

Budget Update 2021/2022

For Cabinet on Thursday 19 November 2020

Summary

Lead Member: Councillor Tom Dawlings, Finance and Governance Portfolio Holder

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

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Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	14 October 2020
Portfolio Holder	13 October 2020
Finance & Governance Cabinet Advisory Board	10 November 2020
Cabinet	19 November 2020

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That officers continue to work on delivering a balanced budget in line with the Budget Strategy and report back in December with proposals prior to public consultation on the draft budget.

1. Purpose of Report and Executive Summary

- 1.1 This report provides an update to the budget projections for the 2021/22 budget and subsequent years. The report also provides an update on the financial impact of the Covid-19 pandemic and the Comprehensive Spending Review. The Government has recently cancelled the planned Autumn Budget due to the pandemic, however the Council is legally required to consider and set a budget on an annual basis.
- 1.2 A budget deficit of £3.5 million is currently forecast for 2021/22 which is intended to be funded from the controlled use of reserves which is in accordance with government advice on during the national emergency. If left unmanaged the deficit would increase to an annual deficit of £5.5 million by 2025/26, which would need to be funded from new income, further cost reductions or from central Government.
- 1.3 For 2021/22 Revenue Support Grant for this Council is expected to remain at zero and at the time of writing there are no firm details of government financial support. The Council will again, need to be financially self-sufficient and deploy its own financial reserves to ensure the continued delivery of essential local services.
- 1.4 This report will enable Directors/Heads of Services to begin the service planning process and to develop proposals with their respective portfolio holder(s) for savings, changes to service delivery and to grow income.
- 1.5 The longer the economic restrictions and health issues persist the more fundamental the impact will be on residents, businesses and visitors to the borough.

2. Introduction and Background

- 2.1 Cabinet received the first report leading to the setting of the 2021/22 budget at the meeting on 10 September 2020 entitled Budget Projection and Strategy which had also been considered by the Overview and Scrutiny Committee.

Government Funding Settlement

- 2.2 The Government's four-year funding settlement ended in 2019/20 and a one year 'roll over' occurred for 2020/21 which again required the council to be financially self-sufficient. Since 2010 when cuts to funding of Local Government commenced, the ability to fund local services continues to be dependent on growing the local economy and sharing in the proceeds of business rates growth.

Comprehensive Spending Review (CSR20)

- 2.3 The Chancellor announced on 23 September 2020 that the Autumn Budget was cancelled because there is too much uncertainty about the UK's economic outlook. A statement from the Treasury said:

“Now is not the right time to outline long-term plans – people want to see the Government focused on the here and now.”

- 2.4 In July 2020, the Government launched the CSR20, the review will be published in the autumn. The CSR20 is the national budgeting framework process which allocates funding to central government departments' resource budgets for 2021/22 to 2023/24 and for capital budgets for 2021/22 to 2024/25. However on 21 October 2020 The Treasury confirmed that a planned three-year spending review has been abandoned in favour of a one-year review at the end of November. Chancellor Rishi Sunak said the decision was taken in order to prioritise the response to COVID-19 and focus on supporting jobs, setting departmental resources and capital budgets for next year, and block grants for devolved administrations. In response the chairman of the Local Government Association, said;

“It is hugely disappointing that councils will only get a one-year funding settlement for the third year in a row. This makes it incredibly difficult for them to plan how to provide local services our communities rely on and which have proved so vital during the pandemic,”

- 2.5 The Departmental Expenditure Limit (DEL) allocated to the Ministry of Housing Communities and Local Government (MHCLG) will determine how much if any funding is to be allocated to Local Government. Individual councils' allocations are usually set out within the Provisional Local Government Finance Settlement which should be published in early December. It is looking more likely that there will another single year 'roll over' rather than the multi-year settlement needed for effective financial planning.
- 2.6 Until the CSR20 is approved the Government is not able to set out the financial package of support for councils beyond that which has already been announced for 2021/22 as this would require a fiscal policy decision.
- 2.7 An update to the economic and fiscal forecasts will be published by the Office for Budget Responsibility (OBR) in November 2020 alongside the CSR20.
- 2.8 In advance of the CSR20 the Institute for Fiscal Studies (IFS) has published a useful analysis of the impact of Covid-19 on council finances (IFS Report R179). The Local Government Association (LGA) as part of their submission to CSR20 says that Local Government in England needs £10.1bn annually to plug funding gaps and improve services.

