

Report Title	Finance and Performance 2020/21		
Committee	Strategy and Resources Committee		
Committee Date	5 July 2021		
Committee Chair	Councillor Ruth Dombey		
Lead Member	Councillor Sunita Gordon, Lead Member for Resources		
Report From	Richard Simpson, Strategic Director of Resources (S151 Officer)		
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Ward(s) Affected	<ul style="list-style-type: none"> ● Council Business ● All Wards 		
Ambitious for Sutton priorities	<ul style="list-style-type: none"> ● Being Active Citizens ● Making Informed Choices ● Living Well Independently ● Keeping People Safe 		
Open/Exempt	<ul style="list-style-type: none"> ● Open 		
Signed		Date	23 June 2021

1. Summary

- 1.1. The Council has faced unprecedented challenges across the 2020/21 financial year as it sought to manage the impact of the Covid-19 pandemic on Sutton residents whilst delivering vital front line services. The pandemic impacted every aspect of our day to day activities meaning our financial and performance plans set in February 2020, had to be adapted and flexed to cope with the emerging situation as well as maintain existing statutory activities.
- 1.2. The Council had approved a budget for 2020/21, aligning financial resources to Ambitious for Sutton priorities and objectives, on 2 March 2020. Alongside this key performance targets were set to enable us to track and measure progress against the Ambitious for Sutton priorities and key risks for the Council. The beginning of the pandemic shortly after this meant that our plans had to be quickly adapted and resources redirected to enable us to respond effectively to the public health crisis and deliver new critical activities as part of the national response.

- 1.3. This report details the performance of the Council against the 2020/21 budget and our performance indicators, including the impact of our response to the pandemic. The report also provides an update on the Medium Term Financial Plan and the ongoing financial impact of the pandemic, as well as an overview of key priorities and risks for the year ahead.

2. Recommendation(s)

- 2.1. To note the key achievements for 2020/21 as set out in section 4.
- 2.2. To note the 2020/21 Financial Outturn position for the Council's revenue budget of £0.828m underspend leading to an increase in general fund balances which are now £8.236m.
- 2.3. To note the 2020/21 Financial Outturn position for the Council's capital budget of £0.430m underspend against the revised capital programme shown in Appendix A.
- 2.4. To approve the capital programme adjustments set out in Appendix B to re-profile 2021/22 budgets to reflect the programme outturn.
- 2.5. To approve the additional budget of £30m over 6 years to deliver the Beech Tree Place redevelopment programme, as set out in paragraph 6.5 and approved by the Housing Economy and Business Committee in June.
- 2.6. To note the 2020/21 Financial Outturn position for the DSG budgets of £0.410m underspend leading to an overall DSG reserves position of £1.321m and for the HRA of £0.366m overspend leading to HRA reserves of £4.5m.
- 2.7. To note the financial risks and issues for the Council over the period 2022/23 - 2023/24 as set out in Section 11.

3. Background and Key Information

- 3.1. The Council set a balanced revenue budget for 2020/21 at the budget Council meeting on 2 March 2020. At the same meeting a capital programme for 2020/21-2022/23 was agreed allowing for investment in key Ambitious for Sutton priorities. This report provides the committee with an analysis of financial performance against these budgets and the impact Covid-19 had on our finances last year.
- 3.2. The report also updates the committee on key achievements in 2020/21, presenting the final position against our key achievements and highlighting areas of success achieved despite the disruption of the pandemic largely impacting our ability to deliver our usual activities.

4. Key Achievements

- 4.1. As set out in previous reports to this committee, COVID-19 has presented major challenges for Sutton residents, businesses and communities. In responding to this, it has been important for the Council to consider both the immediate 'crisis' response and the longer term challenges people may face as a result of the pandemic; these are likely to be complex and wide-ranging issues, such as unemployment, mental and physical health issues, and social isolation. As set out below (and in the Recovery update elsewhere on this agenda), a joined-up, strategic response will be key to addressing some of these issues.
- 4.2. The full effect of COVID-19 is yet to be seen, but it is already clear that the long-term financial impact on residents, businesses and the Council could be significant. For example:
- As of March 2021 there were 7,645 residents in Sutton claiming out of work benefits. This figure represents 5.8% of the working age population which is double the rate from March 2020 (2.4%; 3,155 residents) (Office for National Statistics)
 - Uptake of Universal Credit has increased across all areas of the borough, but there is significant variation between some areas. Over 20% of working age adults in the following areas now in receipt of Universal Credit: Sutton Central, Middleton Circle, and St Helier South, and this increases to over 25% in Roundshaw.
 - As at March 2021 9.1% of 18-21 year olds in Sutton (645 residents) were claiming out of work benefits, nearly a threefold increase in one year; up from 3.8% in March 2020 (270 residents).
 - The percentage of children eligible for free school meals (FSM) has also increased throughout the pandemic with 16.21% of primary school pupils taking up FSM in spring 2021, compared to 13.39% in spring 2020. A slightly smaller increase can be seen amongst secondary school pupils (12.35% in Spring 2021, compared to 10.15% in spring 2020).

