

Committee:	Executive			
Date of Meeting:	17 August 2020			
Subject:	Revenue and Capital Budget Monitoring Report Quarter 1 2020/21			
Report Author:	Dev Gopal, Service Director Finance & Audit			
Contact Officer:	Tim Lee, Principal Accountant			
Implications:	Legal	<input type="checkbox"/>	Community Safety	<input type="checkbox"/>
	Equalities	<input type="checkbox"/>	Environment	<input type="checkbox"/>
	Financial	<input checked="" type="checkbox"/>	Consultations	<input type="checkbox"/>
	Staffing	<input type="checkbox"/>	Other	<input type="checkbox"/>
Wards Affected:	All			

Purpose

- To report the latest forecast outturn position across the Council's finances, compared to budget.

Recommendations

- The Executive is recommended to:
 - Note that the Quarter 1 monitoring forecast for the General Fund predicts a net overspend of £2.682 million compared to the revised emergency budget.
 - Note the changes to the budget resulting from continued developments with the coronavirus, including costs and the Government funding provided to support the impacts of the virus.
 - Note the capital budget changes detailed in paragraphs 33 to 449 of this report

Background

- The emergence of the coronavirus, locally, nationally and across the world is having a devastating impact on communities; resulting in significant loss of life, restriction of freedoms, disruption of education, loss of employment and wider economic harm.
- The exceptional and unprecedented impacts of the coronavirus on the community and the local economy required the Council to set a revised emergency budget for 2020/21. This was approved by Full Council in mid-July. The emergency budget takes account of the additional support needed in the community to combat the virus and for supporting businesses during the crisis, together with the funding support received from Government to assist this.
- The virus and the lockdown has had a devastating impact on the community and on the Council's budget position for both this year and beyond. The changes implemented in the emergency budget include an urgent and unavoidable increase in the level of budget reductions that now need to be made across the Council's services

to help rebalance the budget. A programme of reductions totalling £21 million now needs to be delivered by March 2022 (£16.9m target for 20/21) and the delivery of this is supported by a significant short-term use of reserves.

6. Although emergency grant funding has been provided by Government toward the additional costs of fighting the virus, this falls substantially short of the full losses incurred by the Council. In particular, the grant received to-date does not cover the substantial income losses faced across many of the Council's services resulting from the lockdown, or the complete loss of this year's dividend income from the Council's wholly owned subsidiary, London Luton Airport Ltd (LLAL). Early information on the income losses that may be met by the Government funding excludes the income from commercial premises and the dividend from LLAL and includes only partial reimbursement of the remaining income losses. Further developments are awaited, but this loss and the wider position on additional costs remains extremely damaging for the Council's financial prospects.
7. Strong representations are continuing to be made to the Government to more fully support Luton for the income losses that have been incurred over lockdown, recognising in particular the Council's unique position in being directly and substantially affected by the catastrophic impact of the virus on the aviation industry resulting in the complete loss of the dividend from LLAL.
8. Further developments on the changes to lockdown restrictions and on local and national infection rates are continuing to be closely monitored, to provide the best support possible to the community during the crisis. The financial impacts of this will continue to be reviewed over the coming months against the emergency budget now in place, alongside tracking the progress made in delivering the increased programme of savings needed toward maintaining a viable budget. Updates will continue to be provided in subsequent monitoring reports.

Report

REVENUE BUDGET MONITORING QUARTER 1

9. The pressures on the Council's budget resulting from the coronavirus are wholly exceptional and the virus represents the most serious challenge to all local authorities in living memory. This is the first monitoring report to the Executive based on income and expenditure over the first quarter of 2020/21, during these uncertain times. It therefore represents an early forecast of the expected outturn position this year based on the information available to-date. The risks from Covid 19 are ongoing and the Council and the community will need to continue to adapt to the measures needed toward defeating the virus.
10. The Quarter 1 forecast indicates a net overspend of £2.682 million for General Fund services compared to the revised emergency budget approved in July. This includes initial shortfalls reported on the delivery of the increased savings programme approved in the emergency budget, partly mitigated by the specific contingencies held in each department to help phase the delivery. The summarised position by department is shown in the table below. Further detail on each department's position is included at Appendices D to I.

