has identified a number of revenue and capital cost savings measures and these are included in the table at Annex 2. The Head of Finance and Property has also reviewed the Council's earmarked and non-earmarked reserves and, working with the Portfolio Holder for Finance and the Executive, a package of reserve movements is proposed which is also included at Annexe 2. Clearly the Council did not intend to be in this position and reducing service costs and switching reserves from their intended prudent purpose to meet a one-off need is not a sustainable position. There will be risks and impacts arising from these proposals, which are identified later in the report.

Options and potential alternative mitigation

4.9 The proposals set out in Annexe 1 are considered by officers and the Executive to be the least-worst approach to addressing the budget deficit, taking account of

agreed Corporate Strategy priorities. However, to assist the scrutiny process, a list of other options that were identified but not included in the proposed measures at this stage have been included at Annexe 3. Whilst the options in Annexe 3 are not included in the revised budget put forward, officers are considering them as part of the review of future years' budgets and the MTFP which will be reported to committees in the Autumn. In addition, the ongoing business transformation programme is continuing to examine a range of efficiency and service improvement measures that will benefit future years' budgets.

Other matters to consider

Leisure Centres

- 4.10 In common with most other borough councils, the highest value variation against Waverley's budget this year is the impact of the government's decision in March to require all leisure centres to close. The Council's budget in 2020/21 includes a net management fee paid to the Council of £400k. Places Leisure (PL) (part of Places for People Group Ltd.) wrote to the Council, immediately following the legislation taking effect, setting out the financial and contractual steps that they had to take. This has significant financial implications for the Council. Officers have sought external legal advice and have been in active dialogue with PL to try to reach an acceptable settlement position. As this is not resolved yet and still subject to negotiation and agreement, the financial and legal details that are relevant to the decision that Council will need to take are set out in the Exempt Annexe.
- 4.11 There are two aspects to any agreement. Firstly, the position on the closure period and how PL's loss of income and unmitigated costs compare to the expected management fee payment. Secondly, there is the detail of PL's reopening plan and the financial impact of this. In early July the Government announced that leisure centres can reopen on 25th July but with a raft of legally required restrictions. It is clear that it will take many months for the leisure centres to be able to fully open and many more months to restore a full trading position.

Cash Flow

- 4.12 Whilst this report is concerned with the Council's budgets, its cash flow is also being monitored closely. This is different from the council's budgets and funding and, as identified in the medium-term financial plan (MTFP), Waverley BC handles over £200m of cash in a year. The main areas impacted by COVID-19 are council tax and business rate collection and income from fees and charges, such as car parks. At this stage, it is expected that overall cashflow in quarter 1 can be managed without taking drastic action as the Government has deferred some major payments and officers have retained sufficient liquidity in treasury activity but the position may deteriorate in quarter 2 of the financial year as the business grants are finalised and payments to the government resume.

Council Tax, Business Rates and benefits

- 4.13 The amount of council tax that will be paid to each of the precepting bodies, including Waverley, Surrey County Council and the parish and town councils, is fixed for the financial year. Any variation in actual compared to estimated

forecasts used in calculating the council tax base and/or the estimated in-year collection rate will impact in the following and subsequent years. For example, if Council Tax Support caseload and value increase above the estimated amount, or if the collection rate was lower than the assumed amount, the collection fund will fall into deficit which will be apportioned in future years. In its recent announcement, the Government has confirmed that it will allow councils flexibility to spread this impact over more than one year but the details are not yet known. Government Covid19 support to business in the form of reliefs and grants will be fully reimbursed and not impact on Waverley's finances. In the 2nd July announcement, the Government has stated that it will support councils by allowing them to spread the impact over three years. The details are not available yet but this could be a helpful measure to smooth the pressure on Waverley's budget in future years.

