

Budget Monitoring Report No.1, 2020-21

Cabinet	30 July 2020
Report Author	Tim Willis, Deputy Chief Executive and s151 Officer
Portfolio Holder	Cllr Robert Yates, Portfolio Holder for Member for Finance, Administration and Community Wealth Building
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

This report provides a 2020-21 budget monitoring report for General Fund revenue and capital, reflecting the latest forecasts in light of Covid-19. It incorporates provisional figures for 2019-20.

Recommendation(s):

1. That Cabinet agrees and recommends to Council:

- (i) The General Fund revenue budget 2020-21 forecast position.
- (ii) The General Fund Capital Programme 2020-21 forecast position.
- (iii) The proposals to fund the budget gap created by Covid-19.

CORPORATE IMPLICATIONS

Financial and Value for Money

The financial implications have been reflected within the body of the report. Covid-19 has had a dramatic financial effect on all of local government, and Thanet's reserves were relatively low before Covid-19. Overall, the financial impact is estimated at £5.65m on the council's General Fund. Some £1.5m of Government funding has so far been received. The Government recently announced a further tranche of funding and this has been tentatively estimated at £1.1m leaving a budget gap of £3.05m. Difficult decisions need to be made to identify reserves to bridge this gap. If estimates of costs and income loss prove to be too low, and/or estimates of future Government funding prove to be too low, there may need to be further reports to Cabinet/Council on the implications.

The Section 151 Officer needs to be confident that the impact of Covid-19 and the impact of drawing upon reserves does not leave the council exposed to too high a risk of financial failure. He also needs to be confident that the council will agree a budget for 2021-22 and Medium Term Financial Strategy for 2021-25 that replenishes reserves, which will also involve difficult decisions. Members need to make the decisions in

	this report, in order to provide sufficient confidence to the Section 151 Officer.				
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to monitor and control the Council's finances in order to provide a balanced budget.				
Corporate	Corporate priorities can only be delivered with robust finances and this report gives Members the opportunity to review the Council's current position.				
Equalities Act 2010 & Public Sector Equality Duty	<p>Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1"> <tr> <td>Please indicate which aim is relevant to the report.</td> </tr> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> </tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> </tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td> </tr> </table> <p>There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.</p> <p>It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.</p>	Please indicate which aim is relevant to the report.	Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	Foster good relations between people who share a protected characteristic and people who do not share it.
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CORPORATE PRIORITIES (tick those relevant) ✓	
Growth	✓
Environment	✓
Communities	✓

1.0 General Fund – Provisional Outturn 2019-20

- 1.1 The General Fund covers all income and expenditure included in the day-to-day running of the council's services. The budget monitoring report for quarter 3 reported an overspend of approximately £860k. Table 1 below summarises the current projected General Fund outturn position, it does not include corporate recharges and other technical accounting adjustments. It should be noted that the figures are still provisional - the draft accounts will not be complete until August.

Table 1: 2019-20 Provisional Outturn and Quarter 3 Monitoring

Function	2019-20 Budget £'000	2019-20 Forecast Qtr 3 £'000	2019-20 Variance Qtr 3 £'000		2019-20 Provisional Outturn £'000	2019-20 Variance to Qtr 3 £'000
Chief Executive	368	368	0		0	0
Deputy Chief Executive and s151 Officer	7,653	7,623	(30)	See paragraph 2.1	(100)	(70)
Corporate Governance	1,124	1,806	682	See paragraph 2.2	713	31
Operations and Commercialisation	4,916	5,124	208	See paragraph 2.3	(108)	(316)
Corporate Budgets	2,539	2,539	0		0	0
Total Net Expenditure	16,600	17,460	860		505	(355)

2.0 General Fund provisional outturn and explanation of change to Q3 monitoring:

Deputy Chief Executive and s151 Officer

2.1 A provisional outturn figure of £100k underspend (£70k more underspent than Q3):

- (i) **Financial Services** - A change in practice for how the council accounts for the annual leave that is owed to or from employees at the end of the financial year has resulted in a one-off £66k underspend against this budget.

Director of Corporate Governance

2.2 A provisional outturn figure of £713k overspend (£31k more overspent than Q3):

- (i) **Whole Service** - In most instances, provisional outturn is in-line with the Q3 monitoring position.

Director of Operations and Commercialisation

2.3 A provisional outturn figure of £108k underspend (£316k more underspent than Q3):

- (i) **Open Spaces** - This area was underspent by £68k more than reported in Q3 resulting from general underspends and additional vacancy savings, this is after covering an overspend on Cemeteries and Crematorium not identified in Q3.