New Homes Bonus (NHB)

- 2.9 The NHB scheme was introduced by the Government in 2011 as a “powerful, predictable, permanent incentive to reward the delivery of housing growth”, funded by a £900 million top-slice of Revenue Support Grant.
- 2.10 Since 2011 various amendments have been made to dilute the financial incentive and in advance of consulting on changes the Government announced last year that in effect the current scheme will be phased out. It has been confirmed that the future direction of the incentive will now be considered as part of the CSR20 process. If there is no new award of NHB for housing growth delivered in 2020/21 then the Council will just receive the remaining legacy payments of £406,000 in 2021/22 and £222,000 in 2022/23. The Council has prudently not include NHB within the base budget and transfers any receipts into reserves.

Retained Business Rates

- 2.11 In July 2020 HM Treasury undertook a call for evidence on the fundamental review of the business rates system. The planned revaluation of business rates has been postponed until April 2023 and is to be based on the property market on 1 April 2021 so will reflect the impacts of the Covid-19 pandemic on the commercial rental market.
- 2.12 It was expected that the reset of the business rates baseline that determines the Settlement Funding Assessment for local authorities would take place in the autumn. However, councils have been invited to make submissions for business rates pools for 2021/22 which implies that the reset will not occur.
- 2.13 The continuation of business rate pooling using the exiting baseline will enable this council to continue to retain a share in the proceeds of business rates growth for a further year. The previous additional retained business rate growth received by this Council is shown below:

Year	Type of Business Rate Retention	Local Growth Share	TWBC Share of Growth £000s
2015/16	Kent Pool	50%	64
2016/17	Kent Pool	50%	595
2017/18	Kent Pool	50%	1,700
2018/19	Kent & Medway Pilot	100%	5,000
2019/20	Kent Pool	50%	806
2020/21	TBC	50%	
2021/22 System Reset (details TBC)		50%	
			8,165

Type of Authority	Local Business Rate Growth Share
Districts	40%
Kent County Council	9%
Kent Fire & Rescue Service	1%

Total	50%
Government	50%

2.14 The Council has prudently not included the proceeds of business rates growth within the base budget and transfers any receipts into reserves.

Financial Strategy – Covid-19 Pandemic

2.15 The Covid-19 Pandemic is a health and financial emergency and unlike other events there is no historical data on which to make reliable forecasts. The crisis is having immediate effects on councils' budgets across the sector as a result of increases in expenditure and reductions in income from sales, fees and charges (SFCs) along with commercial activities. Reductions in council tax and business rates collected this year will feed through to budgets over the medium-term. As the impact of the pandemic continues to linger the spending pressures and reductions to income are likely to persist.

2.16 From the outset of the crisis the s151 Officer formulated a financial strategy to reflect the fluid nature of the situation and to be used to update projections on a monthly with Cabinet retaining the ability to revise the budget on a quarterly basis reflecting:

- Actual monthly outturn of income and expenditure compared to budget forecasts,
- Economic data including unemployment, collection rates, businesses activity and local footfall; and
- Government support packages and other announcements.

2.17 This approach still holds true and accords with the Government's advice that councils should not make drastic budgetary decisions due to the pandemic and should use their reserves as the government will provide councils with the funds needed.

National Economic Forecasts

2.18 The country is experiencing the deepest recession in over a hundred years and forecasters are having difficulty in modelling the severity and longevity of the economic impact caused by the pandemic.