- 4.14 At the end of May, council tax support caseload was 15% up (and rising) and the collection rate was 1.5% down on the same period last year. This impact will be examined in more detail in the review of the Medium-Term Financial Plan and scenarios modelled. Business rates are 4% down on the same period last year. The number of households in Waverley receiving Universal Credit increased from 2,158 in March to 3,264 in April. May's figures are not available from the Department for Work and Pensions yet but this is an early indication of the severe impact on household income.

Housing Revenue Account (HRA)

- 4.15 It is estimated that there will be some impact against the HRA budget in 2020/21, albeit less severe than on the General Fund. Reduced income and additional costs will arise from higher numbers of void properties as contractors are not able to undertake the works necessary to re-let properties quickly when they become vacant. There could be additional pressures on rent collection over the course of the year as some tenants' household income could be affected by the COVID-19 impact. This is being monitored closely by the housing team. The Head of Housing Operations expects the overall net impact on the HRA budget to be met from within existing budgets over the year so no action is required at this stage.

Town and Parish Councils

- 4.16 The government grant received of £1.427m is to help mitigate the costs incurred by the Council in responding to the impact of COVID-19 and further funding could follow as announced on 2nd July. The government recently wrote to town and parish councils to acknowledge that their finances may also have been affected but there would be no new funding given to them directly and they should discuss their impact with their higher tier councils. The Council invited parish and town councils to share their financial impacts so they could be included in the government returns. The total budget impacted across all town and parish councils in 2020/21 is currently estimated to be £270k.
- 4.17 The proposal put forward in this report for consideration and decision is that £80k of the government grant be top-sliced to support town and parish councils that can demonstrate a net loss of income due to COVID-19. At the time of writing this is higher as a percentage of impact than WBC is receiving. An assessment process will be worked up by officers in consultation with the Leader, Deputy Leader and Finance Portfolio Holder. In the event that Waverley receives further

non-ringfenced Covid-19 support grant from Government, the amount to be made available to Town and Parish Councils will be reviewed. It is proposed that such a review would follow the broad principle that the percentage of grant for T&P councils, compared to their total loss, will be higher than the equivalent calculation for Waverley BC.

Risk and Impact

- 4.18 There is a risk that, if not monitored adequately, the proposed measures will have an adverse impact on services. Specifically, the prolonged vacancy freeze, reduced capital spend and pared back service costs could put pressure on services, particularly if the Council experiences further pressure as a result of the predicted wider economic downturn.
- 4.19 The impact in future years of Waverley needing to unexpectedly draw down significant value of reserves is difficult to assess but, given the £5.4m budget shortfall already projected in the medium term, these measures will put serious pressure on the Council's financial resilience. The proposals aim to maintain the general fund working balance at the prudent £3.2m level but draw down other prudent amounts set aside for specific risks such as property void and business rates equalisation. The imminent review of the MTFP will need a strong focus on ensuring robust approach to reserves in the future. In the light of the Covid-19 impact, the government need to urgently give clarity to councils on business rate funding and address the growing risk of business rate appeals and declining rateable values to local council budgets.

S151 Officer Summary

- 4.20 Officers will need to increase the robustness and frequency of monitoring against budget throughout the rest of the financial year to ensure that there is an early warning of any worsening of the position so that further action can be quickly taken. Similarly if the position improves, action to relax the measures may be appropriate if there is sufficient confidence that this can be achieved. More specifically, if the Government gives Waverley further Covid19 grant in addition to the £1.4m referred to in this report, it is proposed to apply this to reduce the identified draw from reserves. Given the significant budget deficit already forecast in the MTFP of £5.4m and the likely longer term impact of this emergency situation, this would maximise flexibility and partially restore resilience in future years.
- 4.21 If the Council fails to agree quick and effective action to bring the budget into balance, officers will need to consider what urgent action is necessary. Much has been said in national reports about councils needing to issue a Section 114 notice, which is effectively a statutory call for action from the S151 officer, normally in consultation with the council's external auditors. This should only be considered as a last resort and the proposals included in this report, whilst difficult to accept and challenging to deliver, set out an achievable plan for agreeing a contingency revised budget. Robust scrutiny and councillor briefing will be essential leading up to full council decision.

