

Budget Monitoring Report No.3, 2020-21

Cabinet	14 January 2021
Report Author	Tim Willis, Deputy Chief Executive and s151 Officer
Portfolio Holder	Cllr Robert Yates, Portfolio Holder for Finance, Administration and Community Wealth Building
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

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 (hereafter referred to as “Covid”) as well as the Housing Revenue Account.

Recommendation(s):

1. That Cabinet notes the following:
 - (i) The General Fund revenue budget 2020-21 forecast position.
 - (ii) The General Fund Capital Programme 2020-21 forecast position.
 - (iii) The Housing Revenue Account position.
2. That Cabinet approves the additional spend associated with Covid as identified at 3.5 of this report.
3. That Cabinet approves the additional spend associated with EU transition as identified at 4.1 of this report.
4. That Cabinet agrees to the updated General Fund capital programme as set out in Section 6 and Annex 1 to this report.

Corporate Implications

Financial and Value for Money

The financial implications have been reflected within the body of the report. Covid has continued to affect all of local government.

Previously announced additional £1.1m of Government Covid funding is welcome and will potentially enable the council to revisit the use of reserves previously agreed by Cabinet and Council. This additional funding, as well as the possible funding for leisure services and fees and charges income loss, will be considered in a future report.

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.

There are no direct equality implications arising from this report, however the delivery and implementation of and budgetary changes will consider this as part of the budget setting process and be reported to members in due course.

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.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 General Fund – Revenue Forecast 2020-21

1.1 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.

1.2 As previously reported, the council continues to face unprecedented challenges this year as a result of Covid. Managers continue to estimate the financial impact of the restrictions and initiatives that have been implemented in response to the Covid 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. Any residual cost will rely

on reserves for remedy, but the council's reserves were already comparatively low before Covid, so this places the council at further financial risk.

- 1.3 Table 1 below summarises the current projected General Fund spending position based on actuals to the end of November, and forecasts from budget holders. Paragraphs 2.1 - 2.4 explain variances between the budget and forecasts, including the projected cost of Covid.

Table 1 - General Fund - Forecast against Budget 2020-21

Function	2020-21 Budget £'000	2020-21 Forecast £'000	2020-21 Variance £'000	Paragraph
Chief Executive	399	399	0	n/a
Deputy Chief Executive and s151 Officer	7,664	9,844	2,180	See paragraph 2.1
Corporate Governance	1,315	2,339	1,024	See paragraph 2.2
Operations and Commercialisation	5,140	6,950	1,810	See paragraph 2.3
Other Fees and Charges	-	221	221	See paragraph 2.4
Corporate Budgets	2,550	2,550	0	n/a
Total Net Expenditure	17,068	22,303	5,235	

2.0 General Fund detail by Directorate/Department:

Deputy Chief Executive and s151 Officer

2.1 A potential overspend of **£2,180k** is currently forecast:

- (i) **Housing Needs £265k** - Forecast additional costs of staffing and accommodation for vulnerable homeless and rough sleepers £265k. This is after taking into consideration additional grants of Next Step £96k and Containment Outbreak Management Fund £105k, both of which fund additional attributable costs.
- (ii) **Communications and Digital £20k** - Additional cost of communication to residents and services necessary in light of Covid of £20k.
- (iii) **Planning fee income £100k** - although income from planning applications remains stable at this stage, the impact of Covid is currently estimated to lead to a £100k shortfall for the year. This income stream is extremely volatile and the delay or deferral to only a small number of major applications could lead to a significant income shortfall.
- (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. Although this year's Council Tax losses are accounted for over the next three financial years, and there is additional Government funding for tax losses announced as part of the 2021-22 financial settlement, the £1m estimate represents assumed losses against this year's bills.

- (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 (using the council's cash holdings to finance capital expenditure) 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 and as a result this saving will not be realised.
- (vii) **Finance & Procurement £20k** - An additional interim member of staff has been employed to ensure the efficient administration of Covid costs and funding.

