

CABINET	AGENDA ITEM No. 7
21 JUNE 2021	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr Andy Coles, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Director of Corporate Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

BUDGET MONITORING REPORT FINAL OUTTURN 2020/21

RECOMMENDATIONS	
FROM: Director of Corporate Resources	Deadline date: 11 June 2021
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Note the final outturn position for 2020/21 (subject to finalisation of the statutory statement of accounts) of a £3.975m underspend on the Council’s revenue budget. 2. Note the reserves position outlined in section 7, which includes a contribution to the capacity building reserve of £3.975m, resulting from the underspend highlighted in the revenue outturn report in Appendix A. 3. Note the implications of the COVID-19 pandemic on the Councils Financial position, as outlined within section 5. 4. Note the outturn spending of £56.8m in the Council’s capital programme in 2020/21 outlined in section 9. 5. Note the performance against the prudential indicators outlined in Appendix C. 6. Note the performance on the payment of creditors, collection performance for debtors, local taxation and benefit overpayments outlined in Appendix D. 	

1.0 ORIGIN OF THE REPORT

- 1.1 This report is submitted to Cabinet as a monitoring item. The outturn position will be reported to Audit Committee on 12 July 2021 alongside the draft statement of accounts for 2020/21.

2.0 PURPOSE AND REASON FOR REPORT

- 2.1 The report provides Cabinet with the outturn position for both the revenue budget and capital programme for 2020/21, subject to any changes that may be required as part of the finalisation of the Statement of Accounts.

- 2.2 The report contains performance information on the payment of creditors and collection performance for debtors, local taxation and benefit overpayments.
- 2.3 The report is for Cabinet to consider under its terms of reference 3.2.7 to be responsible for the Council's overall budget and determine action to ensure that the overall budget remains within the cash limit.

3.0 TIMESCALE

Is this a Major Policy Item/ Statutory Plan	No	If yes, date for Cabinet meeting	n/a
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4.0 EXECUTIVE SUMMARY

- 4.1 The Council has been operating in challenging financial circumstances. This financial context has developed over the years due to underfunding, exposure to greater levels of risk and low financial resilience, resulting from its low reserve balances. A structural deficit is inherent in the Council's funding envelope, with little recourse to alternative options.
- 4.2 Since 2018 the Council has subjected its financial strategy and approach to financial sustainability to rigorous external financial challenges and since 2019 has implemented an enhanced series of expenditure controls. Immediate action to reduce the costs of its operations in the medium term was underway in January 2020, however newly identified and current MTFs savings had to be impaired as a direct result of the C-19 pandemic response and recovery.
- 4.3 This financial year the Council experienced additional expenditure and loss of income relating directly to C-19, with the forecast overspend reaching £11.3m in August. However the government responded by providing further specific and un-ringfenced funding which has largely covered these additional pressures. The Council has received approximately 70 new grants, totalling c£170m. Some of these grants have been passported directly to businesses, social care providers or individuals, others have funded specific activities, and have required additional monitoring reports to be submitted to government on a regular basis. Whilst this has provided some financial stability in 2020/21, it is expected there will be a longer term service impact from C-19, for which longer-term funding is unconfirmed.
- 4.4 Due to the Councils underlying financial challenges, the C-19 pandemic has had a significant impact on the Council's financial position. The pandemic introduced an additional layer of financial complexity and uncertainty. National government decisions, funding and changes to legislation have been announced fluidly throughout the year, with a further two national lockdowns announced at short notice. The unpredictability as a result of the C-19 has made financial and operational planning and forecasting problematic.
- 4.5 As a result of the challenges placed on the Council's finances, in October 2020 the Council approached Ministry of Housing Communities and Local Government (MHCLG) to enable the further exploration of alternatives to issuing a S114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the Council's finances and has received conditional approval for Capitalisation Directions (borrowing) of up to £4.8m in 2020/21 and up to £20.0m in 2021/22. This conditional exceptional support enabled the Council to set a legal balanced budget for 2021/22.

- 4.6 The Council continues to work closely with MHCLG to develop a delivery model to secure financial sustainability and provide assurance to satisfy the conditions attached to the exceptional support. Without the receipt of the exceptional support, the Council would not have been able to set a balanced and legal budget in 2021/22.
- 4.7 The Council's overall revenue outturn shows an underspend of £3.975m for 2020/21. This is after taking account of the additional C-19 expenditure and grant income, and contributing £15m to C-19 funding and tax income reserves, to mitigate further pressures anticipated in 2021/22. It is important that the continuing underlying financial challenge is understood and has not gone away. It is characterised by low usable reserves and considerable latent service demand as a result of C-19, which creates a forecast funding gap of £27m for 2022/23, rising to £29m in 2023/24. The final outturn position is outlined in further in section 6 and in more detail in Appendix A.

5.0 IMPACT OF THE CORONAVIRUS (C-19) PANDEMIC ON COUNCIL SERVICES AND FINANCES

5.1 On 23 March 2020 the Prime Minister announced the first national UK lockdown in order to halt the growth of the C-19, to protect the NHS and ultimately save lives. Since this time the Council has navigated through unprecedented times, facing uncertainty and overcoming new and difficult challenges. This has included:

- Supporting residents and businesses through a further two periods of national and local lockdowns
- Worked collaboratively with the NHS to ensure that where it is appropriate to do so, people are moved out of hospital and that as many people as possible were supported within the community to avoid hospital admissions
- Working closely with providers and mitigating the potential impact and risks to the delivery of key services, particularly the **sustainability of Adult Social Care services**
- The establishment of a **Coordination Hub** to provide residents, that were vulnerable or shielding, access to food, medicine and other essential support
- **Ensuring children are supported** by working with schools to support vulnerable children and those children of key workers, and ensuring those disadvantaged children have access to online resources and school's lessons from home, by purchasing additional ICT equipment
- The **provision of accommodation for rough sleepers** to ensure they could safely self-isolate
- Ensuring front line services and care workers had **Personal Protective Equipment (PPE)** to enable safe working and to minimise transmission and spread of the virus
- Carrying out proactive and intervention activities to minimise the spread of the virus and ensure **Containment of the Outbreak**. This included targeted testing for hard-to-reach groups, enhanced communications and marketing, targeted support for schools and education settings, and additional resource to ensure compliance with restrictions
- Administering the various grant schemes to individuals and businesses including:
 - £90m of grants and rate reliefs to businesses
 - 4,180 Test and Trace support payments to individuals
 - £1.4m of Local Council Tax Support Hardship payments
 - £0.744m of Winter Grant which has supported families with the cost of food, fuel and provided additional support.

Further detail on these schemes is outlined in Appendix D.

- Agile working practices and ICT systems have enabled the majority of staff to work from home. With most of the workforce working from home, additional mental health and wellbeing support has been provided to all staff, and regular communication updates and meetings have been provided.

- 5.2 The Council has through all the services it provides, experienced both societal and financial impacts of the pandemic. During 2020/21 the Council has reported additional C-19 related expenditure of £30.2m, offset through receipt of £32.3m additional government funding to support the cost of the pandemic. Although this funding has outweighed the additional costs, the significant needs of our communities, resulting in significant financial pressures as a result of C-19 will be long-lasting. The Council has experienced a delay in the anticipated service demand for reasons such as families caring for loved ones at home as an alternative to using residential care and delays in the anticipated levels of children's referrals due to school closures during Lockdown 3 and the continuation of financial support schemes such as furlough. As a result of this the Council is already forecasting an additional net cost of £12.8m in 2021/22. As outlined in table 2, the Council has contributed surplus funds from 2020/21 to a C-19 specific reserve to ensure these additional pressures in 2021/22 are funded.
- 5.3 The impact of C-19 on the Council's financial situation has been on all services, with examples including:
- **A loss of £2.2m on parking revenue** as a result of reduced footfall in the City centre
 - **A Council Tax deficit of £0.7m** as a result of people being unable to pay at this time, and an increase in households receiving council tax support
 - **A Business Rates deficit of £11.5m** as a result of businesses being unable to pay the rates at this time because of the impact on the business operations. The Council is actively recovering these outstanding balances, and is closely monitoring the position
 - **An additional £11.7m of costs as a result of providing Adult Social Care** services differently during the pandemic
 - **An additional £1.9m Children's Social Care**, although lower than originally forecast this is one of the areas where the Council is seeing real signs of demand emerging in services designed to protect children.
 - **An additional cost of £2m to provide accommodation for all rough sleepers**, in order to isolate safely as directed within government national policy
 - **An inability to deliver £5.6m of existing MTFS savings plans** that the Council expected to achieve this financial year, because of the need to respond to the demands of the C-19 pandemic. This creates additional budget pressures in the current and future financial years
 - **A loss of income totalling £5.8m** (including parking). MHCLG have provided a scheme to compensate Councils in part for the loss of Sales Fees and Charges Income, this is included within the final position.
- 5.4 In addition to the costs pressures outlined in section 5.3, in June 2020 the Council started the re-organisation of its Leisure and Cultural services, as a result of the Council's provider, Vivacity, serving notice of termination as a force majeure arising from C-19 and the impact on its ability to continue to deliver the contracted services. In August 2020 the Council approved a decision to transfer the services to Aragon Direct Services, and City College Peterborough, with the successful transfer completing on 30 September 2020.
- 5.5 This is a good example of how C-19 has placed financial strain on businesses because of lost income. The Council has been able to put a solution in place, overseeing all of the legal, financial and Human Resources activities, at the same time as actively responding to the pandemic. These services are now coming into a period of recovery as the governments road map and post lockdown 3.0 progresses. It is noteworthy that even through the toughest times, staff within TUPED services have made a vital contribution to the C-19 response through redeployment to support other services, such as waste collection.

6.0 FINAL REVENUE OUTTURN 2020/21

2020/21 MTFS- Budget Position

6.1 The revenue budget for 2020/21, agreed at Full Council on 4 March 2020, was approved at £163.7m. The table 1 outlines the changes which have been made to the budget to arrive at the revised budget of £156.737m:

Table 1: Revised Budget 2020/21	£m
Approved Budget 2020/21	163.743
Use of reserves per MTFS	1.510
Capitalisation Direction	1.217
Transfer of IBCF and ASC grant from financing into People & Communities	(11.939)
Use of Reserves:	
People & Community (use of previous years grants e.g Safeguarding Families, Integrated Communities)	1.353
Place & Economy (use of previous years grants e.g New Towns Funds)	0.266
Capacity Reserve Contribution (ICT and Housing)	0.428
Other Reserve (Insurance and Parish's)	0.156
Revised Budget 2020/21	156.737

6.2 The Council's overall revenue outturn shows an underspend of £3.975m for 2020/21, after contributing £15.143m to C-19 funding and Tax income reserves, to support needs in our communities resulting from C-19 in 2021/22. The table below summarises the revenue outturn position by directorate in 2020/21.

Table 2: Revenue outturn 2020/21

Directorate	Budget £000	Final Outturn £000	Cont. to Reserves £000	Variance £000
Chief Executives	1,303	1,220	-	(83)
Governance	4,322	3,925	-	(397)
Place & Economy	21,716	22,639	109	1,032
People & Communities	72,940	80,611	1,690	9,361
Public Health	(372)	(494)	122	-
Resources	19,254	19,643	607	996
Customer & Digital Services	7,764	6,629	-	(1,135)
Business Improvement	623	692	-	69
Capital Financing	29,187	24,789	-	(4,398)
Total Expenditure	156,737	159,654	2,528	5,445
COVID-19 Response Fund Grant*	-	(18,665)	-	(18,665)
COVID-19 – Sales Fees Charges and Local Tax Income Guarantee Scheme	-	(6,015)	-	(6,015)
Financing	(156,737)	(177,728)	21,108	117
Net	-	(42,754)	23,636	(19,118)
Contribution to C-19 Funding Reserve to cover expected needs within our communities in 2021/22				12,841
Contribution to C-19 Tax Income Reserve to mitigate the impact of future expected Business Rates and Council Tax pressures				2,302
			Final Outturn	(3,975)

**including Covid-19 Response Fund- Tranche One received in 2019/20- £5.3m*

- 6.3 The final outturn position outlines an a £5.445m overspend on the Council's service directorate budgets, with the most notable overspend of £9.361m reported for the People and Communities directorate. This reflects the service areas most affected by C-19 pressures and additional activity such as with Adults and Children's Social Care, parking income and leisure services.
- 6.4 This overspend has been off-set by the un-ringfenced C-19 additional funding received from government, which has led to an overall £19.118m underspend. Following a detailed review of this position it is concluded that the presentation of the C-19 forecast pressures arising from the needs of our communities, have been delayed but will continue in to 2021/22 and future years. The Council incorporated some demand and cost increase assumptions into the future year's budget estimates. However, at the time of budget setting, due to the level of uncertainty, as to how C-19 would really impact on the demand for Council services, it proved difficult to develop meaningful assumptions on which to base income receipts levels and demand led expenditure budgets. The Council now forecasts an additional net cost of £12.841m in 2021/22. As outlined in table 2, the Council has made a contribution to a specific C-19 funding reserve to ensure these additional pressures in 2021/22 are funded, bringing the **final outturn position to an underspend of £3.975m.**
- 6.5 In addition to the key pressures outlined within section 5.3 the following variances and practices, have contributed to the final £3.975m underspend position:

Capital Financing

- **Capital Receipts** - asset sales have exceeded budget by £2.4m, as a result of the late sale of the POSH football stadium and The Mill on Fletton Quays, which both completed on 31 March 2021.
- **Capital Financing** - a lower cost of borrowing due to reduced capital expenditure for the year from delayed schemes, and cash flow benefit of additional Government grants has generated an underspend against budget of £2m. Further detail contained in Appendix A and section 9.

Practices and Savings

- **Good financial management** - the Council has remained committed to ensuring financial scrutiny is maintained and only essential expenditure is still undertaken, even in pandemic times. An enhanced layer of internal reporting was implemented during 2020 to ensure all C-19 related financial implications were incurred as a result of implementing government policy, that all had relevant financial governance approvals, and the C-19 related financial position was reported, reviewed and controlled regularly to CMT and Cabinet.
- **Early delivery of savings** - although there has been impairment to the Council's savings plans, due to the impact of C-19, the ICT department has not only supported the Council to become fully agile and insourced the service, previously delivered by Serco, but delivered planned MTFS savings in advance creating a favourable variance of £0.5m.

Pressures

- **Latent social care demand** - towards the end of 2020/21, it became apparent that some of the anticipated social care demand in both Children's and Adults services had been delayed. This is due to a number of reasons, such as people keeping family members at home for longer as an alternative to care, the expected rise in children's social care referrals being delayed due to the school closures, the delay in financial hardship as a result of the extension of many government schemes such as Furlough, Winter Grant Scheme, and grants to businesses. It is anticipated that once these interventions cease there will be a resulting increase in demand, (sections 6.6- 6.10 cover this in more detail).

- **Culture and Leisure services-** as outlined in section 5, this service underwent significant change during 2020/21 with the services being transferred from Vivacity and split between Aragon Direct Services and City College Peterborough. This put additional financial strain on the Council, causing a £1.8m pressure as a result of the income loss due to lockdown restrictions, undelivered savings plans and the cost of re-organisation.

Key Areas of Underspend

- **Elections** - £0.2m underspent as a result of the national postponement of the May 2020 Local Elections
- **Empower Loan** - additional £0.6m of income received due to loan interest (see further explanation in sections 6.11 to 6.17)
- **Bereavement Services Income** - exceeding its income target by £0.7m, due to the rise in deaths as a result of C-19
- **Business Rates Pool** - the Council is part of the Cambridgeshire and Peterborough Business Rates Pool. The Pool takes into account the business rates levy owed by each of the authorities, pooling them together, to produce a lower percentage levy calculation for member councils. This year the Pool gain has exceeded its original forecast with the council benefiting an additional £0.2m, above the level budgeted
- **Tax Income Guarantee (TIG) scheme** - the government has introduced of a TIG scheme whereby Local Authorities are compensated for 75% of lost Business Rates and Council Tax income. The Council has calculated compensation of £2.3m, which forms part of the contribution to the C-19 Tax Income Reserve to mitigate the financial impact of any future collection shortfalls
- **Highways** – this service area finished the year in a favourable position of £1.4m, which is the result of income generation exceeding targets, savings on staffing costs and the lower cost of street lighting

Latent Social Care Demand

- 6.6 C-19 has caused impacts on many different groups of people, some clear and obvious, some known to public services, and others more hidden. This aligns with the national context, which has seen C-19 take an extraordinary toll on the nation's health, with a disproportionate burden placed on the most disadvantaged groups.
- 6.7 Previous demand modelling undertaken by the Council applied historical demand patterns to future demographic assumptions. C-19 has affected demand in ways the sector has never experienced and there are many unknowns around what the longer-term impacts might be. Over the last 15 months the Council has seen varying patterns of impact on service provision, which have been difficult to extrapolate into a longer-term trend. Whilst the Government has provided additional funding to help meet the demands of C-19, this has been time limited in nature and announced at short notice, which hinders the Council's ability plan in the longer term, and the uncertainty making it very difficult to accurately forecast, especially as the Council believe there is a level of latent demand which is yet to present.
- 6.8 A year-end review of statistics on adult and children's social care services are indicating a number of areas where the latent demand is starting to present and is likely to impact 2021/22 and future years budgets. These include:
- 6.9 **Adult Social Care:**

- Higher numbers of mental health act assessments and referrals to brokerage, whilst hospital referrals have been reduced. Whilst there has been a reduction in safeguarding enquiries, the Council believes this is likely to be due to hidden need which may present as a latent demand.
- Increased numbers of contacts from sources other than the hospitals, adult early help referrals.
- Higher acuity of need and more complex packages of care.
- Permanent admissions to residential care settings for over 65-year olds in the last 6 months of 2020/21 were 30% higher than the same period in 2019/20. Whilst overall spend on residential care did not increase in line with this last year, the high rates of C-19 deaths are likely to have masked this.
- Demand for support for younger adults, those aged 18-64, has increased in the last year. Contacts for new clients were up by 8%, with numbers transitioning from children's service more than doubling. This resulted in a net increase of this age group receiving long term services within the year of 2.1%.
- Increased pressures on independent sector providers, leading to increased costs of care.

6.10 Children's and Education

- Increasing demand for early help and child protection services.
- Increase in child protection plans by 37%, as latent demand starts to become visible. In turn there is a risk that we will see an increase in the numbers in care as a result of this.
- Cost of care is rising as a result of the following:
 - Increase in young people in care with more complex needs, which can cost up to c. £0.250m per annum for one child.
 - Impact of C-19 on provider costs, e.g. additional staffing for cover and social distancing measures, PPE and cleaning.
 - Increasing numbers of children and young people in Tier 4 inpatient provision liable for section 117 (Mental Health Act) after care support on discharge. This requires complex levels of support from providers.
 - Increasing complexity of children becoming looked after, which can mean an increase in the risk of a placement breakdown and increasing placement costs as a consequence.
 - More teenage children entering care, lack of suitable foster placements across the board, but specifically in-house.
 - Substantial increase in the numbers of children being referred for residential services provision. An Independent Fostering Agency (IFA) placement is £845 per week and residential now £3,750+ per week.
- During the pandemic there has been a reduction in Unaccompanied Asylum-Seeking Young people entering care, the Council is well below its quota so anticipate greater numbers in the coming months as borders open/channel crossings.
- Education Health Care Plans (EHCP) continue to increase, and we will see a significant increase in the number of EHCPs based on current trends.

Empower

- 6.11 During the financial year 2020/21 the Council were in negotiations with ECS Peterborough 1 to put the existing short-term construction loan facility on to a long-term basis (SEP20/CAB/31), which if successful, would have been backdated to 1 April 2020. The proposed repayment profile of the new facility would have included both interest and loan principal repayment and the forecast outturn reflected this assumption.
- 6.12 In the final month of the financial year, the loan negotiations were not successful and on 30 March 2021 Notice of Repayment was issued to ECSP1. The money received on account was allocated according to the existing short-term loan facility agreement which incorporated a higher interest rate and no loan principal repayment. The outturn movement for Empower of £0.6 reflects this increased

level of interest income which was not forecast during the year while negotiations were proceeding with ECSP1. For additional information see the report Empower on the Cabinet Agenda 21 June 2021.

- 6.13 The amendment to the loan status has also impacted the final sign-off of the 2019/20 accounts as the Council has been required to consider a Post Balance Sheet Event (IAS10) with regards to the valuation of the loan on the Council's balance sheet. The Council's accounts were closed with the best knowledge known at the time of the 31 March 2020. The condition existing at this time is the Coronavirus pandemic which influenced the refinancing activity being undertaken at this time in relation to the loan.
- 6.14 As part of the consideration the Council has requested Deloitte to undertake a valuation of the loan which puts the fair value of the loan, based on commercial terms, at a mid-point of £15.4m were the Council seeking to sell the loan in the open market. Whilst this is a fair commercial assessment based on market conditions as at 31 March 2020, the Council is considering a report from Teneo Restructuring Ltd which has considered various options, recommending one which will maximise the return to the Council. The Council considers the value of the loan calculated from the underlying Net Present Value (NPV) of the forecast cash flows as more appropriate and as such this is used for the value of the loan at 31 March 2020. This value has been calculated by Deloitte at £20.4m using the same underlying financial model as that used for the market sale valuation. As well as restating the value of the loan, it has also been re-classified as a long-term debt to more accurately reflect the underlying transaction.
- 6.15 The loan to ECSP1 falls within the definition of Capital Expenditure under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 section 25. The requirement under this regulation necessitates the loan be classed as capital expenditure for the purposes of its accounting treatment. As part of the Council's Minimum Revenue Provision policy, which forms part of the yearly approval of the Medium-Term Financial Strategy by Council, any revaluation of the loan will be attract an annual revenue charge over the remaining life of the assets.
- 6.16 Further information can be obtained from the Cabinet 21 September 2020 agenda item 6, and Audit Committee 25 January 2021, item 4. Reports on the Empower Loan are also scheduled for the Cabinet and Audit Committee on 21 June 2021.
- 6.17 A detailed breakdown of the outturn by Directorate and explanation of the major variances is provided in Appendix A.

7.0 RESERVES

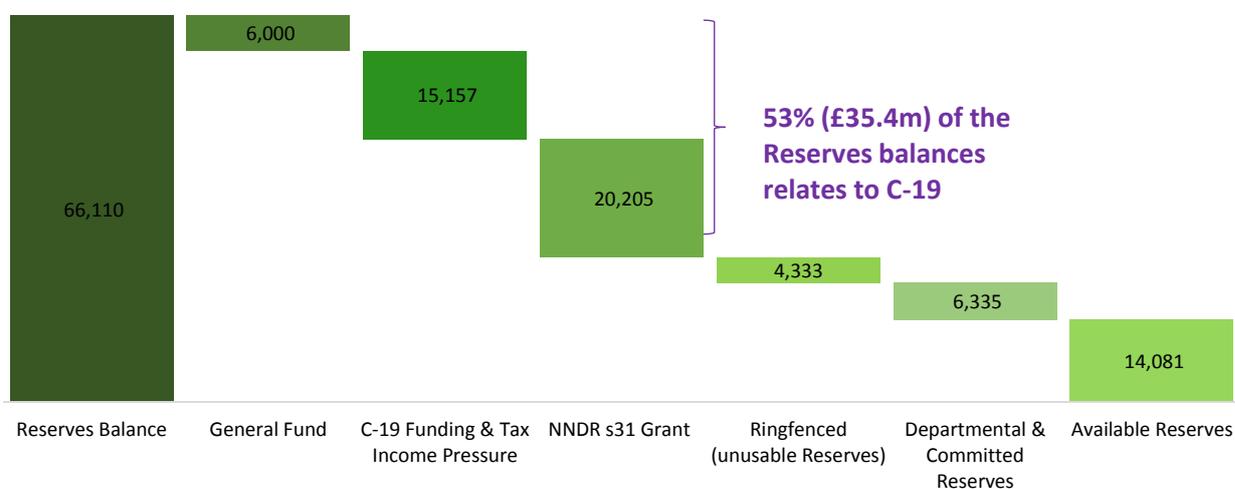
- 7.1 The Council's reserve balances are monitored throughout the year as part of the BCR and budget setting process. Table 3 summarises the balance for all reserves at the beginning and end of 2020/21, and the forecast position for future years. For additional information see Appendix B.

Table 3: Council Reserves Summary Position	2019/20	2020/21	2021/22	2022/23
	Balance 31.03.20	Est Bal at 31.03.21	Est Bal at 31.03.22	Est Bal at 31.03.23
	£000	£000	£000	£000
General Fund	5,111	6,000	6,000	6,000
Usable Reserves (Capacity and Departmental)	12,992	20,415	16,674	15,886
COVID-19 Tax Income Reserve	5,077	22,521	2,316	-
COVID-19 Funding Reserve	5,332	12,841	-	-

Ring-Fenced Reserves	4,063	4,333	4,333	4,333
TOTAL Earmarked and General Fund Balance	32,575	66,110	29,323	26,218

- 7.2 The earmarked reserves balances are set aside for specific purposes, the table highlights which of these reserves are ring-fenced for specific use or available for use. The available reserves often relate to a grant funded programme or are used to invest in transformational change to support the implementation of service savings proposals.
- 7.3 The table outlines a significant rise in reserves levels at the end of 2020/21, with the balance £66.1m. This increase in reserve balance is expected to be reflected nationally, with most Local Authorities reporting increased reserve levels due to the accounting treatment of grant balances. The biggest driver of this increase is the inclusion of the Business Rates section 31 grants (explained further in section 7.5) and funding being committed to meet the additional C-19 expenditure expected. Both of these reserves are forecast to be fully utilised, and in the case of the Business Rates section 31 grant the full use of this reserve has been built in to the 2021/22 budget to mitigate the financial impact of the Collection Fund loss.
- 7.4 Our Reserves remain very tight with **only £14.1m remaining uncommitted, un-ringfenced and available for use** for transformational investment or for any unforeseen incidents, such as a major child protection issue, a structural building issue putting the public at risk (Northminster Car Park in 2019/20) or another significant incident. The following chart breaks down the £66.1m reserves balances at the end of 2020/21, with further explanation on the reserves movements included within section 7.5:

Reserves Balance Breakdown- 31 March 2021 (£000)



- 7.5 Key reserves movements are as follows:

COVID-19 Funding Reserve - the opening position in 2020/21 related to the first tranche of un-ring-fenced C-19 response fund, received from MHCLG at the end of 2019/20. Following the application of the accounting rules this was put into reserves for use in 2020/21 (included within table 1). During the year the government provided substantial financial funding to support Local Authorities (LA's) with the cost of additional activities, but also more generally, as it was recognised that the financial hardship caused by C-19 was impacting on LA's ability to generate income and deliver saving plans. This funding has provided a vital lifeline to the Council, and has enabled it to promptly and successfully respond to the pandemic. However, the additional pressures are expected to continue in to 2021/22, some of which represent the latent demand in respect of Adult and Children's Social Care. The Council has

reviewed its financial position regularly and within its assumptions being reported within financial monitoring reports submitted monthly to MHCLG, the Council has identified a net pressure of £12.8m (after applying specific grant funding) for 2021/22. Therefore £12.8m has been placed in this reserve and committed to funding this additional forecast cost, minimising the financial volatility between years.

COVID-19 Tax Income Reserve – this reserve includes two elements outlined in the following points, both relating to local taxation, and result from grant received in respect of C-19:

- **Business Rates (NDR) section 31 grants (£20.2m):** this reflects the grant received in 2020/21 to compensate the Council for the additional cost of providing 100% business rates relief to businesses in retail, leisure, hospitality and nurseries. Section 31 grants are accounted for through the General Fund, whereas business rates income is accounted for through the Collection Fund. The estimated balance on Collection Fund at the end of 2020/21 is exceptionally low as a result of the additional discounts applied to business rate payers, and this balance carries forward as a deficit in to 2021/22. This grant has been put into reserves and will be drawn down in 2021/22 to smooth the budgetary effect of this deficit and the Collection Fund accounting. This action has been factored into the Council's MTFS.
- **Tax Income Guarantee (TIG) scheme (£2.3m):** the government has recognised the strain C-19 has had on LA core funding by implementing a number of schemes. These schemes include the spreading of Collection Fund deficits, providing support to businesses and households, and the introduction of a TIG scheme whereby LA's are compensated for 75% of lost Business Rates and Council Tax income in comparison to budget. The government issued proforma has been used to calculate compensation of £2.3m, and in accordance with accounting policies this grant has been included within the 2020/21 final position and form part of the contribution to reserves to mitigate future reductions in Council Tax and Business Rates, as a result of C-19.

Departmental Reserves - the amounts set aside by departments during the preparation of the accounts is in accordance with financial guidance, to minimise risk exposure to the Council in the following financial year. This reserve balance has increased from £5.0m to £5.4m through an increase in the Peterborough City College reserve and a combination of specific grants which have been received for projects covering multiple years. The reserves include balances in respect of:

- Family Safeguarding Innovation Programme Pilot £1.3m
- Integration Area Programme ([Integrated communities](#)) £1.1m
- Controlled Migration Fund £0.4m
- Peterborough City College £1.8m

Capacity Building Reserve - this reserve is held to meet one off costs of service transformation and the delivery of savings within the Medium-Term Financial Strategy (MTFS). A number of transformation programmes have been committed against this reserve including the ICT strategy, Adults Positive Challenge programme and the delivery of savings programmes across the Council. The reserve has increased by £2.0m, which included the contribution from the final 2020/21 underspend (£3.975m), as outlined in Table 2.

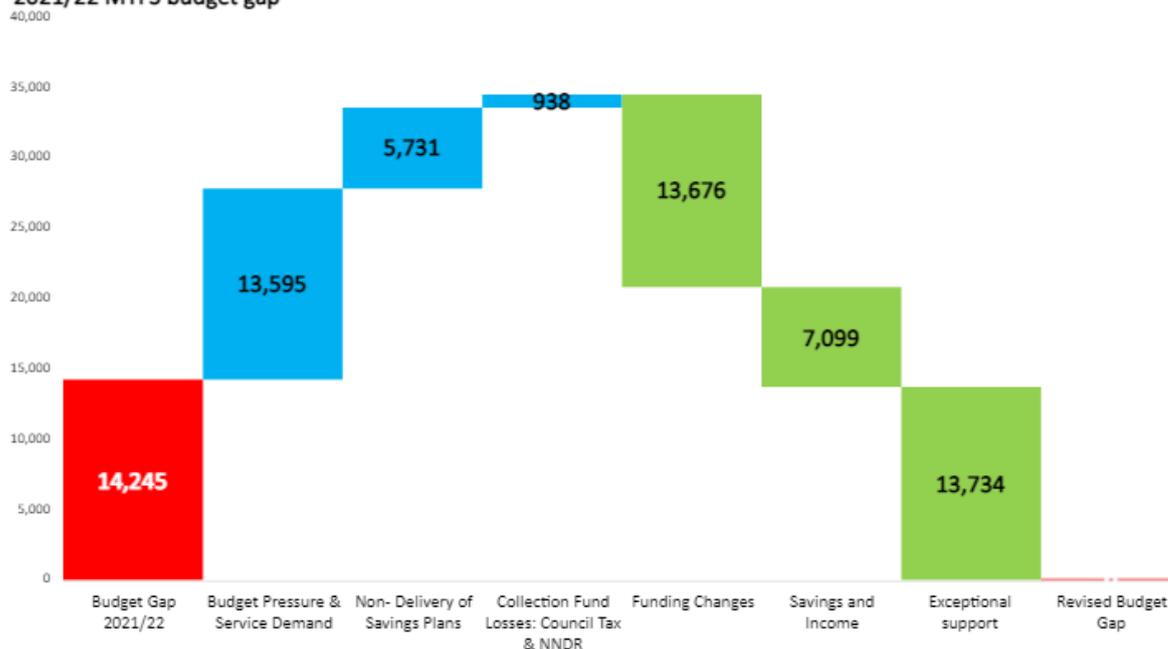
Public Health – movements on this reserve represent a net carry forward of unused Public Health grant, in relation to previous years underspends. This reserve has increased from in £0.009m to £0.131m.

General Fund – the General Fund is the Council's working balance to manage in year risks. It is usually held at a balance of £6.0m but was temporarily reduced in 2019/20 due to the identification of a timing difference in Business Rates, which meant income from section 31 grants was £0.9m lower than originally budgeted. The income has been received in 2020/21 and the General Fund replenished to a balance of £6.0m.

8.0 2021/22 BUDGET OVERVIEW

- 8.1 The Council's financial challenge has developed over the years due to underfunding, exposure to greater levels of risk and low financial resilience, resulting from its low reserve balances. Despite this financial context the Council has continued to perform well, providing vital services to its 202,000 residents, whilst at the same time managing demand and keeping expenditure low. However, it is because of this financial context that the impact from the C-19 pandemic has had such a pervasive impact on the Council's finances.
- 8.2 Since 2018 the Council has subjected its financial strategy and approach to financial sustainability to rigorous external financial challenges and in 2019 it implemented an enhanced series of expenditure controls.
- 8.3 The Council undertook an intensive period of investigative and service review work in the early 2020, to close the 2021/22 £14.2m deficit. At the commencement of lockdown £11.9m of savings opportunities had been identified with full validation process and more detailed business case development to be undertaken. However, as a direct result of responding the C-19 pandemic these opportunities were impaired to £3.6m.
- 8.4 The C-19 pandemic response and recovery the Council has reported an additional £30.2m of C-19 related expenditure and loss of income in 2020/21, and whilst this has largely been covered by additional government funding, it is expected that there will be long term impacts for which future longer-term funding is still unknown. An estimated of the longer-term impact of C-19 has been factored in to the 2021/22 budget with pressures such as the rising costs of Adult Social Care, Local Tax losses and the non-delivery of existing MTFS saving plans.
- 8.5 The Council has continued to review its budget assumptions and identify saving opportunities, which has enabled it to reduce the budget gap. This included a review of the Council Tax and NNDR income base assumptions, a review of the cost of borrowing and debt redemption using capital receipts and the incorporation of a further £12.7m funding in 2021/22, of which £8.9m is one-off in nature. This has provided the Council with some short-term security to meet the pressures from C-19 and the rising costs of Adult Social Care. The remaining budget Gap of £13.7m is expected to be met by the use of Capitalisation Direction (further detail in point 6.6). The following chart outlines the 2021/22 budget position:

2021/22 MTFS budget gap



8.6 In October 2020 the Council approached MHCLG to enable the further exploration of alternatives to issuing a S114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the Council’s finances and has now received conditional approval for a Capitalisation Direction (borrowing) of up to £4.8m in 2020/21 and up to £20.0m in 2021/21. This exceptional support has enabled the Council to set a balanced budget for 2021/22, which was approved at Full Council on 3 March 2021. The Council will continue to work closely with MHCLG, to develop a delivery model to secure financial sustainability and provide assurance to satisfy the conditions attached to the exceptional support funding.

9.0 FINAL CAPITAL OUTTURN 2020/21

9.1 The final position of the Council's Capital Programme and the treasury activity for the financial year 2020/21 follows. The Council’s treasury activity during 2020/21 has been compliant with the Treasury Management Strategy approved in March 2020 as part of the MTFS process. This information compliments the Prudential Indicators performance report as set out in Appendix C.

