

Budget Monitoring Report No.2, 2021-22

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| Cabinet | 18 November 2021 |
| Report Author | Chris Blundell, Director of Finance and acting s151 Officer |
| Portfolio Holder | Cllr David Saunders, Portfolio Holder for Finance |
| Status | For Decision |
| Classification: | Unrestricted |
| Key Decision | No |
| Ward: | All Wards |

Executive Summary:

This report provides the second 2021-22 budget monitor for Quarter Two 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 2021-22 forecast position.
 - (ii) The General Fund Capital Programme 2021-22 forecast position.
 - (iii) The Housing Revenue Account position.
 - (iv) The anticipated funding solution to the budget gap
2. That Cabinet recommends to Council for approval a one-off 2021-22 supplementary General Fund revenue budget of £60k, for legal costs associated with a Private Sector Housing unlawful eviction case, to be funded from the Risk Management reserve;
3. That Cabinet agrees to the 2021-22 Capital Programme budget adjustments and virements, numbered 1 to 6, as set out in section 5.3 and Annex 1 to this report;
4. That Cabinet recommends to Council for approval the 2021-22 supplementary capital budgets, numbered 7 to 11 as set out in section 5.4 and Annex 1; and
5. That Cabinet recommends to Council that a £897k supplementary HRA revenue budget be approved for 2021-22, for the deployment of a waking watch service at the five tower blocks period until fire alarm sounders are installed at each site, to be funded from HRA balances.

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, Thanet's reserves remain relatively low even before Covid-19. Monies were aside in reserves last year with the specific purpose of addressing Covid and additional Government support is anticipated this year. If spend exceeds these allocations difficult decisions will need to be made to identify reserves to bridge this gap.

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 excessive financial risk.

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 2021-22

- 1.1 The 2021-22 General Fund budget of £17.165m was agreed at the Council meeting on 11 February 2021. It incorporated £840k of savings proposals to bridge the funding gap (progress against these savings is identified at 3.0 below).
- 1.2 Although early in the monitoring process we should now be in a position to forecast with a little more certainty what the outturn position will likely be, although the vast majority of information pertaining to overspends centres around Covid and what we know the impact to have been last year.
- 1.3 As was the case last year and continuing this, the council faces challenges 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, will capture 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.
- 1.4 Table 1 below summarises the current projected General Fund spending position based on actuals to the end of September, 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 2021-22

| Function | 2021-22 Budget £'000 | 2021-22 Forecast £'000 | 2021-22 Variance £'000 | Paragraph |
|---|-------------------------|---------------------------|---------------------------|-------------------|
| Chief Executive | 437 | 437 | 0 | n/a |
| Deputy Chief Executive and s151 Officer | 6,550 | 7,013 | +463 | See paragraph 2.1 |
| Corporate Governance | 1,356 | 1,844.5 | +488.5 | See paragraph 2.2 |
| Communities | 5,091 | 5,971 | +880 | See paragraph 2.3 |
| Other Fees and Charges | - | 60 | +60 | See paragraph 2.4 |
| Corporate Budgets | 3,731 | 3,776 | +45 | See paragraph 2.4 |
| Total Net Expenditure | 17,165 | 19,101.5 | 1,936.5 | |

Note: + overspends or underachievement of income, - underspends or surplus income

2.0 General Fund detail by Directorate/Department:

Deputy Chief Executive and s151 Officer

2.1 A potential overspend of **+£463k** is currently forecast:

(i) **Housing Needs +£444k**

Homelessness has grown as a challenge for many local authorities over the last year, Thanet included. There are additional pressures on Housing as the gap between supply and demand increases and previously plans have been developed to ensure that this pressure is minimised. The council has reviewed and is delivering its homelessness strategy action plan, is regularly monitoring the levels of homelessness and has commissioned new services to address the increasing need for support. This work will continue. The council has also successfully bid for new government funding to support homelessness services locally.

However the Council is seeing another surge of homelessness across the district as a result of Covid and in addition the eviction ban coming to an end on 1 June will add additional service and financial pressures.

The financial pressures are currently estimated at +£444k for 2021-22 based on current homelessness levels, although this excludes any potential impact of the evictions ban, as due to the 14 day notice periods the impact of this will only just be becoming evident.