2.19 The UK suffered its biggest slump on record between April and June 2020 as coronavirus lockdown measures pushed the country officially into recession. The Office for National Statistics (ONS) said that the economy bounced back in June 2020 as government restrictions on movement started to ease. However, the economic recovery is not being felt by all sectors and different parts of the country are now under further economic and social restrictions.

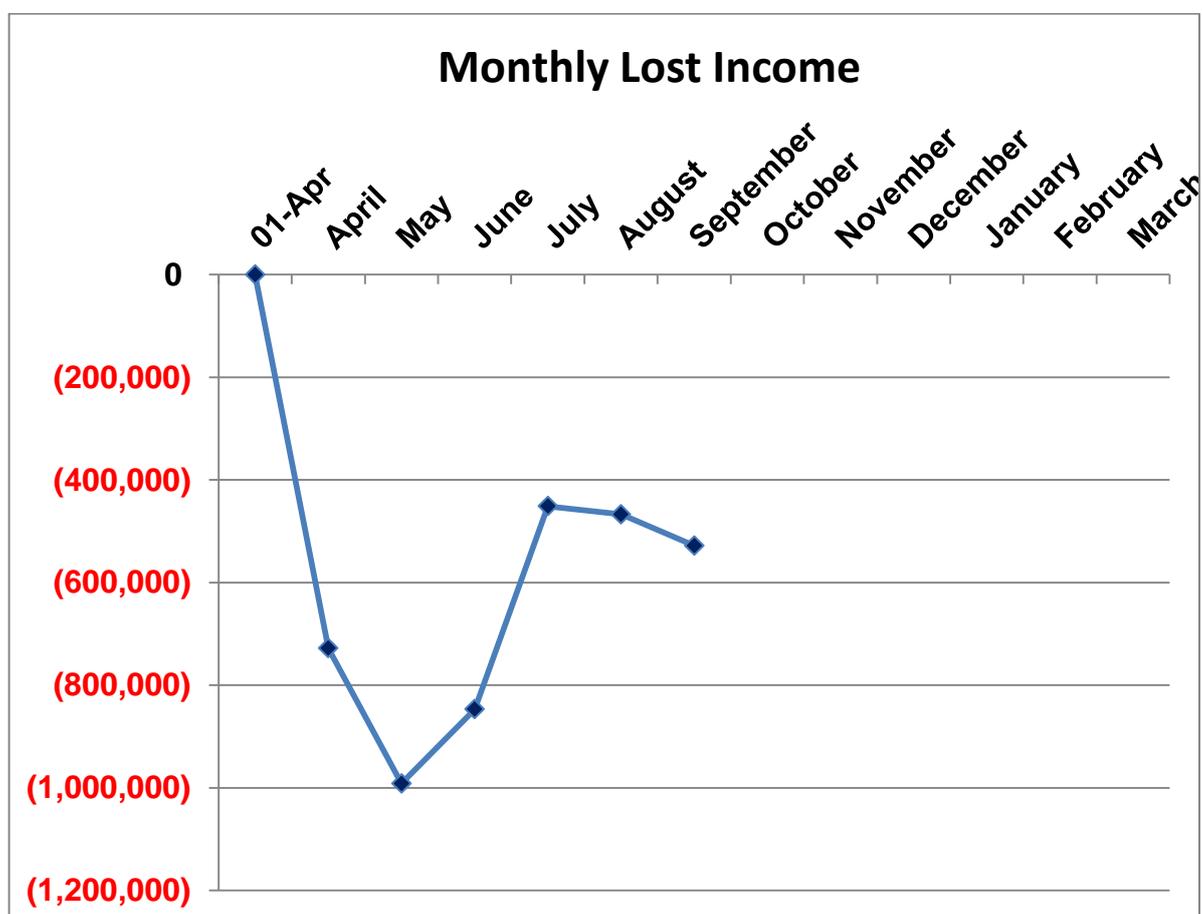
2.20 The Bank of England's (BoE) Monetary Policy Report and the Financial Sustainability Report for August 2020 said that interest rates will be kept low (currently 0.10 per cent) and that the BoE remain ready to act to help households and businesses cope with cash-flow pressures.