Key: + overspend or increase / - underspend or reduction

Department	General Fund Budget £'000	Q1 Variations Reported £'000	Savings Delivery Contingency £'000	Net Q1 Forecast Impact £'000
Chief Executive's	3,247	287	0	287
Children, Families & Educ.	57,831	2,238	-933	1,305
Customer & Commercial	9,144	3,137	-1,694	1,443
Place & Infrastructure	33,698	1,458	-394	1,064
Public Health & Wellbeing	81,418	730	-675	55
Public Health Grant	-15,487	0		
Service Position at Q1	169,850	7,850	-3,696	4,154
Central Accounts	-34,041	-1,310		-1,310
Central Contingencies	4,474			
Specific Reserves	1,485	-161		-161
Total General Fund Services	141,768	6,379	-3,696	2,682

Budget Savings Q1

11. The delivery of the £16.9 million savings programme now needed to keep the 2020/21 budget in a balanced and sustainable position is at an early stage. Progress with implementing the savings, including consultations with the community have been affected by the urgent ongoing work to control the virus, including managing the recent short-term increase in infection rates in the town.
12. The budget savings approved in 2019/20 were also phased to be delivered over 2 years and there is a further £3.6m savings still to be delivered from this in the current year, giving a total savings target of £20.5m for 2020/21.
13. Some savings are already delivered, but £13.1m is continuing to be monitored and the implementation plans are being regularly monitored to track delivery. A shortfall of £5.2 million is reported by services at Quarter 1 against these savings for the current year. This is detailed at Appendix B of this report. The shortfall is partly offset by using £3.7m use of the specific contingency cover available to help phase the delivery of the savings programme, giving a net impact of £1.5 million within the total forecast overspend reported at Quarter 1.

14. A further £4 million of savings contingency remains available toward delivery of the full combined savings programme. This is being held at present, pending any increase in the shortfalls currently reported this year. Further developments with the savings programme and the relative impacts from the coronavirus will continue to be tracked and reported at subsequent monitoring.

Main Variations in the Q1 Forecast (including savings variations)

15. As reported in last year's monitoring and outturn position, the Council is also continuing to manage a number of significant and ongoing demand led pressures in its statutory services.
16. Prior to the start of this financial year, the ongoing impact of this for 2020/21 was estimated at around £7.5m, but with an expectation for the services to continue to deliver cost savings toward improving longer term sustainability. The updated position of the main pressures within the Quarter 1 monitoring this year is:

Service	Q1 Gross Budget Pressure	2019/20 Gross Pressure	Notes
Homelessness - Temporary Accommodation & Prevention	£2.3m	£3.5m	The number of properties needed to relieve homelessness remains high and rents are still being charged at 2011 LHA rates which is resulting in a forecast loss of income. This is currently being scrutinised Wider support costs are currently forecast to be lower than last year.
Children's Care - Placements	£2.0m	£3.2m	There is a reduction in the number of children supported this year, plus negotiated reductions in the cost of placements
Property Estate – Repairs & Maintenance	£0.3m	£1.6m	Only essential works are currently being undertaken. Closure of buildings for lockdown may also be impacting
Main Service Pressures Total	£4.6m	£8.3m	

17. The gross pressures shown in the table for Quarter 1 this year, are partly mitigated within the wider forecast overspend by the use of the savings contingency and by the additional short-term budget resources provided to help the services deliver the full budget savings needed in each area by March 2022. Smaller cost pressures and savings are also reported in a number of services within the net forecast reported at Q1.

18. One significant change is also reported at Quarter 1 on corporate resources, with a £1.3m forecast saving on borrowing costs, resulting from the continued use of lower cost short-term borrowing while interest rates are low, to fund capital investment projects. The best long term borrowing solutions are continuing to be explored to ensure an optimum longer term position
19. A further £1m of cost and income pressures on managing the impacts of the coronavirus have also been identified in the monitoring to-date in addition to the early estimate include in the emergency budget. This has been included in the latest monthly financial return to Government and information is awaited on any further release of grant funding to support this.

Coronavirus Costs and Funding – Emergency Budget and Update

20. The revised emergency budget for 2020/21 approved in July included early estimates of the additional costs and income losses resulting from the coronavirus, together with a best estimate of the grant funding support that might be received from Government to assist in fighting the virus and to support the wider financial impacts faced by the Council. The initial changes included in the budget included:

increased costs to support and protect the community	£9.6m
income losses from fees and charges for services	£4.9m
complete loss of the Airport Dividend	£16.0m
reduced income from Council Tax and Business Rates	£8.0m
Total Estimated Costs/Losses	£38.5m
Met by:	
Emergency Grant Funding from Government for Covid-19	-17.6m
Increased Savings Programme (net of delivery contingency)	-8.2m
Use of Reserves – to meet the deficit and support savings delivery	-12.7m
	-38.5m

21. The use of reserves supporting the revised budget is integrally linked to both the grant funding received from Government and to the delivery of the savings programme, including the use of the contingency cover. Changes in either area will result in a change to the in-year use of reserves.
22. The impacts of the virus have continued to change since the revised budget position and the Government has also continued to develop its response to the virus and to the needs of Local Authorities in managing the overall impacts. The main resourcing movements included in the Q1 forecast based on developments to-date, include:
 - a £1.9m forecast reduction in the emergency grant funding support now expected from Government, increasing the use of reserves. This is primarily due to only partial reimbursement of the total income losses from fees & charges faced by local authorities
 - revised regulations to defer the council tax and business rate income losses and recover these from 2021/22 over up to 3 years, reducing the use of reserves this year by £8m within the forecast. Full regulations on this are awaited.

- £5.1m of the grant funding now released from covering the council tax and businesses rates loss and reallocated to cover more of the cost/income impacts in services
 - Earlier forecast delivery of some savings targets, releasing £2.4m of the savings contingency cover and used to further reduce the use of reserves this year.
 - A £1.5m reduction in forecast costs of mutual aid for the care sector, reallocated to cover other cost/income impacts on services
- 23.** Although this provides a short-term reduction in the forecast use of reserves this year, this only represents a deferred position, with the reserves needed to help cover the impact of the council tax and business rate losses in later years and potential longer term impacts from the virus. It should also be recognised that the resourcing changes only reflect developments to-date and that the total budget impacts may continue to change as the year progresses.

Goals and Objectives

- 24.** To regularly report the latest forecast outturn position across the Council's finances.

General Fund Outlook

- 25.** The Council has been managing some difficult demand-led pressures in recent years alongside making the savings needed to offset reductions in funding settlements. The emergence of the coronavirus has been acute and devastating for the local community and for the Council's financial prospects, including the trading position for LLAL. There are at least £38m of pressures immediately arising from the virus and uncertainty around the additional longer term impacts that may arise during recovery, or if further waves of infection occur.
- 26.** The loss of the income needed to support the delivery of services, including the £16m of dividend from LLAL is a huge concern, resulting in a major increase in the programme of savings that now need to be made and consequent reductions in ongoing services to the community.
- 27.** The Council is continuing to submit a case to the Government to receive additional grant support that fully recognises Luton's unique position on income losses, but there is no certainty to-date that this will be provided.
- 28.** Plans are in place to manage the initial budget impacts from the virus, but these will need to adapt to further developments as the year progresses. The financial outlook remains uncertain, due to the unprecedented level of risks currently being managed

HOUSING REVENUE ACCOUNT (HRA) – Quarter 1

- 29.** The Housing Revenue Account budget was set with a surplus and potential contribution to balances of £1.788m million this year, pending any requirement to support the 2020/21 HRA capital programme from revenue resources.

30. A net underspend of £0.233 million is forecast at Quarter 1, primarily due to staff vacancy savings. This increases the potential contribution to balances to £2.021m at this forecast.

SCHOOLS REVENUE BUDGET (Memo Only) – Quarter 1

31. The Schools Budget for 2020/21 totals £155.0 million and is fully funded by the Dedicated Schools Grant (DSG).
32. The Quarter 1 monitoring forecasts a net underspend of around £0.215 million in the central element of the budget, relating to funding currently unallocated against specific costs at present, due to later notification of the final DSG total for the year.

CAPITAL PROGRAMME MONITORING – Quarter 1

Capital Summary

33. The updated capital programme total for 2020/21 after the changes identified at the final outturn position in 2019/20 and the emergency budget reductions is £186.217 million: £166.790 million for the General Fund and £19.427 million for the Housing Revenue Account.
34. The Quarter 1 monitoring forecasts that this year's spend will reduce to £185.916 million: £166.490 million for General Fund and £19.427 million for the HRA. This is a cumulative net reduction of £96.455 million this year. The table below summarises this change by Department, from the original Budget approved.

2020/21 Programme Summary by Department	Original Budget £million	Revised Budget £million	Quarter 1 Forecast £million	Quarter 1 Forecast Variance £million
Place & Infrastructure	36.771	44.131	43.871	-0.260
People	14.309	16.749	16.749	0.000
Chief Executive's	2.021	3.225	3.185	-0.040
Customer & Commercial	13.814	15.533	15.533	0.000
Total General Fund (Excl. Corporate Projects)	66.915	79.638	79.338	-0.300
Corporate Projects	183.306	183.306	87.151	-96.155
Total General Fund Programme	250.221	262.944	166.489	-96.455
Housing Revenue Account	18.607	19.427	19.427	0.000
Total LBC Capital Programme	268.828	282.371	185.916	-96.455

35. The review of the capital programme is on-going and more detailed analysis and monitoring is taking place. The Quarter 1 the figures reported show the variations for part of the Place and Infrastructure capital budget and for the Corporate Projects which forms a significant part of the total capital programme.

36. The capital monitoring undertaken by service managers needs to be much more thorough at the outset to ensure that it accurately reflects the latest expected spend position for the year. A more robust forecast will be submitted as part of the Quarter 2 monitoring report
37. The full capital programme for the 5 years to 2024/25 reflecting the forecast variances identified at Quarter 1 is shown in the table below. Further information on the variations reported up to Quarter 1 is shown at Appendix J.

Effect of Q1 Forecast on the Full 5 Year Programme	Forecast 2020/21 £million	Forecast 2021/22 £million	Forecast 2022/23 £million	Forecast 2023/24 £million	Forecast 2024/25 £million
Place & Infrastructure	43.871	102.982	38.272	19.309	6.284
People	16.749	13.065	13.065	6.290	6.290
Chief Executive's	3.185	0.000	0.000	0.000	0.000
Customer & Commercial	15.533	1.895	1.895	1.895	1.895
Total General Fund (Excl. Corporate Projects)	79.338	117.942	53.232	27.494	14.469
Corporate Projects	87.151	51.131	14.036	0.000	0.000
Total General Fund Programme	166.489	169.073	67.268	27.494	14.469
Housing Revenue Account	19.427	24.165	28.123	23.010	14.097
Total LBC Capital Programme	185.916	193.238	95.391	50.504	28.566
Change Since Revised Budget	-96.455	96.455	0.000	0.000	0.000

38. The £96.455 million reduction in forecast expenditure for 2020/21 reported is summarised as:
- -£0.335 million of departmental projects re-profiled to future years
 - £0.035 million for projects advanced from future years
 - -£96.154 million for corporate projects re-profiled to future years (net)
39. Within the Emergency budget £64.23m of capital projects were postponed. The projects are as follows:
- Century park access road £45.085m, Crawley road multi-storey car park £6.107m, Town Hall refurbishment £2.657m, Vauxhall Way improvements £1.977m, LBC street lightning led conversion £1.125m, vehicle and plant replacement programme - £0.700m, other projects £6.58m
40. Additional projects approved amounting to £3.562m include:
- Vale cemetery extension £2m, NTS/MRF refurbishment £1.2m and Contingent Labour Joint Venture £0.36m and additional debenture loans to LLAL: £60m for 2020/21 and £23m for 2021/22.

Quarter 1 Capital Spend and Budgets

41. As at 30 June 2020 the capital expenditure incurred to date (excluding corporate projects) is only £6.955 million, just 8.77% of the £79.338 million total spend forecast

at Quarter 1. If spend was in line with the revised budget profile, expenditure would be closer to £19.8 million at Quarter 1. It is recognised that there is a timing delay in terms of invoices being paid, but the discrepancy indicates the current forecast expenditure may be too high. Capital budget holders will continue to be challenged on their forecasts before the Q2 monitoring is reported.

Spend and Forecast at Quarter 1 by Department	Q1 Forecast	Q1 Actual	Variance Actual to Forecast	% of Forecast Budget Q1 Spent
	£million	£million	£million	
Place & Infrastructure	43.871	1.254	-42.617	2.85%
People	16.749	0.000	-16.749	0.00%
Chief Executive's	3.185	0.631	-2.554	19.81%
Customer & Commercial	15.533	5.070	-3.518	32.64%
Total General Fund Excluding Corporate Projects	79.338	6.955	-65.438	8.77%
Corporate Projects	87.151	29.875	-57.276	34.27%
Total General Fund Programme	166.489	36.830	-173.202	22.12%
Housing Revenue Account	19.427	0.924	-18.503	4.75%
Total LBC Capital Programme	185.916	37.754	-191.705	20.31%

Net Re-profiling to Future Years Excluding Corporate Projects

42. The capital programme has been updated for Quarter 1 following the receipt of the latest LLAL Medium Term Financial Plan and the Foxhall Homes Business Plan.

LLAL's current investment plan in the DART, DCO, Bartlett Square and CPAR forecasts spend of £87.2 million for 2020/21

Capital Financing Summary

43. The table below summarises the variations in capital financing for 2020/21 following the expenditure forecasts reported at Quarter 1:

Summary of Resources for Financing Capital Expenditure 2019/20	Updated Programme Budget £million
General Fund Financing	
Grants & Contributions	25.244
Revenue Reserves/Budget	0.445
Capital Receipts	8.117
Dividend/Corporate Contribution	5.153
Corporate Projects Borrowing	87.151
GF Borrowing Requirement	40.379
Total General Fund Programme	166.489
HRA Financing	
1-4-1 Capital Receipts	0.657

Other Capital Receipts	4.534
Earmarked Revenue Reserve	0.000
Major Repairs Reserve	14.236
HRA Borrowing Requirement	0.000
Total Housing Revenue Account	19.427
Total LBC Capital Programme	185.916

Key Risks

44. Revenue Budget:

- Delivering the increased savings programme included in to the 2020/21 revised emergency budget.
- Managing in-year cost pressures including those reported in volatile and demand led statutory service budgets, to deliver a balanced outturn position and demonstrating value for money in delivering services.
- Managing the continued developments and impacts from the coronavirus. This is an area of immense uncertainty.
- The continued development of procurement & commissioning and the modernisation delivery plans to deliver the savings required to help address current cost pressures and future years' budget savings.

45. Capital Budget:

- Inaccurate capital profiling impacting on the accuracy of treasury management decision making, capital financing costs, borrowing costs and investment returns.
- Overspends on capital projects impacting on the availability of capital resources.
- Reduced capital receipts resulting in increased prudential borrowing. This is reviewed throughout the year.

Proposal/Options

46. To note the initial forecast subject to further developments, or reject the report and implement early alternative budget measures.

Alternative options considered and rejected (please specify)

47. The Executive can accept, reject or the amend report.

Appendix

- Appendix A - Revenue Monitoring Summary Q1
- Appendix B – Savings Monitoring Q1
- Appendix C – Volatile Budgets Q1
- Appendices D to I – Departmental Monitoring Positions Q1
- Appendix J – Capital Monitoring Variations Q1

List of Background Papers - Local Government Act 1972, Section 100D

Implications

Item	Details	Clearance Agreed By	Dated
Legal	<p>The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Service Director, Finance and Audit is required to establish financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for Executive to receive information about the revenue and capital budgets as set out in this report.</p> <p>Section 3 of the Local Government Act 1999 requires the Council as a best value authority to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Monitoring of performance information is an important way in which that obligation can be fulfilled.</p>	Brenden Delaney, Solicitor	5 th August 2020
Finance	<p>The financial challenge currently faced by the Council is unprecedented, requiring a significantly increased programme of budget savings and use of the Council's reserves to maintain a viable budget for 2020/21. It is vital that the savings programme remains on track to deliver what's required over the timescales set out in the revised emergency budget report. It is clear that the emergency grant funding provided by Government to-date is not sufficient to compensate the Council for the full costs and losses resulting from coronavirus and</p>	Dev Gopal, Service Director, Finance & Audit	5 th August 2020

Item	Details	Clearance Agreed By	Dated
	<p>dialogue is continuing with MHCLG to try and resolve this.</p> <p>All developments are continuing to be closely tracked to assess any further impacts from the current position.</p>		
Equalities	There are no direct equalities implications to this report.	Maureen Drummond, Interim Equalities Manager	5 August 2020
Environment	There are no direct environmental implications to this report.	Keith Dove, Strategic Policy Adviser	5 th August 2020
Health	There are no direct health implications to this report.	Lucy Hubber, Service Director	5 th August 2020
Community Safety			
Staffing			
Consultations			
Other			