

Revenue Management: Quarter 2 (to 30 September 2020)

For Cabinet on 3 December 2020

Summary

Lead Member: Councillor Tom Dawlings, Portfolio Holder for Finance & Governance

Lead Director: Lee Colyer, Director of Finance, Policy & Development

Head of Service: Jane Fineman, Head of Finance, Procurement & Parking

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Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	21 October 2020 (Verbal Update)
Portfolio Holder	
Finance & Governance Cabinet Advisory Board	10 November 2020
Cabinet	3 December 2020

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Cabinet note that the Quarter 2 net expenditure on services year to date was £11,685,000, £2,608,000 more than budget.
2. That Cabinet note that by year end the Council anticipates net expenditure of £18,760,000 on services. This forecast is £6,343,000 over budget and a further £537,000 since Quarter 1.
3. That Cabinet note that by year end the Council anticipates receiving an increase in funding of £4,127,000, a further £177,000 since Quarter 1. This reduces the deficit to £2,216,000 over budget.

4. That Cabinet approve write offs as set out in Paragraph 2.27 and detailed in Appendix J.

1. Introduction and Background

- 1.1 This report shows the actual expenditure on services compared to the revised budget for the period ended 30 September 2020, and the forecast outturn position, highlighting significant variances from the revised annual budget.
- 1.2 The net expenditure on services for the year is forecast to be £18,760,000 which is an overspend against budget of £6,343,000.
- 1.3 The net funding the Council expects to receive has increased by £4,127,000 (see note 2.5 below) which reduces the overall deficit for the year to £2,216,000.

2. Revenue Management to 30 September 2020

Financial Approach to Covid-19 Pandemic

- 2.1 The impact to 30 September 2020 is set out within this report and builds on the Financial Update Covid-19 report to Cabinet on 25 June 2020 and the Quarter 1 Revenue Management Report to Cabinet on 10 September 2020.
- 2.2 On a quarterly basis Cabinet have the ability to revise the in-year budget as part of the scheduled quarterly financial management reports. In addition to efficiency savings, the main options available to Cabinet include:
 - Reallocation of Reserves – identify re-deployable earmarked reserves;
 - Capital Programme – defer schemes within the Capital Programme; and
 - Borrowing - keep open the option of borrowing internally and externally.
- 2.3 This approach continues to hold true and accords with Government advice that Councils should not make drastic decisions to bring their budgets back into balance. The Government has committed to provide Councils with the financial resources they require to deliver essential local services.

Summary Outturn – Appendix A

- 2.4 Appendix A shows the overall income and expenditure on services forecast outturn position as at 30 September 2020. Total income and expenditure on services can be seen in greater detail within Appendix B, which provides information per service area. The approved budget was set by Full Council on 26 February 2020 and does not change. The revised budget is used to record virements amongst service areas and from reserves, whilst the forecast outturn

is used to record the reporting of savings, overspends and allocations from reserves.

- 2.5 The forecast outturn for expenditure on services is £18,760,000 which is £6,343,000 over budget, an increase of £537,000 compared to Quarter 1. The increase is mainly the subsidy required to re-open the Council's sports centres (see note 2.14). The various movements to forecast can be seen in Appendix C. It can also be seen that the net funding for the year has increased by £4,127,000, comprising £5,224,000 of additional funding from Government, less £272,000 in investment income and £825,000 forecast underachievement in Council Tax recovery. This reduces the budget deficit to £2,216,000.
- 2.6 Investment interest is forecast to be £187,000 under budget for the year. The forecast has fallen due to the cut in interest rates and is based on an overall interest rate of 1.04% and average funds of £43 million. The PWLB loan of £1 million, was repaid in July and the interest for the year will be a total cost of £7,000. The remaining £85,000 shortfall in the investment income is due to the tenant of 33 Monson Road (Azzurri Ltd) going into administration following the period of lockdown.
- 2.7 It is forecast that the Council will receive net additional Covid-19 funding of £5,224,000 during the year from the Government. The Council has already received grants of £1,499,000 to address immediate coronavirus pressures. The Government will also compensate the Council for income losses from fees and charges due to the pandemic. The Council will need to absorb the first 5% of the budgeted income for these losses, with the Government compensating for 75p in every £1 of any further loss. An estimate of £3,725,000 has been made as to the amount that the Council should be compensated due to its income losses, an increase of £177,000 this quarter.
- 2.8 The implications of Covid-19 on costs and income are frequently changing and it is likely that there will be changes following the publication of this report and these will be updated verbally at the meeting. Since the preparation of the figures the Assembly Hall Theatre has been awarded a grant of £500,000 from the Government's Culture Recovery Grant Fund and an additional £100,000 of Government funding has been allocated to the Council, to address coronavirus pressures. The effects of these changes will be included in the Quarter 3 report.