- There are indications that the pandemic has also led to increased housing insecurity with numbers of households in temporary accommodation rising from 649 in April 2019, to 752 in April 2020 and up to 826 in April 2021.
- There has been a slight increase in the repeat victimisation domestic abuse incidents reported via Multi-agency risk assessment conference (MARAC); 26.4% in April 2021 compared to 22.5% in 2020
- There has been an increase in the percentage of vacant retail units from 13.3% in 2020 to 18.1% in 2021 which will likely have an impact on funding the Council collects via business rates.

4.3. In response to the pandemic, the Council has worked in partnership with key organisations across Sutton to deliver a range of new services and support for residents and businesses, whilst continuing to deliver the existing services the Council is responsible for. The initial focus was on responding to the public health emergency, but this has now shifted towards supporting recovery across the borough (as set out in more detail elsewhere on the agenda).

4.4. A summary of the key achievements to date are included below, with a focus on the following areas:

- Supporting vulnerable people;
- Supporting the vaccination programme;
- Increasing access to tests and supporting local contact tracing;
- Supporting local businesses;
- Maintaining essential services; and
- Supporting the workforce

Supporting vulnerable people

4.5. The Community Hub was initially established to provide food and support access to medication early on in the pandemic for people isolating. It has also provided a single point of contact for people needing additional support. Working in partnership with voluntary and community organisations through the Community Hub, 1,925 residents received support through the first wave of the pandemic, and over 250 residents through the second wave. Through the first wave, over 7,000 Clinically Extremely Vulnerable residents were contacted to ensure they had the support needed whilst shielding, with 1,180 receiving support. More than 630 Clinically Extremely Vulnerable residents were contacted through the January to March 2021 lockdown.

4.6. Partnership working between the council and voluntary and community sector organisations was further strengthened throughout the pandemic in order to support the national shielding programme and ensure the most vulnerable residents could access help and support (for example, to access food). After the national shielding programme ended on 31 March, the council led elements of the Community Hub were slowly reduced with voluntary and community sector partners stepping in on 7 May as part of existing

contractual arrangements to ensure that vulnerable people who may still require support and assistance as a result of the pandemic can access it.

- 4.7. The Council has proactively supported the care sector in infection prevention, outbreak management, recruitment and with the interpretation and application of government guidance. The Council has also delivered £5.73m additional financial support; £5.30m of which has come from additional Government funding, with an additional £430k from the Council.
- 4.8. £1.36m of financial support has been delivered to 7,594 residents through the Hardship Fund (as of 31 March 2021). 557 residents have received Isolation Support Payments, 217 of which have been discretionary (as of 18 May 2021).

Supporting the vaccination programme

- 4.9. Working closely with health, and community and voluntary organisations, the Council has supported the COVID-19 vaccination programme, holding webinars and question and answer sessions with key groups where there are significant barriers or concerns about receiving the vaccine.

Increasing access to tests, and supporting local contact tracing

- 4.10. Three asymptomatic testing sites were set-up across the borough; two for frontline staff and partner organisations, and one for the wider community, to ensure the Council's most vulnerable service users were protected, and that essential service could continue.
- 4.11. The Council has supported contacting close contacts of people testing positive for COVID-19 through the set-up of a local contact tracing service. The service received over 1550 cases between December 2020 and March 2021, and reached 70% of these.

Supporting local businesses

- 4.12. The Council has delivered a range of grant payments to businesses since the start of the Pandemic this has included grants to certain sectors in the original lockdown and more recently to those required to close, this has included developing a discretionary fund for small businesses. Over £47m has been distributed with almost 9,000 grants paid in total since March 2020.
- 4.13. The Council has provided information to businesses on their responsibilities and Public Health guidance via webinars and in-person visits from officers and COVID-19 Community Champions.

Maintaining essential services

- 4.14. Throughout the pandemic, the Council has worked to ensure that essential services can continue to operate safely in line with the relevant guidance - in some cases, services

have been able to operate in a different form (eg. online). As restrictions have begun to ease, the Council has taken a measured and systematic approach to opening up and delivering services in line with national guidance and local needs, and this will continue going forward.

- 4.15. As an essential service, Libraries have remained open following the initial lockdown (excluding those in leisure centres). A number of library services have moved online, with the delivery of online activities and resources. Digital interactions with library services increased by 4.8x in 2020/21 (compared to 2019/20, from 204,000 in 2019/20 to 989,000 in 2020/21).
- 4.16. The Council and Cognus have also been supporting schools throughout the pandemic, focusing on ensuring learning can be delivered safely in line with relevant guidance, and that children and families are supported. This will continue as restrictions ease, particularly focusing on supporting vulnerable pupils and addressing attainment gaps.
- 4.17. Waste collection services have been maintained throughout the pandemic, and visits to the Household Reuse and Recycling Centre continue to be available on a pre-booked basis.

Supporting the workforce

- 4.18. By providing clear guidance and support to teams and management, the Human Resources and Organisational Development (HR and OD) Service supported the emergency response by ensuring teams were best able to continue to deliver crucial services to Sutton's residents. This included responding to Government advice, communicating with staff, managers and trade unions, co-ordinating deployment across the Council, and delivering a learning and development offer around remote working, wellbeing and race equality.
- 4.19. To support staff wellbeing during the COVID-19 pandemic, a range of resources were promoted via the intranet and the weekly managers update, including Wellbeing Wednesdays monthly and Wellbeing one to ones were introduced.
- 4.20. An update on the Council recovery planning is provided elsewhere on the agenda.

5. Revenue Budget Outturn

- 5.1. The Council delivered an overall underspend of £0.828m for 2020/21. This outturn includes significant Government grant funding allocated to the Council to mitigate the financial impact of the pandemic and to provide additional support to residents coping with Covid or needing help through the lockdowns and economic disruption we experienced over the last year. The outturn variance excluding these grants would have been £16.083m overspend.
- 5.2. The Covid grants applied in 2020/21 total £13.855m of un-ringfenced grants applied to offset Covid related costs including one off response costs, such as providing food

deliveries during lockdown, and increased service demands arising from the pandemic such as increased levels of social care needs. In addition to this £3.056m of grant was received as part of the Government's initiative to fund 75% of income losses experienced by the Council due to Covid. This included income from parking, leisure and planning.

- 5.3. Monitoring and management of Covid related spend was initiated quickly following the first lockdown being announced. This helped us to forecast the likely pressures we would experience and redirect existing resources appropriately where needed. For example, staff that work in services that could not operate, such as libraries, were redeployed to services experiencing high pressures such as social care or the test and trace programme. This was reviewed monthly alongside our usual budget monitoring reporting, and helped us identify areas where we needed to mitigate pressures that could not be offset by the grant income. This included areas such as the remaining 25% of income lost and increased use of agency staff in some areas due to the difficulties recruiting during a pandemic.
- 5.4. There were also pressures arising outside of Covid related activities. This was largely in Children's services, where social care activity levels have increased consistently in recent years both in volume and in complexity, causing costs to rise above inflation and placing pressure on placements. Similarly there are high costs of supporting children with SEND which impacts both the DSG budget and the general fund in areas such as transport and therapies costs. Growth had been factored into the 2020/21 budget for these areas but the high levels of demand in-year meant that pressures over and above this were experienced. These were managed and mitigated by underspends elsewhere where possible to ensure they could be accommodated within the overall Council budget. Further growth has been included in the 2021/22 budget based on this data and an assumption that the trend will continue, and it is likely that growth will again be proposed for 2022/23.
- 5.5. The underlying service budget position was managed well across the year despite the above base pressures and covid impact, and this is shown by the underlying service underspend of £0.828m. It is also worth noting that our final position was close to that which had been reported earlier in the year, reflecting the accuracy of earlier forecasts and giving assurance over the assumptions made as part of the budget setting process for 2021/22.
- 5.6. The table below summarises the outturn position and key variances are explained in the paragraphs below:

Directorate	Full Year Outturn (Month 12)			Month 8 Forecast
	Latest Budget	Outturn	Outturn Variance	Forecast Outturn Variance
	£000s	£000s	£000s	£000s
Health & Wellbeing	13,852	15,170	1,318	1,457
Environment, Housing & Regeneration	32,883	37,657	4,774	4,771
Peoples Services	104,407	110,700	6,293	6,018
Resources	21,932	23,591	1,659	2,750
Sutton College	0	534	534	214
Community Hub	0	0	0	586
PPE	0	940	940	1,000
Mortuary Costs	0	566	566	857
TOTAL SERVICE EXPENDITURE	173,075	189,158	16,083	17,652
Covid 19 Grant	0	(13,855)	(13,855)	(13,753)
COVID - income grant - estimate	0	(3,056)	(3,056)	(2,000)
SERVICE EXPENDITURE less COVID FUNDING	173,075	172,247	(828)	1,899
Corporate Costs	(174,075)	(175,716)	(1,641)	0
Contingency	1,000	0	(1,000)	(1,000)
Contribution to Earmarked Reserves	0	2,641	2,641	0
TOTAL NET EXPENDITURE	0	(828)	(828)	899

People Services

- 5.7. Adult Social Care - overspend of £1.448m. This was due to £1.865m of Covid pressures, primarily unachieved savings and additional payments to providers.
- 5.8. Children's Social Care - Overspend of £4.801m (incl Covid of £2.182m), largely due to pressures in the placement budgets due to increased demand and higher unit costs of £3.853m, (incl Covid of £1.473m). Other overspends included legal costs £0.482m and additional staffing costs of £0.527m.
- 5.9. Education - overspend of £42k. This is due mainly to overspends of £429k due to an increase in the cost of the Cognus Commissioning Agreement to reflect additional costs

of statutory duties and increased legal costs, which is largely offset by an underspend on Assisted Travel (£357k) due to reduced travel requirements because of Covid restrictions.

Environment, Housing & Regeneration

5.10. Overspend of £4.774m. Main areas of pressure are:

- Housing General Fund - £1.021m overspend caused by uncollected rental income due to the government's all in approach and the fact that many claimants had trouble claiming benefits. The remainder is due to an increase in the provision for bad debts relating to uncollected income from previous years.
- Parking Services - £1.850m overspend from COVID related loss of income of £1.157m (off street) and £0.693m (on street). Charges, enforcement and permit renewals were all suspended during the pandemic and there was a reduction in use of car parks. There were also unachieved savings of £200K.
- Planning & Building Control Services - £0.556m overspend due to loss of income and there are also £0.236m legal fees which relates to 2 enquiries.
- Shared Regulatory Services - £0.344m overspend due to loss of income and LBS contribution to the coroners consortium legal costs relating to the tram inquest.
- Shared highways & Transport Services - £0.350m overspend due to overspend on electricity costs for street lighting, unachieved savings within Transportation.

Resources

5.11. £1.659m overspend. Main areas of pressure are mostly Covid related:

- Assets - £1.263m overspend due to rent voids and related service costs for vacant units and delays in rent review increases.
- Business Services - £0.970m overspend. Main areas affected are the Registrar service due to lack of events and Revenues and Benefits team due to loss of Court fees and the Bailiff Service.

Health and Wellbeing

5.12. £1.318m overspend. Main area of pressure is Leisure Services with a £1.636m overspend all Covid related. This includes contract income loss and £1m in exceptional costs.

Non-Service Revenue Budgets (Corporate Budgets)

5.13. The Non-Service Revenue Budgets had an underspend of £2.641m made up of the following:

- £2.027m saving on interest payable
- £1.0m Contingency Budget not utilised
- £0.748m overspend due to increased Bad Debt provision

- 5.14. There is considerable financial risk for the Council in 2021/22, primarily due to the uncertainty created by the ongoing pandemic and the financial impact that could arise from changes in resident behaviour even after legal restrictions have been lifted. For example, it is unlikely that residents will return to travelling and shopping in town centres in the way they did pre pandemic, and services such as the leisure centres and libraries will be required to operate at lower capacity levels to allow for ongoing social distancing and cleansing requirements. This is likely to mean our income generated through parking and traffic, leisure centres and other fees and charges will continue to be lower than budgeted even though the lockdowns may be lifted.
- 5.15. To help us manage and mitigate these risks in the year ahead the £2.641m underspend on non service budgets has been moved to an earmarked reserve to be held as a contingency against the financial impact of the pandemic in 2021/22 and 2022/23. This, alongside other reserves and Covid grants carried forward, will help us manage temporary changes to income and costs, and can be used to help manage the council tax and business rates collection fund deficit arising from 2020/21, that will impact our budget in 2021/24.

Other Significant Revenue Variances

- 5.16. **Mortuary & Coroners Service:** Overspend of £0.566m due to the Council's contribution to the pan London wide temporary mortuary arrangements.
- 5.17. **Sutton College:** Overspend of £0.534m. The overspend is mainly related to a loss of income due to Covid (£0.931m) offset by additional related funding received from the GLA (£0.365m). In addition the college has received other GLA funding for innovation (£0.087m) and overachievement for 2019/20 (£0.152m), offset by a provision for grant clawback (£0.217m) for 2020/21.
- 5.18. **PPE:** £0.940m overspend on PPE equipment purchased for council staff and partners.

6. Capital

- 6.1. The outturn position compared to the original budget delivered an underspend of £49.191m which was as a result of the removal of the commercial properties budget and significant delays to projects due to Covid.
- 6.2. However compared to the revised 2020/21 capital programme, which had been revised during the year to reflect slippage or re-profiling of budgets as agreed by the Committee, we delivered an underspend of £0.430m. The variance includes an overspend on HRA schemes compared to the revised programme, but this is offset by underspends in transport and environment projects, people's services and resources.
- 6.3. The table below summarises the capital outturn position with key variances explained in the paragraphs below. A detailed schedule of the capital outturn position is shown in Appendix A.

