Draft Budget Monitoring Report No.3, 2021-22

Cabinet	17 March 2022
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 third 2021-22 budget monitor for Quarter Three 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 agrees to the 2021-22 Capital Programme budget adjustments and virements, numbered 1 and 2, as set out in section 5.3 and Annex 1 to this report;
3. That Cabinet recommends to Council for approval the 2021-22 supplementary capital budget, numbered 3 as set out in section 5.4 and Annex 1.

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. General Fund – Revenue Forecast 2021-22

1.1 The 2021-22 General Fund revenue budget of £17.165m was agreed at the Council meeting on 11 February 2021.

1.2 The financial position reported at Quarter 3 presents a forecast 1.950m overspend on this year's budget, although the vast majority overspends centres around Covid and can be met from additional external government covid related funding and reserves set aside for this purpose at the end of 2020-21. This current year-end forecast reflects a marginal £50k increase projected overspend compared to the last budget monitoring report to Cabinet.

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 revenue spending position based on actuals to the end of Quarter 3 and forecasts from budget holders for the remainder of the year. 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	6,994	+444	See paragraph 2.1
Corporate Governance	1,356	1,837	+481	See paragraph 2.2
Communities	5,091	6,071	+980	See paragraph 2.3
Other Fees and Charges	-	-	-	
Corporate Budgets	3,731	3,776	+45	See paragraph 2.4
Total Net Expenditure	**17,165**	**19,115**	**+1,950**	

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

2. General Fund detail by Directorate/Department:

Deputy Chief Executive

2.1 An overspend of +**£444k** 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. 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.

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. This financial pressure is expected to be on-going over the medium term and consequently £400k has been included in the 2022-23 budget to recognise the costs expected in this service area.

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

There are expected to be increased staffing costs to administer covid support schemes including; council tax hardship fund, covid business support grants and business rates reliefs. In addition, the administration of the £150 Council Tax energy rebate is expected to be very resource intensive. These are all expected to total +£100k, but should be covered in-full by additional New Burdens funding provided by central government.

Director of Corporate Governance

2.2 An overspend of +**£481k** is currently forecast:

(i) **Property +£125k**

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 +£128k against budget, offset by reduced staff costs -£3k.

(ii) **Building control** +**£215k**

Income is forecast to be below budget, primarily as a result of Covid delaying changes in service delivery +£180k. Over and above this, the service will not meet it's vacancy savings target +£12k and there has been an in-year write-off of income associated with emergency works completed under statute +£23k.

The income target for the 2022-23 budget has been reduced by £50k in recognition of the challenges in this area.

(iii) **Land Charges +£39k**

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 +£23k**

There has been a +£31k reduction in rental income at Dickens House arising from the pandemic, and there has also been +£46k of additional lost rental income due to the CCG vacating Cecil Street offices. This is offset by savings within staffing -£48k and supplies and services costs of -£6k.

(v) **Elections +£29k**

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

(vi) **Committee Services +£16k**

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.

The 2022-23 budget has been adjusted to reflect the challenging market conditions that YL are operating in and consequently the £160k payment to YL has been reinstated until such time as there is an opportunity to revisit longer term saving options for the delivery of leisure services.

(viii) **Audit Fees for Governance Review +£37k -** 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** -**£163k** - Business Rate refunds, insurance recoveries as well as work to bring Margate Harbour Arm back in house have resulted in one-off savings of -£163k 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.

Funding for two additional permanent rounds have been included in the 2022-23 budget.

(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.

The income target for the 2022-23 budget has been reduced by £50k in recognition of the challenges in this area.

(viii) **Crematorium Income +£100k**

Due to various factors the income within this area is now down compared to budget for 2021-22 resulting in an estimated shortfall of +£100k.

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 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.

(iii) **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 Local 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.

(iv) **Business Rates income £0k**

(v) 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. 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 was 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.

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. Size of the gap

4.1 The previous monitoring report forecast an anticipated overspend of £1.9m, current forecasts show a potential overspend primarily due to ongoing Covid pressures of +£1.950m, a marginal increase in projected overspending.

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 +£50k means a slightly worsened reserves position. Should there be any change in this position, any contribution to or from reserves will be amended accordingly.

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.

5. General Fund Capital Programme – Forecast 2021-22

5.1 The council's 2021-22 revised General Fund capital programme of £49.440m (£49.274m as per annex 1 + £0.166m flexible use of capital receipts) is expected to be underspent by -£34.259m. This underspend predominantly relates the Margate and Ramsgate Levelling Up Funds that were recently approved by Members as additions to the capital programmes:

- **Margate Levelling Up Fund:** £6.306m externally funded budget has been added following approval at the 12 January 2022 council meeting.
- **Ramsgate Levelling Up Fund**: £19.840m externally funded budget has been added following approval at the 12 January 2022 council meeting.

These schemes are multi-year projects and the forecast underspends has arisen only because the project budgets have been included in full in 2022-23; they need to be re-profiled over several financial years, but this can only be done once a final profile has been agreed with the Department for Levelling Up, Housing and Communities (DLUHC).

5.2 In addition to the Levelling Up forecasts, the projected underspend also 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 achievement of capital receipts from the disposal of existing toilets across the district. There have been no such disposals (and hence capital receipts) and therefore there has been on funding available to finance spending against the scheme.
- **Office Accommodation** - £3.000m: Accommodation requirements are still under review given scope for flexible working as highlighted by Covid. Similarly to the Public Toilet Refurbishment scheme, the financing of the Office Accommodation project is dependent on the proceeds of asset sales from existing office accommodation.
- **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 £9.052m has been committed against this year's budget as at 31 December 2021.5.3 It is proposed that the following changes to the capital programme be approved by Cabinet, as per recommendation 2 to this report.

1) **Ramsgate Harbour Railings:** Transfer the residual £1,952 budget (project finished) to the Boat Wash Separator project.
2) **Brexit Resilience:** Reduce the capital budget by £142,845, with the funding being transferred to revenue.

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.

3) **Vehicle & Equipment Replacement Programme:** Increase the budget by £15,350, funded from revenue.

6. Housing Revenue Account (HRA)

6.1 The HRA is currently forecasting a surplus against the budget of £226k. This would result in a year-end net deficit of £1.816m in 2021-22, which would be financed by drawing down from HRA balances.

6.2 **Income**

6.2.1 Surplus rental income of £117k is forecast, as a result of fewer voids than anticipated.

6.3 **Expenditure**

6.3.1 **Repairs and Maintenance**

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. Some of the repairs are reactive and therefore are hard to accurately forecast. Currently a forecast overspend of £329k is predicted.

6.3.2 **Supervision and Management**

A budgeted cost of £897k was originally forecast for the waking watch, this cost has now been profiled between 2021-22 and 2022-23, with the 2022-23 proportion now being included in the 2022-23 budget. This results in a forecast £415k underspend in 2021-22. Other minor variances increase the forecast underspend in this area to £438k.

6.4 Table 2 overleaf 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 £'000	Move-ment 3 £'000	2021-22 Revised Budget £'000	2021-22 P Forecast £'000	2021-22 Variance £'000
Income:					
Dwelling Rents	(13,346)		(13,346)	(13,463)	(117)
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)**	**(14,627)**	**(117)**
Expenditure					
Repairs & Maintenance	4,325		4,325	4,654	329
Supervision & Management	5,795		5,795	5,357	(438)
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	**15,231**		**15,231**	**15,122**	**(109)**
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	**2,042**		**2,042**	**1,816**	**(226)**

7. Housing Revenue Account Capital Programme – Forecast 2021-22

7.1 **Annex 2** shows the revised 2021-22 Capital Programme.

7.2 At the end of December 2021 £4.275m had been spent or committed, this represents 55% of the budget.

7.3 The biggest scheme for a potential underspend is the Tower block works programme. Works are progressing but the timing of work completion between financial years is not yet clear and so currently no underspend is projected.

7.4 Amounts of £650k and £368k are budgeted for Margate Intervention and acquisition programmes respectively, these budgets are currently assumed to be spent by 31st

March, but any spend will be dependent upon suitable sites coming on the market for purchase.

Contact Officer: *Matthew Sanham*
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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