Capital Programme Outturn 2020/21

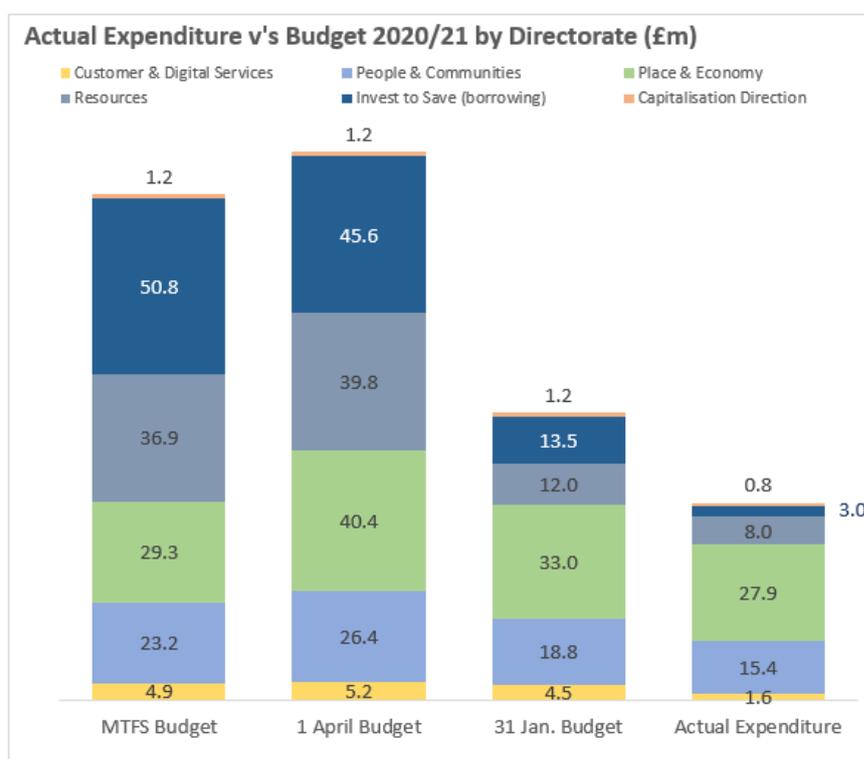
9.2 The Council’s final revised capital budget was £83.0m which includes the budget for the Invest to Save (I2S) Schemes of £13.47m for the 2020/21 financial year. The agreed capital budget as per the Medium Term Financial Plan (MTFS) was £146.35m. The following chart and table shows the movement in capital programme throughout the year with the final expenditure. Capital budgets as agreed for the 2020/21 MTFS £146.4m, budgets containing slippage from 2019/20 £12.24m, and the budget as reported at 31 January 2021 £83.0m. These budgets compared to the final expenditure for each directorate and how this investment is financed £56.76m.

9.3 The movement between the MTFS position and the £56.76m actual outturn is a result of the in-depth review of the capital programme by the Capital Review Group (CRG) and Corporate Management Team (CMT) under taken throughout 2020/21 to ensure that the capital programme is both affordable and appropriate and to realise revenue savings to address the forecast overspend reported. A number of projects across all directorates have been reprofiled to reflect the spending over future years and other projects removed following the scrutiny process linking to the development of the 2021/22 MTFS.

Directorate	MTFS Budget £000	1 April Budget £000	31 Jan. Budget £000	Actual £000
Customer & Digital Services	4,920	5,169	4,481	1,593
People & Communities	23,214	26,424	18,809	15,439
Place & Economy	29,275	40,401	33,008	27,917
Resources	36,927	39,778	12,010	8,025
Capitalisation Direction	1,217	1,217	1,217	763
TOTAL	95,553	112,989	69,525	53,737
Grants & Contributions	26,778	32,707	30,716	29,315*
Capital Receipts	-	-	-	-
Borrowing	68,775	80,282	38,809	24,422
TOTAL	95,553	112,989	69,525	53,737
Invest to Save (funded by borrowing)**	50,800	45,602	13,470	3,026

* correct as at 11 June 2021, may require small amendment as closure progresses

** within the MTFS budget was £10m for ADS Fleet renewal, as the business case developed this was subsequently removed from Invest Save, this is reflected in the 31 Jan. Budget figures



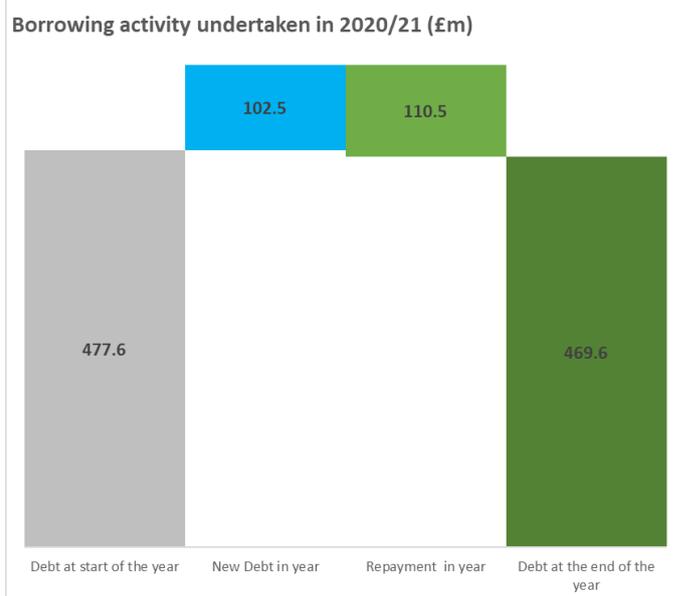
9.4 Invest to Save projects have been reduced over the next few years due to no planned expenditure. However it should be noted that this does not impact the Council's revenue capital financing budgets as these projects are schemes that must cover the cost of borrowing and minimum revenue provision (MRP) from either income generation or from generated savings.

9.5 Listed below are the major projects that combined comprise the majority of the total capital expenditure of £56.76m.

- Schools (including the new Manor Drive and Hampton Lakes schools and the expansion of Marshfields school) - £15m
- Highways - £20.8m
- The Vine: New Library and Cultural Hub £4.0m
- Fletton Quays Hotel - £3.0m
- Purchase of 88 Lincoln Road to convert into residential flats as 'next steps accommodation' to house former rough sleepers - £2.0m

Funding the Capital Programme

- 9.6 The Capital Programme is funded via grants and third party contributions, and borrowing funds from the external market. Capital receipts generated from the sale of Council assets are used to repay debt as per the Council's Minimum Revenue Provision (MRP) Policy.
- 9.7 It is a statutory duty for the Council to determine and keep under review the level of borrowing it considers to be affordable. The Council's approved Prudential Indicators (affordable, prudent and sustainable limits) are outlined in the approved Treasury Management Strategy. The Council borrows to fund expenditure for new assets, and for the Capitalisation Direction granted by the Secretary of State.
- 9.8 The Council's total borrowing as at the end of the financial year is £469.6m, and the total interest paid on these loans for the year was £14.4m. The following chart summarise the overall treasury borrowing activity undertaken for the year with an overall reduction in borrowing being achieved of £8.0m. The following table provides a summary of the Council's debt portfolio. Further information is contained in the capital financing section of Appendix A.



Borrowings	Less than 1yr	1-2yrs	3-5yrs	6 -10yrs	10+yrs	Total	Ave. Interest Rate	Ave. length of loan
	£000	£000	£000	£000	£000	£000	%	Years
PWLB	4,500	12,128	13,000	14,520	325,439	369,587	3.5	28
Local Authority	77,500	5,000	-	-	-	82,500	0.4	-
Market Loans	17,500	-	-	-	-	17,500	4.5	16
Total Borrowing	102,500	17,128	13,000	14,520	325,439	469,587	3.0	23
% of total Borrowing	21%	4%	3%	3%	69%			
Borrowing Limit (PI)	40%	40%	80%	80%	100%			

- 9.9 Consideration has been made to rescheduling debt, however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the Council and no savings were to be made.

Capital Receipts

- 9.10 As per the MTFs and the Council's MRP policy, capital receipts generated from the sale of Council assets are used to repay debt and therefore form part of the MRP calculation.
- 9.11 The following table shows the amounts of capital receipts built into the MTFs and the actual capital receipt received in 2020/21. The total amount of capital receipts used to repay debt as per the MRP policy in 2020/21 was £6.36m which included the sale of POSH.

Budget	Assets sold in year	Other receipts	Variance
£000	£000	£000	£000
4,302	6,114	243	(2,055)

Investments and Loans to Third Parties

- 9.12 The Council aims to achieve the optimum interest on treasury investments commensurate with the proper levels of security and liquidity.
- 9.13 The Council has small surplus cash balances to cover the Council's treasury function, however, this was kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 9.14 In the current economic climate the Council considered it appropriate to keep investments short term to cover cash-flow fluctuations, and only invest with Barclays (the Council's banking provider) the Debt Management Office and a Money Market Fund.
- 9.15 The Council has also secured loans to third parties to advance the Council's strategic interests. The loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Corporate Director: Resources.
- 9.16 As part of the formal decision to make the loans, the security for the loans are assessed as to their adequacy in the event of the third party defaulting on repayment and individual loan agreements provide for the recovery of the capital loan in the event of the default.
- 9.17 The Council's secured capital loans to third parties are set about in the following table.

Third Party Details	Loan Amount	Status
ECS Peterborough 1 LLP	Capital Loan £23.0m	Under review see Cabinet report 21 June 2021
Fletton Quays Hotel Ltd	Capital Loan £15.0m	Due in 2022/23

- 9.18 At the end of the financial year, the Council's external investments totalled £18.1m. The interest that has been received from all external investment activity including the Council's loans to third parties, and the dividend payment from Eastern Shires Purchasing Organisation (ESPO) has yielded £1,844k.
- 9.19 Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix C along with an update on treasury management activity and other financial performance indicators in Appendix A.

10.0 Consultation

- 10.1 Detailed reports have been discussed in Departmental Management Teams and this report with the Corporate Management Team.

11.0 Anticipated Outcomes

- 11.1 That the outturn position for 2020/21 is noted.

12.0 Reasons for Recommendations

- 12.1 This monitoring report forms part of the 2020/21 closure of accounts and decision-making framework culminating in the production of the Statement of Accounts and informs Cabinet of the final position.

13.0 Alternative Options Considered

- 13.1 None required.

14.0 Implications

12.1 Members must have regard to the advice of the Section 151 Officer.

15.0 Appendices:

- APPENDIX A – 2020/21 Directorate Revenue Outturn Report
- APPENDIX B - Reserves Position
- APPENDIX C - Treasury Management Strategy – Prudential Indicators 2020/21
- APPENDIX D - Performance Monitoring Report Prompt payment of invoices

16.0 Background Documents:

- [Medium Term Financial Strategy 2020/21 - 2022/23](#)
- [Budget Setting Process: \(Item 9a, Cabinet Report, Appendix A\)](#)
- [COVID-19 Financial Update: 11 May Cabinet, Item 5](#)
- [Final Outturn Position 2019/20: 22 June 2020 Cabinet, Item 6](#)
- [Budgetary Control Report April 2020: 22 June 2020 Cabinet, Item 8](#)
- [Budgetary Control Report May 2020: 13 July 2020 Cabinet, Item 6](#)
- [Budgetary Control Report July 2020: 21 September 2020 Cabinet, Item 8](#)
- [Budget Setting Process: \(Item 9a, Cabinet Report, Appendix A\)](#)
- [Budgetary Control Report August 2020 – 26 October 2020 Cabinet, Item 5](#)
- [Budgetary Control Report October 2020: 30 November 2020 Cabinet, Item 8](#)
- [Medium Term Financial Strategy 2021/22 TO 2023/24 - PHASE ONE: 30 November 2020 Cabinet, Item 6](#)
- [Budgetary Control Report November 2020- 18 January 2021 Cabinet Item 6](#)
- [Council Tax Base and Collection Fund Cabinet Report, Appendix A, Supplementary Report](#)
- [Budgetary Control Report December 2020- 23 February 2021 Cabinet \(item 7\)](#)

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