5. Relationship to the Corporate Strategy and Service Plan(s)

5.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan.

6. Implications of decision(s)

6.1 Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources

6.2 Risk management – covered above

6.3 Legal

The Coronavirus Act came into force on 25 March 2020, and since that date the government has introduced a significant amount of secondary legislation (statutory instruments) that has required the Council to change the way in which its services are delivered; required partner organisations and contractors to change their operational pattern, or temporarily cease operations altogether; and placed additional temporary functions within the Council's statutory powers, including additional enforcement powers in relation to businesses and additional homelessness duties.

Throughout this period the Council's Legal Services team has supported the Council's COVID-19 response by providing advice in relation to any and all suspended, additional and revised discretionary and non-discretionary functions, to ensure the Council has continued to operate lawfully in accordance with both existing and COVID-19-related legislation.

Over the coming months as the impacts of the effect of COVID-19 continue to be evaluated, that advice will continue so as to enable the Council to function lawfully in circumstances where the financial resources available to its non-discretionary and discretionary services are under far greater pressure than anticipated when the 2020/21 budget was set. Any and all further legislative changes and statutory guidance will be assessed and the Council's service supported with advice targeted to those changes, including through the Recovery, Change and Transformation programme.

6.4 Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report, however, an equality impact assessment of the detailed budget proposals will be completed to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

6.5 Climate emergency declaration

There are no direct implications arising from this report but reference is made to the need for the main budget proposals to address the resource requirement for the emerging climate change action plan. The current proposals retain in full the budget for delivering the action plan.

7. Consultation and engagement

7.1 The full budget proposals and options have been considered by the Value for

Money Overview & Scrutiny Committee for discussion and scrutiny. In advance of the O&S meeting, there was an all-member briefing in the subject to enable councillors to receive a presentation on the main issues and ask questions ahead of the Council meeting in August. Officers have been working with the Staff side/Union in the formation of the Recovery, Change and Transformation programme and this work will continue. In parallel to the council's scrutiny and decision making process, officers will discuss the position and proposals with Grant Thornton, Waverley's external auditors.

Value for Money Overview & Scrutiny Committee comments

- 7.2 The Committee had some concerns about reducing the levels of discretionary reserves, and would like a better understanding of the risk assessment of these reserves when the MTPF is reviewed in the Autumn. The Committee agreed that the Government should be lobbied to get as much funding as possible to cover Covid expenses and loss of income, and that the first call on any additional funding should be to reinstate reserves that had been drawn upon to mitigate the impact of Covid.
- 7.3 Committee observed that out of the alternative options presented the most serious and worth consideration were widening the definition of the Council's criteria for Better Care Fund, raising the cost of a green waste subscription for a year by £5 and cutting grass verges to the standard allowed by the funding from SCC as opposed to topping up the funding with funding from Waverley. Committee also recommended reconsideration of the SANG reserve in order to contribute to meeting the short term financial shortfall.
- 7.4 The Committee noted that the cost savings of £699k included in the base budget for 2020/21 had largely been secured, and suggested that this could be made clearer in the report, to provide reassurance that the revenue cost savings proposed as mitigation were not double-counting.
- 7.5 The Committee went into Exempt session to discuss the Exempt annexe on the Leisure Centre Costs. Noting the local competition for some leisure centres, and the community need for leisure centres, accepting the Council's legal position and the costs involved the Committee was keen to see the leisure centres open up as soon as possible but with the least exposure possible to risk for the Council.

8. Other options considered

- 8.1 Options considered are set out in the report and the annexes.

9. Governance journey

- 8.1 The budget proposals included in this report were presented to the Value for Money Overview & Scrutiny Committee on 13 July 2020 for pre-decision scrutiny ahead of consideration by Executive and Council in July/August.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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