- (iii) **Safer Neighbourhoods** - This area was underspent by £106k more than reported in Q3. This comprised events (£7k), sports development (£2k), community safety (£43k), public protection (£44k) and Grants (£22k), offset by an underachievement of income in licensing of £12k.
- (iv) **Port and Technical Services** - Additional income above projections of £284k, offset by the 2019-20 cost of animal exports of £196k and other minor variances has resulted in a provisional outturn underspend of £66k against the Q3 budget monitoring position.
- (v) **Coastal Tourism** - An additional underspend of £19k compared to the Q3 monitoring position.
- (vi) **Enforcement Services** - Off Street parking provisional outturn shows increased income of £70k over Q3.

2.4 Provisional reserves at 1 April 2020

Taking into account the provisional outturn figures above, reserves balances at the 2019-20 year-end are £2m unallocated and £12.452m earmarked. This represents a £1.35m net increase during the year due to the following:

Table 2- Reserve Movements

	£'000	£'000
Recurring Reserve Movements (Planned)		
Thanet Lottery	(21)	
EK Services surplus	(56)	
Equalisation (NNDR/HB)	(280)	
IT Slippage	(75)	
Capital Projects	(455)	
Crematorium / Cemeteries	(132)	
Risk management	(49)	
Decriminalisation (off-street) parking	(175)	
Training	(36)	
Total planned contributions to reserves		(1,279)
Repairs	39	
VAT	5	
Election	55	
Homelessness	17	
Local Plan	100	
Dreamland	29	
Coastal maintenance	21	

Total planned contributions from reserves		266
Net planned contributions to reserves		(1,013)
In year Reserve Movements (unplanned)		
DCLG COVID grant funding	(89)	
Maritime	(110)	
Non-ringfenced grants	(114)	
Waste and recycling	(107)	
Total unplanned contributions to reserves		(420)
Strategic reserve	54	
Priority Improvement reserve	29	
Total unplanned contributions from reserves		83
Net unplanned contributions to reserves		(337)
Net increase in reserves		(1,350)

3.0 General Fund – Revenue Forecast 2020-21

- 3.1 The 2020-21 General Fund budget of £17.068m was agreed at the Council meeting on 6 February 2020. It incorporated £730k of savings proposals to bridge the funding gap.
- 3.3 The council is facing unprecedented challenges this year as a result of COVID-19. Throughout this financial year, managers have been estimating the financial impact of the restrictions and initiatives that have been implemented in response to the COVID-19 pandemic. Monthly Government returns, based on managers' projections, have captured the estimated impact on revenue budgets. Government support will be essential to delivering a balanced position for this council. So far, there has been £1.505m of emergency funding and at the time of writing, a further £324k and a promise of further funding for some income loss. Any residual cost will rely on reserves for remedy, but the council's reserves were already comparatively low before Covid-19, so this places the council at further financial risk.
- 3.4 Table 3 below summarises the current projected General Fund spending position based on actuals to the end of May, and forecasts from budget holders. Paragraphs 4.1 - 4.4 explain variances between the budget and forecasts according to budget holders; paragraphs 4.5 - 4.6 explain additional variances, beyond the forecasts of budget holders, to factor in the projected cost of Covid-19.

Table 3 - General Fund - Forecast against Budget 2020-21

Function	2020-21 Budget £'000	2020-21 Forecast £'000	2020-21 Variance £'000	
Chief Executive	399	399	0	
Deputy Chief Executive and s151 Officer	7,664	7,837	173	See paragraph 4.1
Corporate Governance	1,315	2,144	829	See paragraph 4.2
Operations and Commercialisation	5,140	6,411	1,271	See paragraph 4.3
Corporate Budgets	2,550	2,550	0	
Total Net Expenditure	17,068	19,341	2,273	
Other Covid Pressures			3,453	See paragraph 4.5
Non Covid included in the above			(46)	
			5,680	

4.0 General Fund detail by Directorate/Department:

Deputy Chief Executive and s151 Officer

4.1 A potential overspend £173k is currently forecast:

- (i) **Housing Needs** - Following the introduction of The Homelessness Reduction Act, the council invested in new homelessness prevention services, which has had the impact of reducing the use and the cost of temporary accommodation. The number of households in temporary accommodation has reduced from 188 in April 2018 to 60 at the end of June 2020.