Director of Corporate Governance

2.2 An overspend of **£1,024k** is currently forecast:

- (i) **Property income £271k** - 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 will be significantly impacted by Covid in 2020-21, resulting in fewer disposals, slower review of rentals and less new take-up. Current projections assume a loss of income of £271k against budget.
- (ii) **Building control £218k** - This is in the main due to forecast income being below budget, primarily as a result of Covid.
- (iii) **Land Charges £99k** - this relates to deficits for income earned from local land charge searches. The service management has undertaken action to address prior year structural budget shortfalls, however, reduced income as a result of Covid has undermined this work. It is anticipated that this will be a one-off impact for 2020-21.
- (iv) **Facilities Management £40k** - This is as a result of additional PPE pertaining to Covid of £60k as well as an adverse position of £78k from lost rental income and service charges at the Kent Innovation Centre and Dickens House, offset by savings associated with leasing costs and vacant posts (£98k).
- (v) **Dreamland car park £150k** - as with other car parks, income loss of £150k is forecast for the year.
- (vi) **External Legal Costs £86k** - overspend forecast due to additional costs relating to external legal advice £86k.
- (vii) **Your Leisure £160k** - The council's leisure trust, Your Leisure, is facing a substantial shortfall in its income as a result of Covid, as are all leisure trusts. The council has paid its management fee for the year up front, and has paid an additional £160k to the trust. This additional fee is equivalent to the

previously agreed 2020-21 budget saving in the management fee that will not be achieved as a result of the pandemic. Ongoing discussions are taking place with Your Leisure to establish their resourcing requirements, which could lead to further demands on the council's finances. A bid will be submitted for funding from the Government's National Leisure Recovery Fund.

Director of Operations and Commercialisation

2.3 An overspend of **£1,810k** is currently forecast:

- (i) **Parking £936k** - Parking income has been significantly affected as a result of social and economic restrictions implemented to address the Covid pandemic. Income is down compared to budget and is forecast to be £385k below budget at year-end within the council's off-street car parks. An additional £420k adverse impact is forecast from on-street parking, including lost income associated with pedestrianisation of areas in Margate and Ramsgate of £131k. However, this can be met from funding held in earmarked reserves associated with this activity.
- (ii) **Domestic Waste Collection £289k** - A £205k overspend as a result of Covid including an increased need for agency staff to ensure service delivery, plus costs of £22k for additional vehicle hire whilst clearing a backlog of MOT tests. These are considered one-off Covid related pressures for 2020-21 only. In addition, there is a £62k income shortfall resulting from KCC reducing its enabling payment to facilitate the recycling and waste service. This is an ongoing pressure that is reflected in the 2021-22 budget included elsewhere on the agenda.
- (iii) **Maritime and Technical Services £372k** - Income is projected to be down compared to budget, this is represented by a £171k shortfall within Port operations as well as £201k within the Harbours as a result of Covid.
- (iv) **Clinical Waste £20k** - Forecast net income for clinical waste will not be achieved this year due to Covid.
- (v) **Toilets £55k** - Provision of security contractor to support cleansing staff over summer season. This was necessary due to public behaviour experienced following the relaxation of the lockdown.
- (vi) **Coastal Development £52k** - It is expected that the income target for this service area will 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.
- (vi) **Licensing Income £74k** - £109k of the income target is unlikely to be met due to the impact of Covid on customer demand for the service, however in-year savings of £35k have been identified to help manage this impact.
- (vii) **Safer Neighbourhoods £112k** - the cost of establishing community network/ community team in response to the covid pandemic, plus possible enforcement changes and public health.
- (ix) **Crematorium (£100k)** - additional income associated with the service.

2.4 There is an estimated income shortfall in other fees and charges not listed above of £221k. 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 during the remainder of the year, to refine the forecasts.

3.0 Government Support

3.1 The government has allocated £4.6bn of emergency funding nationally in 2020-21, over four tranches, to support local authorities' response to and impact of the pandemic. The Council has received or been notified of an award of £2.978m of this funding. Additional emergency funding of £1.0m is expected for 2021-22 and this is considered in the budget report elsewhere on this agenda.