CAPITAL OVERVIEW - OUTTURN SERVICE	ORIGINAL BUDGET 20/21 (£'000)	REVISED BUDGET 20/21 (£'000)	OUTTURN 20/21 (£'000)	VARIANCE 20/21 (£'000)
EH & R				
- HRA	43,226	19,571	23,468	3,897
- Housing GF	3,521	1,490	1,404	-86
- Other	18,109	8,997,	6,360	-2,637
TOTAL EH & R	64,856	30,058	31,232	1,174
PEOPLE	7,792	5,458	4,436	-1,022
RESOURCES	14,138	2,653	2,315	-338
CHIEF EXECUTIVE'S	510	366	122	-244
GRAND TOTAL - CAPITAL	87,296	38,535	38,105	-430

Key Capital Variances

The main reasons for the variance in the outturn position compared to the original budget is the removal of the commercial properties budget and significant delays to projects due to Covid which resulted in rephasing of budget into future years. Below is an overview of the main variances:

- **Commercial Properties: Removed from budget £10m** - The Investment Property portfolio budget was removed because of the pandemic and the state of the general market and wider economy resulting in no opportunities within our agreed framework for the IPP. The funding is ringfenced to the IPP.
- **Digital & ICT: Rephased £1.029m** - Information Management Corporate IT refresh £0.782m - Delay due to the review of digital needs as a result of changes to future working patterns.
- **GF Housing: Rephased £1.066m** - Travellers site-The Pastures - Delay due to new proposal to deliver a larger scheme and waiting for the outcome of the bid to GLA for the new proposal.
- **Highways and Traffic: Rephased £0.820m** - Area wide parking scheme £0.347m and EV charging from street light columns £0.271m- Delays to consultation and works due to Covid
- **Local Committees: Rephased £0.913m** - Public Realm £0.439m - Committee meetings to agree projects delayed due to Covid, Neighbourhood CIL £0.474m - programmes agreed late in 2020.

- **Regeneration: Rephased £10.148m** - Sutton Works £5.0m - Progress with appointment of operator, design phase to start and construction planned for 2021-22, Future High Street Fund £4.9m - delay due to waiting for result of bid, Town centre Masterplan £0.500m - Work programme yet to be agreed.
- **Schools: Rephased £3.329m** - Capital Maintenance - £1.071m - Difficulties securing contractor due to Covid, Secondary Expansions - £1.059m - bus route at Harris Academy no longer required so budget to be used for other secondary school projects, Devolved Formula Capital £0.422m - Funding requests from schools lower than budgeted due to Covid
- **Social Care: £1.179m** - Mandatory Disabled facilities grant £0.883m - Works delayed due to Covid.
- **Operational Corporate Properties: Rephased £0.587m** - Delay due to pending decision of the future use of the Civic building.
- **HRA: Rephased £19.758m** - Council Housing stock £14,231m - All capital projects rephased over two years due to Covid, Phase 2A New Build £11.257m - Planning issues and delayed tendering due to Covid, Property Acquisition (overspend £5.681m) - 20 more properties acquired than was budgeted for the year.

Capital Adjustments

- 6.4. The outturn position means that some projects will need to reprofile their budget across financial years to reflect actual and expected delivery times. The adjustments required are set out in Appendix B and the committee is asked to approve these changes to the agreed capital programme.
- 6.5. In addition to this a new budget provision for the Beech Tree Place programme is proposed for inclusion in the programme following the approval at the Housing, Economy and Business Committee on 15 June to proceed based on the business case. The aim of the project is to redevelop the existing accommodation provided at Beech Tree Place to deliver much needed new and affordable homes that are more accessible, energy efficient, larger and of a higher quality. There is an existing budget for the feasibility study and associated costs of undertaking the detailed business case work, but the costs of the development work need to be provided for. This is forecast to be £30.2m and it is therefore proposed that £30.2m budget provision is added to the agreed HRA capital programme. This will be funded by HRA borrowing £16.8m, GLA grant £6.4m and shared ownership sales receipts of £7m over a six year period.

7. Dedicated Schools Grant

- 7.1. The DSG has an underspend of £0.410m. This is due to an overspend on the High Needs block (£1.06m) mainly due to committed therapy hours in current EHC plans, offset by underspends on the Schools block (-£1.23m) due to growth funding, and the Early Years block (-£0.22m) due to low take-up of provision in the summer and autumn terms. The in-year surplus balance of £0.41m has been transferred to the DSG reserve providing a cumulative surplus balance of £1.321m, as at 31st March 2021. The ongoing overspend on the High Needs block does present a risk to the council going forward. If a council goes into deficit as a large number of Councils have, then they need to produce a recovery plan for the Department for Education. At this stage we are not in that position.

8. Housing Revenue Account (HRA)

- 8.1. There was an HRA deficit of £1.379m for 2020/21 which represents an overspend of £0.366k against a £1.013m budgeted deficit (£658k month 10). No additional funding was received to support the HRA as a result of COVID.
- 8.2. There was an income shortfall of £0.548m for the HRA in 2020/21. This was due to an underachievement of dwelling rent (£399k) and service charge income (£214k) which was being partially offset by older person housing charges (£-27k) and a surplus on the tenants' heating and water accounts (£-65k). Dwelling rents were lower due to property numbers below levels forecast at 1 April 2020 and delays in bringing acquisitions into rent due to COVID-19 and the level of void works required
- 8.3. The expenditure underspend of £-0.182m was due to debt charges being higher than budgeted (£259k) offset by lower bad debt provision contributions (£-162k), depreciation (£-75k), heating costs (£-84k) and general management costs (£-132k). The underspends on expenditure have improved the HRA position since month 10.
- 8.4. The historic provision of £1.2m for the repayment of water commission to tenants is insufficient to cover the cost of repayments to current tenants totalling £1.43m. The net cost of £230k is included in the overspend and will fall in year. Included within the deficit is an additional provision of £100k for former tenants refunds for the Thames Water case.
- 8.5. The HRA has set aside £2m in each of the next four years for debt repayment in the business plan, rising to £4m per year in 2026/27. The lower amounts in the earlier years are to prioritise increasing the HRA balance, as opposed to debt repayment, from £4.5m at the end of 2020/21 to £19.6m at the end of 2026/27. The minimum HRA balance required is shown as 5% of income in the business plan, which is £2m for 2021/22.

9. 2021/22 Priorities

- 9.1. An update on priorities for 2021/22 is elsewhere on this agenda (see - Delivering Ambitious for Sutton: Strategy & Resources).

10. Medium Term Financial Plan Update

- 10.1. The outturn position and confirmation of the level of remaining Covid grants available for use give us an opportunity to revisit the MTFP, and consider whether any financial risks or issues that impacted 2020/21 are likely to continue into 2021/22 or beyond. In doing this we consider the assumptions made as part of the budget when it was set in February, and evaluate whether any need to be changed as a result of the information outturn provides us with or from changes in service demand experienced since then.
- 10.2. The outturn position for 2020/21 did not highlight any significant ongoing budget pressures that we had not already factored into our MTFP forecasts. This helps provide assurance over our MTFP position and forecasts made during budget setting, which will help us feel confident that our overall level of reserves is sufficient to manage those risks we already know are present, and those that could emerge in-year.

- 10.3. Council Tax and Business Rates receipts were lower in 2020/21 as forecast during the year. This was a result of the economic impact of lockdown on businesses and financial uncertainty for many residents, as set out in section 4.2. The total deficit on the collection fund was £37.318m of which £12.429m is attributable to Sutton. However, £8.502m of this will be funded by Section 31 grants and a further £1.606m in grant for irrecoverable losses. This leaves £2.321m that will need to be funded by the Council across the next three years and built into the MTFP.
- 10.4. The Council has managed collection of Council Tax extremely well with an overall collection rate of 98.12%, which is the highest in London despite the difficulties of the last year. Of the £12.429m deficit attributable to Sutton £2.186m was due to Council Tax, and there is a risk of further losses of a similar scale in 2021/22, for which there is no Government funding currently.
- 10.5. For Business Rates the collection rate was 94.3%. Of the £12.429m deficit £10.243m was due to Business Rates, although after Section 31 funding for the expanded retail reliefs this drops to £1.741m. There is a risk of further losses of a similar scale in 2021/22 if restrictions continue and businesses continue to experience difficulty without further Government funding after July.
- 10.6. The underspend of £2.641m achieved on corporate budgets in 2020/21 has been transferred to an earmarked reserve and will be available to offset part of this Collection Fund deficit over the three years. This enables us to protect Sutton residents from the impact of this unusually high Collection Fund deficit and helps us keep a sustainable base budget position despite this pressure caused by the 2020/21 Collection Fund outturn.
- 10.7. It is likely however that residents and businesses will continue to experience financial hardship through 2021/22 and potentially 2022/23 as the pandemic continues. The support to individuals from the furlough scheme and to businesses via the grants schemes is due to end, meaning business rates income is at risk as well as collection of Council Tax. This makes it likely that a further Collection Fund deficit will be reported in 2021/22 and will need to be funded in future years budget. At present there is no Government funding for this and so any shortfall in Council Tax or Business Rates income in 2021/22 will create a budget pressure in future years that will need to be funded from the General Fund.
- 10.8. The Council received funding in 2020/21 from the Government's Contain Outbreak Management Fund (COMF). At outturn £2.085m of this allocation was remaining and it has been carried forward for use in 2021/22 alongside the £1.209m 2021/22 allocation. This will help manage costs and pressures arising from future outbreaks or ongoing public health spend as we move towards recovery, and helps mitigate the overall financial risk from Covid. An update on how this funding is being used to support the Council's recovery work is provided elsewhere on the agenda.
- 10.9. The 2020/21 underspend of £0.828m is also an important factor in mitigating risk more widely, as it will be taken to our General Fund reserves and available for use in future years.