This work has continued during the COVID-19 lockdown and a national ban on evictions has further helped reduce the need for temporary accommodation. The evictions ban is due to end on 23 August 2020 and there is a significant risk that we will see a spike in the number of applications later in the year as cases work through the courts. A spike in casework would lead to an increase in costs, beyond those projected in this report. The service is currently forecast to overspend by £153k, after consideration of additional grant funding that has been provided.

- (ii) **Communications and Digital** - Additional cost of communication to residents and support and development of the 'remote TOM' website necessary in light of COVID-19 of £20k.

Director of Corporate Governance

4.2 An overspend of £829k is currently forecast:

- (i) **Property income** - To address previous years' budget shortfalls, work has commenced to look at the current portfolio, the age and condition of stock as well as market forces that are impacting rentals. However the outcome of this review is likely to be impacted by COVID-19, resulting in fewer disposals, slower review of rentals and less new take up. Current projections assume a loss of income of £258k against budget.
- (ii) **Building control** - is currently reporting an adverse position of £329k, mainly due to forecast income being below budget, primarily as a result of COVID-19.
- (iii) **Land Charges** - is currently reporting an adverse position of £242k against budget. A review of the service has been completed to address prior year budget deficits, however, reduced income as a result of COVID-19 has undermined this work.
- (iv) **Facilities Management** - is currently reporting net breakeven position. This consists of an adverse position of £56k as a result of vacant units at the Kent Innovation Centre (KIC) and a reduction in income for Dickens House, both being the impact of COVID-19, offset by savings associated with leasing costs (£56k).

Director of Operations and Commercialisation

4.3 An overspend of £1,271k is currently forecast:

- (i) **Domestic Waste Collection** - a £284k overspend is forecast. A £200k overspend as a result of COVID-19 including an increased need for agency staff to ensure service delivery, combined with a £62k income shortfall resulting from KCC reducing its enabling payment to facilitate the recycling and waste service, plus additional costs of £22k for additional vehicle hire whilst clearing a backlog of MoTs.
- (ii) **Clinical Waste** - £20k forecast net income for clinical waste will not be achieved this year due to COVID-19.
- (iii) **Coastal Development** - £52k income target for this service area may not be achieved. Work will be undertaken within the service to try to find compensating savings, however it is unlikely that the shortfall in income will be balanced by savings this year due to other pressures.
- (iv) **Licensing Income** - £109k of the income target is unlikely to be met due to the impact of COVID-19 on customer demand for the service, however work will continue to try and manage this impact.
- (v) **Off Street Parking** - Income is down compared to budget, this could see an impact of £385k as a result of COVID-19. This does not include the additional £420k adverse impact on On-Street parking.

- (vi) **Port and Technical Services** - Income is projected to be down compared to budget, this could see an impact of £421k as a result of COVID across the Port and Harbour.

4.4 Last year, the monitoring position was used to inform the 2020-21 budget. Some elements of the 2019-20 income shortfalls were assumed to continue into 2020-21 and were funded in 2020-21 by being built into the budget gap. The assumption was that management action would be taken to reduce the in-year income shortfalls and deliver the 2020-21 budget. As a result of COVID, most of these areas will struggle to bridge the gap. This implies that even without the direct financial impact of Covid-19, there are still inherent pressures on the underlying budget which could materialise, even if circumstances quickly returned to normal.

4.5 **COVID pressures not reflected in the above**

The following pressures have been identified as part of senior officers' work to compile monthly returns on the financial impact of Covid. However, they have not been reflected in the monitoring forecasts above, that have largely been produced by budget holders.

- (i) **Deputy Chief Exec and s151 Officer** (Total excluded from the above £2,037k)
- Planning fee income could be impacted by COVID. It is not at the moment, but it is estimated to be £100k for the year.
 - Other homelessness costs associated with COVID are expected to be funded through Government funding for homelessness £112k and are therefore not reflected in monitoring. There may be additional pressures as the year unfolds, if economic conditions create an increase in demand.
 - The cost of administering Business Rates and Council Tax £50k.
 - Possible fall in collection of Council Tax £1m.
 - Reduction in Business Rates collection £600k.
 - The impact of reduced internal borrowing £175k.
- (ii) **Director of Corporate Governance** (Total excluded from the above £330k)
- Reduced income from the Dreamland car park £270k.
 - The additional cost of PPE £60k.
- (iii) **Director of Operations and Commercialisation** (Total excluded from the above £163k)
- Although not yet fully incurred, Safer Neighbourhoods may incur the cost of establishing community network, community team, possible enforcement changes and public health £112k.
 - Recycling and Waste, bringing forward the provision of toilets along with increased security £51k.
- (iv) **Other COVID** (Total excluded from the above £923k)
- On-Street Parking income £420k.
 - Your Leisure £160k.
 - Other Fees and Charges £343k.

4.6 **Non Covid** - This is in the main the reduction in KCC enabling payment for Recycling and Waste Service £62k, unlikely delivery of income associated with Coastal Development £52k, offset by reduced equipment leasing in Facilities Management (£56k) and other minor variances (£12k).

5.0 Size of the gap

5.1 The current gap, or overspend, at the time of the last MHCLG return (in June) stood at £5.7m, offset by £1.505m of Government funding received to date, so a £4.2m gap.

5.2 Since then further government support for local authorities has been announced. The key features of the funding package are:

- An “unringfenced” £500m grant for expenditure pressures in 2020-21.
- Funding for 75% of income losses from sales, fees and charges, where these losses are greater than 5% of the council’s planned income receivable.
- Ability for councils to spread any collection fund deficits in 2020-21 over 3 years.
- An undertaking that in the next Spending Review, the Government will “determine what support councils need to help them meet the pressures of income loss from council tax and business rates.”

5.3 The most recent of these announcements for the Council’s immediate finances is the £500m for additional pressures and an undertaking to fund 75% of income losses on sales, fees and charges, after excluding the first 5% of losses, to be borne by the council. Thanet’s share of the £500m allocation has been confirmed as £324k, taking total confirmed government support to £1.8m.

5.4 The Government has released a technical note that sets out that a “principles-based” approach has been taken by MHCLG, which will allow authorities to claim for irrecoverable net income losses. The Government expects councils to meet the first 5% of losses in full, representing a ‘reasonable’ degree of volatility, and then will fund 75p in the pound of all losses beyond this. To qualify, income losses must be related to the delivery of services, and commercial and rental income are excluded. Officers have attempted to estimate this. It is extremely difficult to have a very high confidence level attached to this estimate, but it is important to do so, because we need to identify the net gap, including the Government funding.

5.5 The 5% top-slice is estimated as 5% of a figure taken from a previous Government return, which showed sales, fees and charges as £14.2m. So £710k has been assumed to be required to be funded by TDC. It is assumed that the Government will select specific sales, fees and charges to apply the 75% offer - for example, it is assumed to exclude commercial rent income loss. Projected eligible income losses x 75% less the £710k top-slice comes to just over £800km. The current guidance indicates that any losses incurred in relation to the Council’s leisure services will not be covered by this scheme, as the service is operated through a leisure trust. This is a concern for the Council and does not appear to fit with the ‘principles based approach’ that the government is proposing. The Council will be lobbying the government for a change in position.

- 5.6 In net terms, this suggests the overall projected shortfall amounts to **£3.05m**, comprising £5.65m losses less Government funding of £2.6m. Assuming this is not funded from service reductions, then it will need to be funded from reserves.

6.0 How to address the budget gap

- 6.1 Some of the £3.05m gap may have arisen even without Covid-19, but it is difficult to separate overspends/income shortfalls arising due to non-Covid or Covid factors. It is reasonable, at this stage, to assume the financial impact of Covid-19 will be contained within 2020-21. Any ongoing effects will be picked up in the 2021-22 budget process and 2021-25 Medium Term Financial Strategy. The current year's £3.05m is assumed to be one-off, and to be funded from reserves, rather than an ongoing budget problem (which would have to be funded from service reductions and/or increased income).
- 6.2 The size of the potential gap is so large that there is the possibility of a S114 notice - this is when the Section 151 Officer informs the council that it is going to run out of reserves, or that its expenditure plans exceed its income, and results in freezing expenditure. Arrangements for issuing S114 notices have been temporarily changed at the moment: if a S151 Officer believes a S114 notice may be required, s/he should first notify the MHCLG.
- 6.3 The difficulty with removing £3.05m of reserves is that it will cancel projects and expose the council to financial risk. If the Government's funding package then exceeds expectations, and/or our estimates of expenditure/income loss turn out to be too pessimistic, we may be able to bring a further report to members to adjust reserves accordingly.
- 6.4 The situation is still very difficult to assess and officers across the council have tried their best to arrive at reasonable estimates of additional expenditure and loss of income from sales, fees and charges. However, in some cases, the expenditure is still yet to be incurred, or the fees income is still yet to be lost. To manage this situation, it is proposed to immediately fund all expenditure incurred or committed by transferring reserves to appropriate budgets, but to hold in a 'Covid-19 Shortfall' reserve sufficient to cover expenditure and income losses from sales, fees and charges. Once it can be seen that the loss has materialised, budgets can be adjusted. This will avoid the situation where an expenditure budget is increased or an income budget is reduced, based on current predictions of losses, by transferring funding from reserves; but the impact in practice isn't as adverse as previously thought. This Covid-19 Shortfall reserve will be managed by the S151 Officer in consultation with the Leader and portfolio holder.

7.0 Options and how others are managing the situation

- 7.1 These issues have been discussed at length amongst S151 Officers nationally; they have also been discussed at a more detailed level across Kent S151 Officers. Before Covid-19, Thanet had the lowest level of reserves in Kent, so we were not starting from a position of strength. Other districts were holding substantial unallocated reserves, or "soft" reserves earmarked for corporate priorities, but with no firm plans as to how the funds would be spent. This was not the case for TDC.
- 7.2 Some common approaches amongst Kent districts are as follows:

- Fast-track HQ office moves, downsizing on the back of new ways of working and investment in digital/cloud.
- Reviewing the capital programme to remove anything funded from revenue, or with adverse revenue implications.
- Freeze, or partially freeze recruitment.
- Move to becoming a cashless council/a council with no/minimal face to face interaction - with the closure of customer service centres for many months, some will not reopen.
- Generate significantly more income from green waste collections - this is already occurring across Kent.
- Increase unallocated reserves - Covid has shown that most councils have inadequate levels of unallocated reserves in the event of an issue such as a pandemic, and some are looking to increase them and reduce earmarked reserves.

8.0 Proposals to fund the gap

8.1 It is proposed that the criteria to identify reserves to be used to fund the Covid gap are set out below:

1. Protection of the council's overall financial position taking into account current and future risks.
2. A specific contractual commitment is to be funded from the reserve.
3. Reserve is already built into the budget.
4. Reserve is subject to a political commitment.
5. The reserve represents a savings pot to be spent on a periodically occurring future event.
6. Reserve is restricted in what it can be used for, but it could be used to fund essential recovery activity within the permissible use.
7. Reserve can be matched directly to a Covid-19 cost/income loss.

8.2 Reserves are set out in Annex 1, together with their proposed identification to fund the £3.05m. These are difficult decisions to make, but there are interactions between reserves that can help - for example, the Destination Management reserve is proposed to be used, but the Business Rates Growth reserve could be used to fund some projects that would otherwise have been funded from destination management.

9.0 General Fund Capital Programme – Forecast 2020-21

9.1 The council's 2020-21 revised General Fund capital programme of £23.23m (£23.10m as per annex 2 + £0.13m flexible use of capital receipts) is expected to be underspent by £6.478m.

9.2 **Annex 2** shows that £1.39m has been currently committed against this year's budget. It also shows the following key changes to the revised programme:

- Budgets remaining for the following projects, which have all now finished, are removed: Digital Parking, End User Computing Refresh of Devices, CCTV, Automatic Cremator Charging Equipment, Replace Pontoon Piles.
- Upgrade of Western and Eastern Amenity Blocks: Scope of scheme reduced to one Amenity block given budget available.

- £30k budget for Broadstairs Flood and Coast Protection Scheme moved from Capital to Revenue.
- £750k budget added for Westbrook Promenade Infrastructure Improvements, for continued protection from coastal erosion, dependent upon external funding being granted.
- The following schemes may be slipped to 2021/22 if no expenditure is incurred: Housing company £1m, Parkway Station £2m, Public Toilet refurbishment £0.750m and Office Accommodation £3m.

9.3 Changes may be required to the capital programme to reflect the impact of Covid-19. This may involve the removal of some uncommitted projects and inclusion of projects to help mitigate its impact. This will be reported in the autumn.

Contact Officer:	Chris Blundell, Director of Finance
Reporting to:	Tim Willis, Deputy Chief Executive and S151 Officer

Annex List

Annex 1	Provisional Reserves at 1 April 2020 and their proposed use
Annex 2	GF Capital Programme 31 May 2020-21

Background Papers

Title	Budget monitoring papers held in Financial Services
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Corporate Consultation

Finance	N/A
Legal	Estelle Culligan, Head of Legal and Democratic Services