3.2 In addition the Council has to date received £476k from the Sales, Fees and Charges compensation scheme, where authorities are compensated for 75% of their losses after meeting a 5% top slice. Total funding forecast from this scheme for 2020-21 is £600k.

3.3 Funding has also been announced to compensate local authorities for losses in council tax and business rates, more detail on this is set out in the 2021-22 budget report.

3.4 A further additional £100m will be available nationally to support Local Authority Leisure Centres and formal guidance has now been received. An expression of interest has been submitted and will be followed up with a bid in January.

3.5 Other funding streams that the council has been awarded or has accessed to are detailed below. Spending against these headings is not reflected in the monitoring position, as they are fully funded by the grants, which are ring-fenced for the purposes set out in the grant award notifications. Cabinet approval is sought for these expenditure headings:

Name	Purpose	TDC Allocation £
Reopening High Streets Safely Fund	To prepare for the reopening of no-essential retail, supporting support a range of practical safety measures including new signs, street markings and temporary barriers	£126k
Next Steps Accommodation Funding	To cover property costs and support new tenancies for vulnerable people who were provided with emergency accommodation during the pandemic.	£96k
Emergency Assistance Grant	To help support the supply and distribution of food and supplies	£92k
Support for NHS Test & Trace	Mitigation of the effects of local outbreaks - support for T&T	£50k
Contain Management Outbreak Fund	Support for track & trace, enforcement of restrictions	£498k
Support to Clinically Extremely Vulnerable	Support such as access to food deliveries and signposting to local support of befriending services, to the most at risk and	£100k

	enable them to stay at home as much as possible	
Covid Local Authority Compliance and Enforcement Grant	To support additional compliance and enforcement activities.	£92k
Covid Winter Grant Scheme	To support children, families and the most vulnerable with food and fuel over winter	£113k

3.6 Almost all of the above funding pots are either spent or committed. A breakdown of spending will be provided to members in a future report.

4.0 EU Transition Expenditure

4.1 The Council has been allocated ring-fenced funding of £500k for EU Transition Delivery. The programme of expenditure across these headings is being finalised, but Cabinet approval is similarly sought for this expenditure. As for the Covid funding, a breakdown of spending will be provided to members in a future report.

5.0 Size of the gap

5.1 The previous report to Cabinet suggested the overall projected shortfall amounted to £3m, comprising £5.6m losses less Government funding of £2.6m. It was then agreed at Council that this will need to be funded from reserves.

5.2 Since then the gross overspend has reduced by £400k, from £5.6m reported in November, to the £5.2m presented in this report. However, we now expect compensation from government relating to lost income from sales, fees and charges to be approximately £200k lower as a result of the revised forecast.

5.3 We have also been notified of a further £1.1m of one-off funding that could assist in reducing the use of reserves of £3m previously agreed. Taking all these factors into account the size of the budget gap that will need to be met from reserves is now forecast to be **£1.7m**. The budget report discusses this in more detail elsewhere on this agenda.

6.0 General Fund Capital Programme – Forecast 2020-21

6.1 The council's 2020-21 revised General Fund capital programme of £22.621m (£22.494m as per annex 1 + £0.127m flexible use of capital receipts) is expected to be underspent by £11.142m. This underspend includes the following relatively large projects which are not expected to incur any capital spend by 31 March 2021:

- Parkway Railway Station £2.000m
- Public Toilet Refurbishment £0.750m: Funding for this project is constrained by lack of capital disposals (and hence capital receipts).
- Office Accommodation £3.000m: Requirements still under review given scope for flexible working as highlighted by Covid.
- Westbrook to St Mildred's Sea Wall Work £0.450m: Externally funded project dependent on cost-benefit analysis, then grant allocation and timing.
- Viking Bay to Dumpton Gap Sea Wall Work £0.450m: Externally funded project dependent on cost-benefit analysis, then grant allocation and timing.