- 10.10. In February the MTFP showed a balanced budget for 2021/22 predicated on delivery of £5.6m of savings and including £6m of growth for service pressures. This assumed Government funding for Covid related pressures would not continue past quarter 1 of 2021/22, and that the level of growth provided and the increase in Council Tax would enable us to protect services to vulnerable people as we move towards Covid recovery.
- 10.11. There is currently no indication that Government funding will continue past quarter 1 and though some restrictions have been lifted, the Government has postponed lifting those remaining by a further 4 weeks. This means the end of all restrictions will not happen before at least 19 July 2021 and is subject to the progress of the vaccination programme and the transmission or development of variants of the disease. currently forecast to be to date. There is a risk that this deadline will be further pushed back and that some restrictions are required for longer, or that a new set of restrictions could be applied later in the year. Were this to materialise we may have additional unfunded pressures being reported in 2021/22, which could necessitate using reserves.
- 10.12. To date we have completed one round of budget monitoring as well as a budget readiness assessment and review of savings in March. This has identified a number of areas of risk or pressure that will need to be reflected in our budget planning:
- Leisure Services - Additional subsidy to SLM leisure has been agreed to help manage the impact of covid on the leisure centres. A subsidy of £1.093m was paid in 2020/21 and a further £0.697m is agreed for 2021/22. This is partially offset by £0.462m funding to be used across the two years from the National Leisure Recovery fund. The residual pressure of £0.374m in 2021/22 will impact our outturn this year.
 - Children's Services - Pressure arising from high cost of placements and increases in demand continues and there is a risk that the growth budgeted for 2021/22 may be insufficient to meet demand, particularly if Covid restrictions continue longer than planned.
 - Income - The delayed lifting of restrictions is likely to have an adverse impact on Council income as residents are unable, or unlikely, to access paid for services such as parking, planning applications or leisure activities. There is also likely to be continued shortfalls in Council Tax, Business Rates and rental incomes as furlough ends but some businesses are unable to trade as usual, impacting both businesses and residents financial security and ability to pay.
- 10.13. The budget readiness assessment and review focussed largely on delivery of the planned savings and review of known risks. The results showed relatively little change in the overall level of risk or budget uncertainty compared to when the budget was set, with the pandemic being the predominant risk to budget delivery in-year.
- 10.14. There will be a wide range of different challenges arising from the pandemic for Sutton residents despite the good progress on vaccinations to date and relatively low levels of infection. There will be people suffering 'long covid' that impacts their ability to return to

work and means they are likely to need social care support for a prolonged period of time, despite recovering from their initial Covid infection. There will be others who lose their jobs once the furlough scheme ceases or finds that their business is facing new challenges as it tries to reopen in a changed society. There are also challenges arising from the spread of new, more infectious, variants and mental health issues such as anxiety, loneliness or stress caused by the crisis. These challenges will undoubtedly impact what the Council needs to do in the latter half of the year and how we do it, and this creates a high level of uncertainty and risk in our financial forecasts. The budget readiness review did not identify any specific pressures that are not already budgeted for, but highlighted the need to closely monitor this throughout the year as we did in 2020/21.

- 10.15. Timely delivery of planned savings will be key to delivering our budget and maintaining a stable MTFP position. The budget readiness assessment showed that the majority of savings plans are currently expected to be delivered to budget, though there may be some areas of slippage into 2022/23. This can be managed in-year through good budget management but the impact on next year will need to be incorporated into the next MTFP if the slippage increases and savings are delayed beyond 2022/23.
- 10.16. As at the end of March 2021 our general reserves were £8.236m which is equal to 5.5% of our net general fund budget of £150.254m. Although this is still one of the lowest level of reserves in London, given the progress being made in delivering the 2021/22 budget it is still considered to be at a level appropriate to manage those risks that are not covered by our earmarked reserves. A summary of the Council's reserves is shown below:

General Fund Earmarked Reserves and Balances at 31 March 2021	Opening Reserves	Change in Year	Closing Reserves
	£000s	£000s	£000s
General Balances	(7,408)	(828)	(8,236)
Earmarked Reserves:			
Covid 19 Specific Grants	0	(17,251)	(17,251)
Unspent Revenue Grants	(4,307)	(2,613)	(6,920)
Insurance Fund and Risk Reserves	(9,457)	(2,975)	(12,432)
Commercial Property Investment Reserve	(2,049)	(628)	(2,677)
Redundancy Reserve	(1,381)	154	(1,227)
Ambitious for Sutton	0	(936)	(936)
Other earmarked reserves	(6,195)	218	(5,977)
Total Earmarked Reserves	(23,389)	(24,032)	(47,421)
<i>Total excluding Covid 19 Specific Grants</i>	<i>(23,389)</i>	<i>(6,780)</i>	<i>(30,169)</i>

