

Cabinet Supplementary Agenda



5. Quarter 2 Budget Monitoring (Pages 3 - 10)

Cabinet Member: Cabinet Member for Croydon Renewal,
Councillor Stuart King and Cabinet Member for Resources and
Financial Governance, Councillor Callton Young

Officer: Executive Director Resources, Jacqueline Harris Baker

Key decision: no

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REPORT TO:	CABINET 14 December 2020
SUBJECT:	General Fund Financial Performance Report –Month 6 Quarter 2 September 2020
CABINET MEMBER:	Councillor Stuart King, Cabinet Member for Croydon Renewal Councillor Callton Young, Cabinet Member for Resources & Financial Governance
LEAD OFFICER:	Lisa Taylor - Director of Finance, Investment and Risk and S151 Officer

FINANCIAL IMPACT

This report summaries the current financial position of the council's general fund and the impact on the outturn as a result of the continuing demand for services, loss of income and unachieved savings. The report also summaries details of the funding from MHCLG in respect of the pandemic at the end of month 6.

1. RECOMMENDATIONS

Cabinet is asked to

- 1.1 Note the net projected general fund financial overspend of **£30.2m** for the full year as at the end of month 6 quarter 2, September 2020 which includes all COVID-19 related expenditure and corporately held income of **£38.0m** received to date or anticipated from the government.
- 1.2 Note a number of risks could materialise which would see the variance increase. These include dividends and interest receivable from Brick By Brick (both historic accrued and in-year expectations) of **£31m**, and pending external audit verification of assumptions around 2019/20 accounting treatment of MRP and Transformation funding that could impact by **£5.8m**. Should all these risks which total **£36.8m** materialise, the impact on the current forecast overspend of **£30.2m** is an increased overspend to **£67m**, with general fund reserves of just **£7.4m**.
- 1.3 Note the above figures are predicated on forecasts from month six to the year end and therefore could be subject to change. Forecasts are made based on the best available information at the time of calculating.
- 1.4 Note that due to the timing of this report and the reports that have been issued to Council Members as part of the recent S114 notice this report is a shorter report than the usual monitoring report as the information contained in this quarter 2 financial monitoring has already been reported.

2. EXECUTIVE SUMMARY

- 2.1 This reports sets out the council's current revenue budget projected outturn for month 6, Quarter 2, September 2020.

3. BACKGROUND

- 3.1 Due to the current Covid-19 pandemic and other underlying financial pressures the council is facing severe financial pressures as a result of additional costs, lost income and unachieved savings. These pressures have previously been reported in the S114 issued on the 11 November 2020 and 2 December 2020.
- 3.2 This current forecast is based on the known position at the time of writing this report. It is still indicative at this time and may alter given the significant uncertainty about the pandemic e.g. the risk of a second spike and the ongoing impact on Council services over the medium term, along with the ongoing work to reduce spend as part of the S114 notice. It is expected the economic recovery and continuing associated impact on residents will require significant Council response going forwards, even after the virus has been contained.
- 3.3 MHCLG have been continuing to collate data from Councils on a monthly basis since April to gain a national understanding of the financial impact of COVID-19 on the sector. In the month 6 submission, made on the 6th October, the forecast financial impact for Croydon was a net overspend of **£48.7m** for the General Fund, after receipt of £23.5m government funding held corporately, as detailed in table 1.

Table 1 – September MHCLG Covid19 return

	Aug '20 MHCLG Covid Return (£,000's)	Sept '20 MHCLG Covid Return (£,000's)	Change in Month (£,000's)
Additional Expenditure	32,258	38,870	6,612
Unachieved Savings	26,197	23,052	(3,145)
Lost Income	12,014	10,328	(1,686) (a)
Gross Total	70,469	72,250	1,781
Grants Received	(23,511)	(23,511)	- (b) (c)
Net after Grants	46,958	48,739	1,781

(a) excludes £27.6m reported collection shortfall on Business Rates / Council Tax

(b) a further £3,176k has been claimed for Apr to Jul Sales Fees and Charges grant

(c) further Covid grant funding is expected or has been announced

- 3.4 The above MHCLG Covid19 return focuses purely on financial impacts resulting from the pandemic. It does not include other spending pressures that

may be occurring not as a result of the pandemic nor reflects the impact of in-year savings measures approved to help mitigate the current financial forecasts.