It is worth noting that, as described in previous monitoring, there are a number of savings that have already been delivered in this area and the +£444k pressure is the net position after taking these savings into consideration.

A supplementary revenue budget of £60k has also been requested for legal costs associated with a complex Private Sector Housing unlawful eviction case. It may be possible for some of these to be recovered from the accused, if the Council is successful with this prosecution and the court deems that action appropriate. In the interim it is proposed that the costs are underwritten in full with a contribution from the Risk Management reserve -£60k.

(ii) **Administering Business Rates, Council Tax & Benefits £0k**

There are expected to be increased staffing costs to administer covid support schemes including; the council tax hardship fund, covid business support grants and business rates reliefs. These are all expected to total +£80k, but should be covered by additional New Burdens funding provided by central government.

Director of Corporate Governance

2.2 An overspend of +£488.5k is currently forecast:

(i) **Property +£166k**

To address long-standing income budget shortfalls, a contractor is being commissioned to undertake a review of the current portfolio. This review will cover the age and condition of stock, as well as market forces that are impacting rentals. After covering the cost of the review in 2022-23, this project is expected to provide a net uplift in income for the service from 2023-24 onwards.

In-year, the service has been significantly impacted by Covid, resulting in fewer disposals, slower review of rentals and less new take-up of vacant property. Current projections assume a loss of income of +£130k against budget. Over and above this, increased staff costs +£28k and other minor variations to income +£8k have resulted in a total projected overspend of +£166k.

(ii) **Building control +£141k**

Income is forecast to be below budget, primarily as a result of Covid delaying changes in service delivery +£105k. Over and above this, the service will not meet its vacancy savings target +£13k and there has been an in-year write-off of income associated with emergency works completed under statute +£23k.

(iii) **Land Charges +£47k**

This relates to deficits for income earned from local land charge searches. The service management has undertaken action to address ongoing structural budget shortfalls, however, Covid uncertainty continues to have an impact.

(iv) **Facilities Management +£47k**

There has been a +£31k reduction in rental income at Dickens House arising from the pandemic, and there has also been +£47k of additional lost rental income due to the CCG vacating Cecil Street offices. This is offset by savings within staffing -£27k and supplies and services costs of -£4k.

(v) **Elections +£29k**

This represents the additional cost of running Covid compliant TDC elections.

(vi) **Committee Services +£6k**

To facilitate Covid compliant public meetings it has been necessary to hire venues with sufficient capacity to allow for social distancing.

(vii) **Your Leisure +£160k** - The council's leisure trust, Your Leisure, continues to face financial pressure as their planned recovery from Covid continues, as do all leisure trusts. The council will likely need to pay an additional £160k related to a previously agreed saving in the management fee that will not be achieved. Previous discussions resulted in the agreement of ongoing support for Your Leisure, for this year this included loan funding as and when required.

(viii) **Audit Fees for Governance Review +£36.5k** - As this is an ad hoc piece of work, it is outside the scope and over and above the usual Audit Fees, as a result there will be an overspend covering the initial review +£25k, the cost of the statutory recommendations +£6.5k and +£5k resulting from the subsequent legal advice that was commissioned by the external auditors.

(ix) **Assets General -£144k** - Business Rate refunds as well as work to bring Margate Harbour Arm back in house have resulted in one-off savings of -£116k in this financial year.

Director of Communities

2.3 An overspend of **+£880k** is currently forecast:

(i) **Parking +£100k**

Parking income was significantly affected as a result of social and economic restrictions implemented to address the Covid pandemic in 2020-21. It is expected that this will continue to be the case this year although not at the same levels.

Income is forecast to be +£100k below budget at year-end within the council's off-street car parks.

An additional +£90k adverse impact is forecast from on-street parking. However, this deficit will be met from the earmarked reserve associated with this activity.

(ii) **Domestic Waste Collection +£370k**

A +£370k overspend as a result of Covid, primarily due to the increased need for agency staff to ensure service delivery and the requirement for two additional rounds to cope with the increased levels of waste associated with the amount of people now working from home and the associated increase in domestic waste that is generated.

(iii) **Maritime and Technical Services +£280k**

Income is projected to be down compared to budget, this is represented by a +£210k shortfall within Port operations due to restricted opportunities as well as +£70k within the Harbours where visitors, both domestic and foreign continue to be down as a result of Covid.