Usable Reserves – Appendix D

- 2.9 Appendix D shows all usable reserves including the earmarked reserves. Usable reserves are those that the Council can use to provide services, subject to the need to maintain an overall prudent level of reserves. Earmarked reserves are amounts set aside to meet identified, and sometimes committed, future liabilities.
- 2.10 As shown in Appendix D the Council had £21,229,000 of usable reserves as at 1 April 2020, including £11,261,000 of earmarked reserves. The earmarked reserves have been analysed to determine how much could be made available to

be redeployed to meet the budget pressures resulting from Covid-19 and £6,658,000 has been identified.

- 2.11 The capital programme is funded from the Capital and Revenue Initiatives Reserve as well as from other specific earmarked reserves and this totals £1,622,000 for 2020/21. A number of capital schemes have been deferred from 2020/21 to 2021/22 to ease the pressure on reserves. The Council also has the option to borrow for capital schemes rather than funding them from earmarked reserves, leaving the reserves available for revenue pressures.
- 2.12 The projected closing position on the reserves for the year is £16,807,000.

Financial Performance of Major Expenditure Accounts – Appendix E

- 2.13 The Assembly Hall Theatre will reopen in October although there will be reduced capacity to ensure Covid-19 safety measures are followed in line with Government guidance. At Quarter 1 it had been expected that the theatre would remain closed until at least December 2020 and show related costs were forecast to be underspent as a result. Therefore, some of this reduction has been forecast back into the budget this quarter. The total of this forecast is £233,000, of which £137,000 is shown within Appendix E and £96,000 is shown within Appendix F, Employee Related Costs.
- 2.14 A forecast of an additional cost of £382,000 is included within External Contract Payments this quarter. At its meeting of 10 September 2020 (CAB20/20) Cabinet agreed interim financial support, up to a maximum of £420,000, for Fusion Lifestyle, to facilitate the opening of the Council's three sports centres. Cabinet also agreed not to recover income for the management fee due for 2020/21. The budget for the management fee is made up of income of £289,000 less a payment due of £38,000. Therefore, a forecast for the reduction of the cost of £38,000 is included within External Contract Payments.

Employee Related Costs – Appendix F and G

- 2.15 Staff costs, including salaries, casual hours, national insurance and pensions, are now forecast to be £377,000 under budget, a further reduction since Quarter 1 of £106,000. The main projected changes within this quarter are a saving of £55,000 for Environmental Health staff vacancies, £50,000 for Parking staff vacancies and £34,000 for Property staff vacancies.
- 2.16 The vacancy factor is the saving created whilst a budgeted post is vacant and usually there is a requirement for Services to allocate their staff savings to this target. This requirement has been removed this year as each department will need to allocate any savings against income shortfalls or Covid-19 cost pressures. £180,000 has therefore been projected as a shortfall in the vacancy factor target.

Income Streams– Appendix H

- 2.17 Covid-19 has severely affected the Council's revenue streams and continues to do so. The impact of the loss of income from fees and charges, as shown in Appendix H, has been in the region of £850,000 per month for the first quarter and £500,000 per month for the second quarter. The full loss for the year is difficult to accurately forecast as much is dependent upon lockdown restrictions and the rate of the economic recovery. The assumption has been made that whilst losses will continue for the rest of the year, they will continue to decrease over Quarters 3 and 4.
- 2.18 The forecast for income at the Assembly Hall Theatre has been increased by £249,000 this quarter. £16,000 of this is for a grant that the Council has received under the Job Retention Scheme, for staff who continued to be furloughed in September. The remaining £233,000 is a reversal of the loss of income included in the Quarter 1 forecast. This has been possible now that the theatre will reopen in October and is matched by a reversal of the expected reduction in costs, as explained in Paragraph 2.13.
- 2.19 The forecast for Planning income has been reduced by a further £25,000 this quarter, which is due to a continued reduction in pre-applications received.
- 2.20 Other income is forecast to be a further £369,000 underachieved this quarter. As explained in Paragraph 2.14 Cabinet agreed not to recover the management fee due from Fusion Lifestyle of £289,000 for the Council's three sports centres, and this is now included within the forecast. The remaining £80,000 is from charges for Council Tax and NNDR summonses and liability orders. Costs have not been able to be raised as court hearings have not taken place since the start of the pandemic. It is expected that hearings will be able to start again from December, but it is unlikely that the Council will make up all the income foregone to date within this year.

Variances by Portfolio Holder– Appendix I

- 2.21 The table in Appendix I shows variances by Cabinet Portfolio Holder.

Council Tax and Business Rates

- 2.22 The Council is a billing authority for Council Tax, which is collected on behalf of precepting bodies including Kent County Council, Kent Police and the Kent and Medway Fire & Rescue Services along with Town and Parish Councils. The total due for 2020/21 is £86.7 million of which £8.54 million is due to this Council.
- 2.23 The Council has forecast a potential loss of £825,000 for the collection of Council Tax. This is difficult to forecast accurately, but with the country in recession it is deemed prudent to forecast that it will take time for the payment rate to recover.