- 10.17. It should be noted that for accounting reasons, a number of grants awarded that will offset Collection Fund losses have to be carried forward in reserves. They will be used to fund the loss when it is charged to the general fund in 2021/22. The Covid specific grant line also includes Business Grants that have not yet been allocated to businesses. The table therefore shows a second total excluding these grant amounts, which are a result of timing differences rather than an increase in the level of financial resource the Council has available.
- 10.18. In planning for 2022/23 and beyond we will consider future growth and inflationary pressures, deliverability of planned savings, risk and impact of future funding changes and resources required to deliver Ambitious for Sutton. It is likely that the Council will need to provide additional growth to fund social care pressures as Sutton continues to have an aging population as well as rising numbers of children in the borough with special educational needs or disabilities. In February this was forecast to be approximately £2.7m for next year and our experience to date in 2021/22 has not shown this to be unrealistic.
- 10.19. Inflation has been low in recent years but there is a risk this will change as the economic impact of changes to restrictions becomes apparent. Any increase to the rate of inflation will put additional pressure on our MTFP in future years and may drive the need to identify further savings in future.
- 10.20. The budget readiness assessment showed that most of the slippage forecast for 2021/22 will be recovered in 2022/23, but there are some areas where there is risk of an overall lower total being achieved. If this materialises it will increase the budget gap for 2022/23 and require mitigating measures to be implemented. At present though the overall level of planned savings looks to be realistic and achievable.
- 10.21. The spending review is due to be issued in the Autumn but the Local Government fair funding review has been further delayed and will not be published this year. As a result we are unlikely to see significant changes to our funding basis and may receive only a one year financial settlement in the autumn. This will prolong the uncertainty about future funding levels and means changes to social care funding are unlikely to come into effect during the current MTFP planning period.
- 10.22. The resources required to deliver Ambitious for Sutton are kept under review both through the budget setting process and via the transformation programme. Detailed work will be undertaken during the summer to review existing budget assumptions including growth, inflation and savings, to ensure that we have appropriate resources targeted towards delivering Ambitious for Sutton priorities. The review will incorporate updated information on our key budget risks to ensure we are pro-actively adjusting our financial plans to reflect the latest forecasts regarding the pandemic, the economy and the future needs of Sutton residents. This will enable us to review a further updated MTFP in September with a view to updating our Medium Term Financial Strategy and identifying options to close any remaining budget gap.
- 10.23. Taking all of the above into consideration, our current MTFP forecast shows an unchanged budget gap of £3.1m in 2022/23 which will need to be balanced by new budget proposals in the report in March 2022. This is summarised in the table below.

Medium Term Financial Plan	2021/22	2022/23
	£'000	£'000
Budget B/fwd	289,134	293,335
Inflation	2,879	3,716
Growth	6,021	2,714
Savings	(5,666)	(4,426)
Contingency	1,000	0
Other Budget adjustments	127	0
Borrowing	840	0
Reserves	(1,000)	0
Total Budget Requirement	293,335	295,339
Council Tax	107,285	107,476
Business Rates	42,969	42,609
Grant Funding	143,081	142,153
Total Income	293,335	292,238
NET BUDGET GAP	(0)	3,101

- 10.24. The £3.1m forecast is a reduced budget gap compared to the scale of pressures faced in previous years and reflects the effective work completed to date to manage our financial position despite several years of funding reductions and growth in demand for key services. However the level of risk in our financial forecasts is at a level that is higher than previous years due to the pandemic, the economic impact of Covid, future reviews of Local Government funding including the Fair Funding review and the pressures in social care services. Our budget now also relies heavily on council tax and business rates and as set out earlier in the report the pandemic is still having an impact on these income areas. This means we need to maintain our focus on delivering existing budget proposals and identifying new opportunities to reduce costs to ensure we are in a good position to meet these risks head on in future.

11. Finance and Legal Commentary

Finance Comment

- 11.1. The body of the report sets out all relevant financial information and risks.

Legal Comment

- 11.2. There are no specific legal implications arising from this report.

12. Appendices and Background Documents

- 12.1. Appendices

Appendix Letter	Appendix Title
A	Capital Outturn 2020/21
B	Capital Adjustments Outturn 2020/21

12.2. Background Documents

Date of Expiry	Background Document
n/a	n/a

13. **Consultations**

Consultees	Yes/No	Officer	Date of Comments
Finance	Yes	Victoria Goddard Assistant Director, Finance	09/06/2021
Legal	Yes	Tracy Swan Head of Law, Property, Planning and Employment	08/06/2021
Others	No	n/a	n/a
EQIA	No	n/a	n/a

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