(iv) **Clinical Waste +£20k**

Due to competing demands and pressures on the service area, it is anticipated the establishment of a clinical waste service will be deferred for another year and as such the forecast net income is unlikely to be achieved.

(v) **Toilets £0k**

Provision of additional toilets coupled with the earlier opening for the summer season to help mitigate the impact of increased visitor numbers due to the Covid effect +£66k. This was necessary due to public behaviour experienced following the relaxation of the lockdown and is expected to be covered from our Contain Outbreak Management Fund allocation.

(vi) **Coastal Development +£30k**

Additional costs associated with improved signage and lifeguard services to help manage the increased visitor numbers generated by the Covid effect.

(vii) **Licensing Income +£80k**

£80k of the income target is unlikely to be met due to the impact of Covid on customer demand for the service.

2.4 Other and Corporate

(i) Included within corporate budgets are such items as:

- East Kent Shared Services and their central charge,
- HRA recharges i.e. service costs that are recharged to the HRA but which are held centrally for monitoring purposes,
- Capital charges including recharges for staff time,
- External funding and
- The 2020-21 assumed collection fund deficit that hits 2021-22.

(ii) There is an estimated income shortfall in other fees and charges not listed above of +£60k. This will continue to be monitored during the remainder of the year, to refine the forecasts.

(iii) There are additional costs associated with staff working from home that the authority has a responsibility to contribute to, as a result of this there are +£45k worth of new costs associated with Covid.

(iv) **Council Tax income £0k**

The economic and inflationary pressures resulting in a 'cost of living crisis' are anticipated to lead to increased non-payment of Council Tax due. The council will take all necessary steps to recover debt where appropriate, but we may experience higher levels of non-recovery and debt write-off. In addition to an expected increase in the cost of Council Tax Support, total loss on our council tax income is expected to be +£267k.

In-year Council Tax losses are accounted for through the Collection Fund and are subsequently charged to the General Fund in future years. As such, it is proposed the +£267k pressure be funded by the equalisation reserve over the medium term.

(v) **Business Rates income £0k**

The on-going economic impact of Covid and the tailing-off of rate reliefs is expected to lead to further increase in business failures and an increase in non-payment of Business Rates due, estimated at +£400k. Again this in-year loss is accounted for through the Collection Fund and will be charged to the General Fund in later years with the costs covered through the equalisation reserve.

3.0 Government Support

3.1 The government continued to provide emergency funding nationally in 2021-22, to support local authorities' response to and impact of the pandemic. The Council has awarded additional emergency funding of £1.0m for 2021-22 and this was considered in the budget setting presented to Members in February 2021.

3.2 In addition the Council has submitted returns requesting support through the Sales, Fees and Charges compensation scheme, where authorities are compensated for 75% of their losses after meeting a 5% top slice. Funding from this scheme for 2021-22 will be clearer after our next monitoring report.

3.3 Funding was also announced to compensate local authorities for losses in council tax and business rates.

3.4 All of the above funding pots are either spent or committed, the £1m emergency funding having been committed as part of the recommendations of the report agreed by Cabinet at the end of July in order to cover off the anticipated impact of Covid.

4.0 Size of the gap

4.1 Although the earlier monitoring report forecast an anticipated overspend of £2.1m, current forecasts show a potential overspend primarily due to ongoing Covid pressures of +£1.9m.

- 4.2 It was previously agreed that the anticipated overspend would be funded through the £1m remaining in the Covid reserve as at the end of 2020-21, along with the £1m forecast additional emergency funding, and anything received through Sales Fees and Charges compensation.
- 4.3 This small movement of -£200k means a slightly improved reserves position, however as we are only 6 months into the financial year it remains too early to forecast with real certainty. As a result, any shortfall in funding that subsequently materialises will require action to be taken to bridge the gap, this could be a further review of reserves, a moratorium on spending or even in-year targeted savings. To prepare for the 2022-23 budget setting process a recruitment freeze for all but essential business critical roles is now in place, and this should help to mitigate any further pressure on the 2021-22 budget.
- 4.4 Although the forecast overspend is a matter for concern, it is almost all due to Covid and most of the overspend is not anticipated to recur, once restrictions are fully lifted. Of more concern are the pressures and budget gaps to be addressed in 2022-23 as set out in the Budget Strategy report, included elsewhere on this Cabinet agenda.