6.2 **Annex 1** shows that £9.734m has been currently committed against this year's budget. It also shows the following key changes to the revised programme:

- £22,000 budget has been added for the SAMP Van. The Strategic Access Monitoring and Management (SAMP) project has been set up to deal with additional pressure on coastal overwintering birds from proposed housing development in the Special Protected Area. A van is required to deliver community engagement activities and is externally funded.
- £750,000 budget has been added for the refurbishment of 53-57 High Street, Margate which is externally funded.
- £27,010 budget has been added to the Vehicle & Equipment Replacement Programme, funded from revenue (£16,010) and capital receipts (£11,000).
- £1,700 budget has been added to the Minnis Bay to Grenham Bay Sea Wall Refacing project, funded externally.
- £500,000 budget has been added for elements of the Brexit Resilience project, which is externally funded, £250k of which is Capital.

6.3 At this stage no changes are required to the capital programme to reflect the impact of Covid.

7.0 Housing Revenue Account (HRA)

7.1 This report is the first quarterly budget monitoring report to members since bringing the service back in house and since the revised September budget was approved.

7.2 The HRA is currently forecast to have a deficit of £1.308m in 2020-21, which represents a £40k underspend against the revised budgeted deficit of £1.348m.

7.2 The forecast position reflects £40k of increased rental income. Social rents have seen a lower level of voids than budgeted (£222k), although this is offset by lower income levels for affordable rents of £182k, primarily caused by a delay in new build properties completion due to Covid.

7.3 It is too early to accurately determine the outturn in a couple of areas of the HRA. Firstly the bad debt provision was increased to £630k in the September budget report. Current forecasted rent arrears are not as high as projected in September and so the provision may not be required to this level, but the impact of the Covid pandemic makes forecasting to the end of the financial year difficult.

7.4 Secondly, the repairs and maintenance programme overall is forecast to spend in accordance with budget, but there are record keeping issues within the programme inherited from EKH which are currently being resolved, meaning the projected forecast is difficult to calculate on a scheme by scheme basis.

7.5 Table 2 provides a summary of the projected spending position on the Housing Revenue Account compared to the original budget.

Table 2 - HRA – Forecast against Budget 2020-21

	2020-21 Revised Budget £'000	2020-21 Projected Forecast £'000	2020-21 Variance £'000
Income:			
Dwelling Rents	(12,911)	(12,951)	(40)
Non-dwelling Rents	(227)	(227)	-
Charges for services and facilities	(531)	(531)	-
Contributions towards expenditure	(386)	(386)	-
TOTAL INCOME	(14,055)	(14,095)	(40)
Expenditure			
Repairs & Maintenance	3,735	3,735	-
Supervision & Management	4,969	4,969	-
Depreciation & Impairments	4,050	4,050	-
Allowance for bad or doubtful debts	630	630	-
Contribution to Capital	1,172	1,172	-
Non-service specific expenditure	259	259	-
TOTAL EXPENDITURE	14,815	14,815	-
Other Adjustments:			
Share of Members and Democratic Core	148	148	-
HRA Investment Income	(160)	(160)	-
Debt Interest Charges	997	997	-
Government Grants and Contributions	(300)	(300)	-
Adjustments, accounting /funding basis	(97)	(97)	-
Deficit/ (Surplus) for HRA Services	1,348	1,308	(40)

8.0 Housing Revenue Account Capital Programme – Forecast 2020-21

- 8.1 There have been record keeping issues within the Capital Programme which have only been found after EKH transition. There is on-going work to resolve these issues so that an accurate final spend for each scheme can be achieved. Overall the programme is expected to underspend by at least £10m against a programme of £22m due to delays in bringing some of the schemes forward, however it is not currently possible to provide an accurate forecast for each element of the programme.
- 8.2 The issues that have restricted our ability to report on the HRA capital programme are discussed in some detail in the Tenant and Leaseholder Services Performance Report for Overview & Scrutiny Panel on 19 January 2021. This report also sets out the actions planned to address the problems.

Contact Officer: *Chris Blundell*

Reporting to: *Tim Willis, Deputy Chief Executive and Section 151 Officer*

Annex List

Annex 1 GF Capital Programme 30 November 2020-21

Background Papers

Budget monitoring papers held in Financial Services

Corporate Consultation

Finance: *N/A*

Legal: Estelle Culligan, Deputy Monitoring Officer