- 3.5 Table 2 shows the latest overall financial forecast for the General Fund taking into account all currently known factors:

Table 2 – Forecast Outturn 2020/21

	Sept 21 Cabinet	Month 6	
	Forecast	Forecast	Change
	Variance	Variance	in Month
	(£,000's)	(£,000's)	(£,000's)
Childrens's Families and Education	20,803	19,928	-875
plus UASC	3,593	5,438	1,845
	24,396	25,366	970
Health, Wellbeing and Adults	24,816	25,748	932
Place	14,146	12,306	-1,840
Resources	3,466	3,578	112
Departmental Total	66,824	66,998	174
Non-Departmental Items	6,153	11,430	5,277
Total General Fund	72,977	78,428	5,451
Corporate Covid-Grants	-22,671	-38,017	-15,346
Net GF Position after Grants	50,306	40,411	-9,895
Savings Programme	-27,900	-10,200	17,700
	22,406	30,211	7,805

- 3.6 The September 21st cabinet report forecast had identified £73m of departmental and corporate service pressures but was offset by £22.7m of Covid grant funding and £27.9m of in-year savings initiatives, resulting in a forecast net General Fund projected overspend of **£22.4m**.
- 3.7 The latest forecast shows a net forecast overspend of **£30.2m**, a change of **£7.8m** on the prior forecast. This change has seen further Covid grants of £15.3m announced and forecast, but £23.1m of further pressures emerging or in-year savings being found to have already been included in previous the Period 5 service position.

4 DETAIL

- 4.1 The departmental level forecast outturn position has moved by a net **£0.2m** from the Period 5 forecast.
- 4.2 Non-Departmental (Corporate) Items forecasts have worsened by **£5.3m** since the previous period. Contingency budget forecasts have been adjusted

to reflect the need to fund transformation costs already committed where we now expect capital receipts to be less than originally required to fund transformation.

- 4.3 Further Covid grant claims have been submitted or announced. Our working assumptions around these new grants and announcements are that they will result in a total **£38.0m** being receivable this is an increase of £15.3m over that included in the Period 5 monitoring position.
- 4.4 Of the **£27.9m** of savings approved in September at Cabinet as in-year measures to mitigate the forecast position, £17.7m were already included in the month 5 figures and have now been embedded and included in the service forecasts.
- 4.5 The remaining £10.2m of the in-year savings that are now included within the savings programme forecasts. The table 3 below sets out the current status of the approved in-year savings measures:

Table 3 – Delivery of In-Year Savings Initiatives

		Agreed Savings (£m's)	Included in Per 5	Incl in Per 5 (£m's)	Not Incl in Per 5 (£m's)
Health Funding	A	(12.1)	Yes	(12.1)	-
Transformation funding	G	(2.5)	Yes	(2.5)	-
Use of Community Infrastructure Levy	G	(2.2)	No	-	(2.2)
Contract savings	G	(2.0)	Yes	(2.0)	-
Staff savings	A	(2.0)	No	-	(2.0)
Capital programme review	G	(1.7)	No	-	(1.7)
Children's services	R	(1.1)	No	-	(1.1)
Parking fees	A	(1.0)	No	-	(1.0)
Public Health funding	G	(1.0)	No	-	(1.0)
Non-essential expenditure	A	(1.0)	Yes	(1.0)	-
Adult Social Care	A	(0.5)	No	-	(0.5)
Bulky waste	R	(0.4)	No	-	(0.4)
Resources Dept.	A	(0.3)	No	-	(0.3)
Facilities Management	G	(0.1)	No	-	(0.1)
Library book fund	G	(0.1)	Yes	(0.1)	-
SEN transport - under 5's	R	(0.1)	Yes	(0.1)	-
		(27.9)		(17.7)	(10.2)

- 4.6 The forecast General Fund position as set out above in table 2 and showing a £30.2m overspend is predicated on further pressures not emerging during the remaining six months of the year. Potential additional risks that could cause the overall position to worsen include:

- Interest and dividend forecasts assumed in the budget or accrued for in relation to previous years from Brick by Brick as follows :-
- Accrued interest of £14.3m and £11.5m expected for 2020/21, plus £5.2m 2020/21 dividend.
- Areas of specific interest by our external auditors with relation to MRP charges and use of Transformation funding in 2019/20 totaling £5.8m;

4.7 As identified in the recent S114 notice should the potential risks identified in the above bullet points materialise, the forecast overspend of £30.2m would increase by £36.7m to **£67m**.

4.8 With General Fund Reserves at £7.4m and having utilized the in-year contingency provision any in-year over-spend will rely on a capitalization direction from MHCLG, without which significant in-year measures would be required. Such a capitalization direction is not “*free money*” but would allow the Council to charge the deficit to capital and then incur capital financing costs as part of future years’ revenue charges to finance. Based on current PWLB lending rates and statutory guidance as to treatment of MRP costs each £10m of capitalisation would cost in the region of **£785k** per year.

4.9 Without the approval from MHCLG for a Capitalisation Direction the Council be unable to deliver a balanced budget in year.

5 MHCLG Funding

5.1 A number of grants have been received to support service spending and are included within departmental service budgets, these include:

- £447k Local authority Emergency Assistance Grant for Food And Essential supplies;
- £1,998k Local Authority Test and Trace Service Support Grant
- £4,338k Covid-19 Hardship Fund
- £4,121k Local Authority Infection Control Fund
- £3,954k Local Authority Infection Control Fund – Round 2

5.2 A number of other grants are however not service specific and are held corporately. Previously reported in Period 5 monitoring at £22.7m, we are now expecting these to increase to **£38.0m** – an increase of £15.3m. The changes relate to new grants being announced or further claims being submitted after Period 5. A summary of the forecast and movement in these grants is set out in the table 4 below:

Table 4 – Corporately Held Covid Grants

	Period 5 (£,000's)	Period 6 (£,000's)	Change (£,000's)
Covid-19 Emergency Funding - Tranche 1	9,420	9,420	-
Covid-19 Emergency Funding - Tranche 2	10,506	10,506	-
Covid-19 Emergency Funding - Tranche 3	3,585	3,585	-
Covid-19 Emergency Funding - Tranche 4	-	9,486	9,486
	23,511	32,997	9,486
Less Tranche 1 utilised in 2019/20	(840)	(1,000)	(160)
	22,671	31,997	9,326
Income Compensation for Lost Sales/Fees	-	3,176	3,176
Further Lost Sales Fees Grants (estimated)	-	1,845	1,845
Tier 2 Support Grant (£3 per head)	-	1,000	1,000
	22,671	38,017	15,346

5.3 A fourth tranche of Emergency Funding grant has recently been received which has seen an extra £9.5m be received. In addition, extra support for local authorities in Tier 2 was announced which has resulted in a further £1m being received.

5.4 The first four-monthly grant claim for lost sales fees and charges (payable at the rate of 75% of losses exceeding the first 5% of budgeted income) has been received. The next claim for the period August to November will be submitted in December. Potential exists for future expected receipts for this grant to vary depending on the performance of relevant income streams.

5.4 Further grants may materialize as the financial year continues. The grant for lost sales, fees and charges is expected to deliver further receipts over the £3.2m already claimed, but will be subject to change depending on the severity of impact of the Covid pandemic on future receipts.

6. NEXT STEPS

6.1 Further grant claims and statistical returns to be collated and submitted as they become due (Covid returns are monthly and Sales Fees and Charges claims four-monthly).

6.2 Future embedding of monitoring against both the originally agreed (March 2020) savings and agreed in-year savings (and to also include any further savings that may be agreed in the remainder of the year).

6.3 Monthly monitoring and forecasting of budget position to be reported to ELT and the Finance Review Panel with quarterly updates to Cabinet and other reporting as the financial position and forecasts continues to emerge.

6.4 Work is on-going to deliver in year savings along with the on-going

conversations with MHCLG to complete the request for a capitalisation direction.

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