5.0 General Fund Capital Programme – Forecast 2021-22

5.1 The council's 2021-22 revised General Fund capital programme of £23.422m (£23.256m as per annex 1 + £0.166m flexible use of capital receipts) is expected to be underspent by -£5.731m. This underspend includes the following relatively large projects which are not expected to incur any capital spend by 31 March 2022:

- **Public Toilet Refurbishment** -£0.750m: Expenditure on this programme is predicated on the receipt of existing toilets across the district. There has been no disposals (and hence capital receipts) and therefore no spending against the scheme.
- **Office Accommodation** - £3.000m: Accommodation requirements are 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.

5.2 **Annex 1** shows that £5.477m has been committed against this year's budget as at 30 September 2021. It also shows the following changes that were recently approved by Members:

- **Margate Town Deal:** £1.660m budget has been added for a Towns Fund grant, which is externally funded. Additional externally funded amounts of £10.940m, £5.090m, £2.060m and £0.600m have been profiled for 2022-23, 2023-24, 2024-25 and 2025-26 respectively. Of the total £22.200m budget, the remaining £1.850m has been reallocated to revenue budgets.
- **Berth 4/5 Replacement:** budget increased by £380k; funded from revenue (£50k), borrowing (£275k), and budget transfers from Replacement of Lead Lights at Port (£25k) and Ramsgate Port & Harbour Utilities Supply Upgrade (£30k).
- **Ramsgate Future High Street Fund:** £1.247m budget has been added, which is externally funded. Additional externally funded amounts of £1.242m and £0.215m have also been profiled for 2022-23 and 2023-24 respectively.

5.3 It is proposed that the following changes to the capital programme be approved by Cabinet, as per recommendation 2 to this report.

- 1) **Decarbonisation of Kent Innovation Centre:** Remove the £1.100m budget as this project is no longer viable in its current form as it did not meet the eligibility requirement for external funding. This was due to an oversight made by the original consultants and an increase in costs driven by inflationary pressures in the cost of materials.
- 2) **Pontoon Decking Improvements:** Reduce the budget by £96k comprised of £8k budget saving, and transfers to the following Ramsgate Port & Harbour projects: Utilities Supply Upgrade (£30k), Sluice Gate (£30k), Mobile Elevating Work Platform - MEWP (£28k).
- 3) **Property Enhancement Programme:** Reduce the budget by £80k (to remove the element historically funded from housing capital receipts).
- 4) **Westbrook Promenade Infrastructure Improvements:** Reduce the budget by £439k, to reflect a reduction in scope agreed with the external funding provider.
- 5) **Viking Bay to Dumpton Gap Sea Wall Work:** Reduce the budget by £44k to reflect the grant award.
- 6) **In-Cab System, Manston & Dane Park Depot:** A £1,658 budget virement from underspends on the 'In-Cab System' scheme to fund additional spend on the 'Manston and Dane Park Depot Improvements' scheme.

5.4 It is proposed that the following changes to the capital programme be recommended to Council for approval, as per recommendation 3 to this report.

- 7) **Covid Response:** Increase the budget by £72k (for electronic signage), which is externally funded.
- 8) **Ramsgate Harbour - Toilet Cabin at Outer West Marina:** £25k budget addition, externally funded from Brexit grant monies.
- 9) **Ramsgate Port - Transformer:** £60k budget addition, externally funded from Brexit grant monies.
- 10) **Homelessness Accommodation:** A £130k budget increase is required for the Foy House project following the completion of the procurement process. This additional spend can be fully funded from housing capital receipts;
- 11) **Ellington Park:** Increase the budget by £69,000, which is externally funded; and
- 12) **Community Parks from Contain Outbreak Management Fund (COMF):**
On 9 November 2021 the Council was notified of a £211,280 allocation from KCC from their COMF funding to be spent on community parks within the district. The funding must be spent by 31 March 2022 to deliver any of the below:
 - New children's play equipment in a community park that previously did not have children's play equipment
 - Enlarging children's play equipment in a community park
 - Refurbish existing children's play equipment in a community park
 - New outdoor seating/tables in a community park to create places for people to meet outside

The funding provided cannot be used to purchase or refurbish outdoor gym equipment.

Given the short timeframe appropriate schemes will be considered at pace and consequently, it is recommended that at this stage a high-level

'Community Parks' scheme is added to the 2021-22 Capital Programme, which can then set out in more detail as the specifics of the scheme(s) selection and design is determined at a later date.

6.0 Housing Revenue Account (HRA)

- 6.1 The HRA is currently forecasting a surplus against a budget of £108k. This would result in a year-end net deficit of £1.934m in 2021-22, which would be financed by drawing down from HRA balances.
- 6.2 Five tower blocks are currently awaiting external wall insulation to be replaced with a fully non-combustible system. Following review of the fire break surveys by Kent Fire and Rescue, the advice is that a temporary simultaneous evacuation strategy is adopted until the wall insulation is removed, replacing the existing stay-put arrangements. The advice also recommends that we deploy a waking watch service at these blocks during this period until fire alarm sounders are installed in each flat. However this additional provision comes at a cost of **+£897k** for 2021-22. It is recommended that a budget adjustment be approved to facilitate this programme of work.
- 6.4 In 2020-21 the main driver for the overspend on repairs and maintenance was the lack of a robust planned maintenance programme by East Kent Housing, this pressure remains and continues to be monitored and assessed, but at present is forecast to come in on budget.
- 6.6 Table 2 provides a summary of the projected spending position on the Housing Revenue Account compared to the original and revised budgets.

Table 2 - HRA – Forecast against Budget 2021-22

| | 2021-22 Budget | Move- ment 2 | 2021-22 Revised Budget | 2021-22 Projected Forecast | 2021-22 Variance |
|--|---------------------------|-----------------------------|---------------------------------------|---|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income: | | | | | |
| Dwelling Rents | (13,346) | | (13,346) | (13,454) | (108) |
| Non-dwelling Rents | (227) | | (227) | (227) | - |
| Charges for services and facilities | (540) | | (540) | (540) | - |
| Contributions towards expenditure | (397) | | (397) | (397) | - |
| TOTAL INCOME | (14,510) | - | (14,510) | (14,618) | (108) |
| Expenditure | | | | | |
| Repairs & Maintenance | 4,325 | | 4,325 | 4,325 | - |
| Supervision & Management | 4,898 | 897 | 5,795 | 5,795 | - |
| Depreciation & Impairments | 4,310 | | 4,310 | 4,310 | - |
| Allowance for bad or doubtful debts | 233 | | 233 | 233 | - |
| Contribution to Capital | 300 | | 300 | 300 | - |
| Non-service specific expenditure | 259 | | 259 | 259 | - |
| Debt Management Costs | 9 | | 9 | 9 | - |
| TOTAL EXPENDITURE | 14,334 | 897 | 15,231 | 15,231 | - |
| Other Adjustments: | | | | | |
| Share of Members and Democratic Core | 148 | | 148 | 148 | - |
| HRA Investment Income | (15) | | (15) | (15) | - |
| Debt Interest Charges | 888 | | 888 | 888 | - |
| Government Grants and Contributions | 0 | | 0 | 0 | - |
| Adjustments, accounting /funding basis | 300 | | 300 | 300 | - |
| Deficit/ (Surplus) for HRA Services | 1,145 | 897 | 2,042 | 1,934 | (108) |

7.0 Housing Revenue Account Capital Programme – Forecast 2021-22

7.1 **Annex 2** shows the revised 2021-22 Capital Programme. Significant budget amendments were approved by Cabinet at its meeting held on 29 July 2021, with the revised HRA capital programme now totalling £7.8m.

7.2 At the end of September 2021 £2.6m had been spent or committed, this represents 33% of the budget at the mid-year point. Currently it is forecast that the whole budget will be spent by the end of the financial year.

Contact Officer: *Matthew Sanham*

Reporting to: *Chris Blundell, Director of Finance and acting Section 151 Officer*

Annex List

Annex 1 GF Capital Programme
Annex 2 HRA Capital Programme

Background Papers

Budget monitoring papers held in Financial Services

Corporate Consultation

Finance: *N/A*

Legal: Estelle Culligan, Deputy Monitoring Officer