- 2.24 The Council is also the billing authority for Business Rates which are collected on behalf of the Government, TWBC, Kent County Council and the Kent and Medway Fire & Rescue Services. The total due for 2020/21 is £56.6 million of which £2.4 million is due to this Council.
- 2.25 The Government provides a business rates retail discount which, following the national lockdown on 23 March 2020, was extended to include retail, leisure and hospitality properties that had to close as a result of the restriction measures. The increase in the relief was in the region of £27.9 million, leaving £28.7m to be collected for 2020/21. The relief will be compensated monthly through a Section 31 business rates relief grant.
- 2.26 The table below shows the Quarter 2 recovery rate for Council Tax to be 1.30% below target and 1.35% below collection rates at this time last year. The Quarter 2 recovery rate for Business Rates was below target by 1.26% and 2.65% below collection rates at this time last year.

Revenue Billing Stream	2020/21 Collection as at 30/09/2020	2020/21 Target as at 30/09/2020	2019/20 Collection as at 30/09/2020
Council Tax	55.80%	57.10%	57.15%
Business Rates	55.94%	57.20%	58.59%

Write Off/Excusal of Debts – Appendix J

- 2.27 Under Financial Procedure Rule (FPR) 6.2 excusal of debts due to the Council can be granted by Cabinet, upon the recommendation of the Section 151 Officer, and therefore the following debts are asked to be written off:
- 8 debts totalling £20,848.15 in respect of Housing Loans in accordance with FPR 6.2.2 (c) being debts of £1,500 or over outstanding for more than 2 years.
- 2.28 Financial Procedure Rule (FPR) 6.5 requires a summary of debts written off by the Section 151 Officer to be reported to Cabinet on a regular basis and therefore a summary of the total write offs for 2020/21 will be provided to Cabinet in the Quarter 4 report.

3. Options Considered

- 3.1 This report is essentially for information.
- 3.2 The Council could make significant cost savings through reductions to service provisions to avoid using earmarked reserves to fund the revenue budget in 2020/21. This would be against Government advice that Councils should not make drastic decisions to bring their budgets back into balance.

3.3 Cabinet can decide to approve the Write Offs requested or refuse.

4. Preferred Option and Reason

4.1 That Members acknowledge the forecast outturn position for the year and the variances to the revised budget and forecast outturn as at Quarter 2.

4.2 That the £6,658,000 of reserves, that Members agreed would be available to close the budget deficit, with the final allocation between specific reserves being made once the actual budget position is known at year end, is used to meet the additional budget gap identified this quarter.

4.3 The write offs are approved to enable a clean audit at year end that appropriately reflects the Council's financial position.

5. Consultation on Options

5.1 The budget was approved by Full Council on 26 February 2020. Finance Officers have liaised with Heads of Service and where appropriate Cost Centre managers, to ensure that the information provided is robust.

Recommendation from Cabinet Advisory Board

5.2 The Finance & Governance Cabinet Advisory Board were consulted on 10 November 2020 and agreed the following:

Insert text from Cabinet Advisory Board minute, or request text from Democratic Services Officer.

6. Implementation

6.1 The decision will be published on the Council's website.

7. Appendices and Background Documents

Appendices:

- Appendix A: Overall Income and Expenditure in Services
- Appendix B: Net Expenditure on Services
- Appendix C: Key Variances
- Appendix D: Usable Reserves

- Appendix E: Financial Performance of Major Expenditure Accounts
- Appendix F: Employee Related Costs
- Appendix G: Headcount by Service
- Appendix H: Income Streams
- Appendix I: Variance by Portfolio
- Appendix J: Debt Write Offs

Background Papers:

- Budget 2020/21 and Medium Term Financial Strategy Update – CAB 126/19
https://democracy.tunbridgewells.gov.uk/meetings/documents/s46665/Budget%202020_21.pdf
- Revenue Management: Quarter 1 (to 30 June 2020) – CAB 24/20
<https://democracy.tunbridgewells.gov.uk/meetings/documents/s49644/13%20Revenue%20Management%20Q1.pdf>

8. Cross Cutting Issues

A. Legal (including the Human Rights Act)

Under section 151 of the local government act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information.

Patricia Narebor, Head of Legal Partnership

B. Finance and Other Resources

The report updates on the Authority's forecast outturn net revenue position compared to revised budget.

Jane Fineman, Head of Finance, Procurement & Parking

C. Staffing

The report monitors the establishment to the post occupied.

Jane Fineman, Head of Finance, Procurement & Parking

D. Risk Management

To ensure that the unaudited outturn net revenue remains within the Council's Medium Term Financial Strategy.

Jane Fineman, Head of Finance, Procurement & Parking

E. Environment and Sustainability

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

F. Community Safety

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

G. Equalities

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

H. Data Protection

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

I. Health and Safety

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

J. Health and Wellbeing

There are no specific implications that arise from the process of Revenue Management over the fact that the budget supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking