

General Fund Budget Monitoring Report No.1 2020-21

Meeting	10 September 2020
Report Author	Tim Willis, Deputy Chief Executive & S151 Officer
Portfolio Holder	Cllr Rob Yates, Finance, Administration and Community Wealth Building
Status	For Decision
Classification:	Unrestricted
Key Decision	Budget and Policy Framework
Reasons for Key (if appropriate)	Expenditure not in budget and exceeding virement rules
Previously Considered by	Cabinet 30 July 2020
Ward:	All

Executive Summary:

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. Cabinet on 30 July 2020 received a report covering similar ground to this, with a view to making recommendations to Council.

Recommendation(s):

That Council approves:

- (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 £5.6m on the council's General Fund. Some £1.8m of Government funding has so far been received. The Government announced a further tranche of funding and this has been tentatively estimated at £0.8m leaving a budget gap of approximately £3m. 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 take the decisions proposed in this report, or decisions that deliver the same level of funding, in order to provide sufficient confidence to the Section 151 Officer.

Although this report addresses 2020-21 budget problems, the 2021-22 position is beginning to be formulated. Government funding intentions are unknown in many respects, but we know that the council faces financial pressures. These will relate to the residual and ongoing impact of both expenditure and income of Covid-19; plus the outstanding need to take management action, not completed because of the pandemic, that was intended to bridge the 2020-21 budget gap; plus the need to formulate plans to replenish reserves being used this year.

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.

Equality Act 2010 & Public Sector Equality Duty

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.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- 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 the end of 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** - A provisional outturn underspend of £53k against the Q3 budget monitoring position due to additional income above projections of £284k, offset by the 2019-20 cost of animal exports of £196k and other minor variances.
 - (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)	

Decriminalisatoin (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 Cabinet report of 30 July broke down the 2020-21 forecast into two components: the forecasts based on budget holder predictions, plus additional strategic information known by Corporate Management Team. For simplicity, this report combines and updates the two.

- 3.2 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. 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. As a result of Covid-19, some 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 this year, even if circumstances quickly return to normal.
- 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. Government support will be essential to delivering a balanced position for this council. So far, there has been £1.829m of emergency funding and at the time of writing, 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 forecasts from budget holders and other projected costs 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	9,824	2,160	See paragraph 4.1
Corporate Governance	1,315	2,634	1,319	See paragraph 4.2
Operations and Commercialisation	5,140	6,994	1,854	See paragraph 4.3
Other fees and charges		347	347	See paragraph 4.4
Corporate Budgets	2,550	2,550	0	
Total Net Expenditure	17,068	22,748	5,680	

4.0 General Fund detail by Directorate/Department:

Deputy Chief Executive and s151 Officer

- 4.1 A potential overspend £2,160k is currently forecast:

- (i) **Housing Needs £265k** - 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 ended on 23 August 2020 and there is a significant risk that we will see a spike in the number of applications 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. Additionally, Covid costs associated with rough sleeping are estimated to be £112k.
- (ii) **Communications and Digital £20k** - Additional cost of communication to residents and support and development of the 'remote TOM' website necessary in light of Covid-19 of £20k.
- (iii) **Planning fee income £100k** - although income is holding up at the moment, Covid-19 is estimated to lead to a £100k shortfall for the year.
- (iv) **Council Tax income £1m** - The wider economic impact of Covid is expected to lead to increasing levels of debt, as furloughing ends and unemployment rises. This is anticipated to lead to non-payment of Council Tax due, plus an increase in the cost of Council Tax Support, leading to a total loss of £1m.
- (v) **Business Rates income £600k** - The wider economic impact of Covid is expected to lead to an increase in business failures and an increase in non-payment of Business Rates due, estimated at £600k.
- (vi) **Internal borrowing cost £175k** - Internal borrowing had been planned, and formed part of the 2020-21 budget, which would have saved £175k in interest. In order to protect the council's cash position, this was no longer possible.

Director of Corporate Governance

4.2 An overspend of £1,319k is currently forecast:

- (i) **Property income £258k** - 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. Additionally, there is the possibility of non-payment of rent arising from business failure. Current projections assume a loss of income of £258k against budget.
- (ii) **Building control £329k** - is currently reporting an adverse position of £329k, mainly due to forecast income being below budget, as a result of a combination of an underlying lack of fee-earning staff and Covid-19.

- (iii) **Land Charges £242k** - 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 £60k** - currently reporting a net overspend of £60k as a result of the purchase of PPE. There is also £56k income loss from vacant units at the Kent Innovation Centre (KIC) and a reduction in income for Dickens House, offset by £56k savings associated with leasing costs.
- (v) **Dreamland car park £270k** - as with other car parks, income loss of £270k is forecast for the year.
- (vi) **Your Leisure £160k** - the council's leisure trust, Your Leisure, is facing a substantial shortfall in its income and is struggling, as are all leisure trusts. The council has paid its management fee for the year up front, and has paid an additional £160k related to a previously agreed saving in the management fee that will not be achieved. Ongoing discussions are taking place with Your Leisure which could lead to further demands on the council's finances.

Director of Operations and Commercialisation

- 4.3 An overspend of £1,854k is currently forecast:
- (i) **Domestic Waste Collection £284k** - An overspend of £200k 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) **Toilets £51k** - Additional costs of toilet cleaning and security of £51k.
 - (iii) **Clinical Waste £20k** - forecast net income of £20k for clinical waste will not be achieved this year due to Covid-19.
 - (iv) **Coastal Development £52k** - the income target for this service area may not be achieved, to the extent of £52k. 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.
 - (v) **Licensing Income £109k** - the income target is unlikely to be met due to the impact of Covid-19 on customer demand for the service, leading to a £109k shortfall. Work will continue to try to manage this impact.
 - (vi) **Safer Neighbourhoods £112k** - the cost of establishing community network/community team, possible enforcement changes and public health £112k.

- (vii) **Off Street Parking £805k** - Income is down compared to budget, this could see an impact of £385k off-street parking income loss and a £420k income loss for on-street parking.
 - (viii) **Port and Technical Services £421k** - 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 There is an estimated income shortfall in other fees and charges not listed above of £347k. This has been arrived at by assuming one month's loss of income across all fees and charges income not specified above. This, as well as all fees and charges income will be subject to further detailed work over the next few months, to refine the forecasts.

5.0 Size of the gap and how to address it

- 5.1 The current gap, or overspend, is £5.6m, offset by £1.8m of Government funding received to date, so a £3.8m gap. The Government has announced further funding of 75% of income losses from sales, fees and charges, where these losses are greater than 5% of the council's planned income receivable. The principles behind the methodology for calculating this further funding have now been released, with the first return due to the MHCLG by the end of September. We continue to estimate funding to be in the region of £800k, leaving a net estimated gap of approximately £3m.
- 5.2 The Government has also given an ability for councils to spread any collection fund deficits in 2020-21 over 3 years; and 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".

6.0 How to address the budget gap

- 6.1 Some of the 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 immediate 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 £3m 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 fees and charges).
- 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 non-essential 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. A S114 Notice is not planned for Thanet at the moment.

- 6.3 The difficulty with removing such a large sum from 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:
- Allocate some of the income losses to specific earmarked reserves, which are specifically designed to accommodate fluctuations. This would cover losses on Council Tax and Business Rates (Equalisation Reserve), on-street parking income (Decriminalisation Reserve) and Dreamland parking income (Dreamland Reserve).
 - Fund all expenditure incurred or committed by transferring reserves to appropriate budgets.
 - Hold in a 'Covid-19 Shortfall' reserve sufficient to cover predicted expenditure and income losses from sales, fees and charges arising due to Covid-19. 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 finance 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 relative 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. Use of the reserve is already built into the budget.
4. Use of the reserve is subject to a political commitment.
5. The reserve represents a savings pot to be spent on a periodically occurring future event.
6. The 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. The 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 £3m. 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, i.e. those that generate growth in the business rates base.

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 before the end of the year.

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

Cabinet 30 July 2020: Budget Monitoring Report No.1, 2020-21
Budget monitoring papers held in Financial Services

Corporate Consultation

Finance: N/A

Legal: Estelle Culligan, Head of Legal and Democratic Services