2.21 The BoE had originally forecast a 'v' shaped recovery with the economy returning quickly to pre-covid levels. However in August 2020 the BoE tempered its previous

optimism over the UK's recovery from the coronavirus crisis, with new forecasts showing that output will not recover to pre-covid 19 levels until the end of 2021. The recent resurgence of coronavirus cast doubt on this forecast and will further threaten the rate of recovery.

Local Economic Forecasts

- 2.22 The impact of coronavirus varies depending on the type of business and location of operation. The borough has been very resilient during previous recessions with the impact being less severe and the rate of recovery quicker than the national situation. However, this recession is like no other and the borough remains exposed to the change in peoples working lives and the impact on the local economy.
- 2.23 The actual reduction to major income streams is shown below and provides an indication of the local economic recovery which appears to be more accurate than national attempts to call the shape of the economic recovery.

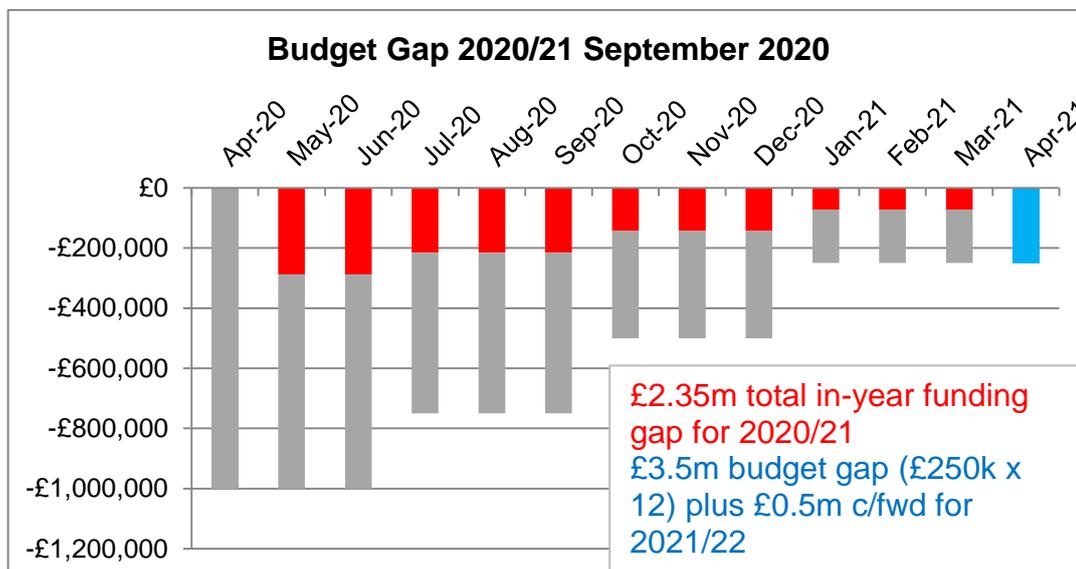


- 2.24 The major influence over the size of the budget deficit for 2021/22 will be determined by the point at which the monthly reduction in income appears to level off. Current projections are that by March 2021 the monthly loss of income will be £250,000 per month and whilst the rate of recovery will not be linear this would indicate a total loss of income of £3 million over the original budgeted levels for the financial year 2021/22. The situation remains fluid and projections will continue to be updated in accordance with the budget strategy.

2.25 A summary of local economic data is shown below:

- Unemployment Rate for August 2020 for the borough is 4.7 per cent (Four-fold increase over pre-Covid levels) and the 3rd lowest in Kent where the average is 6.3 per cent.
- Council Tax collection rates to September 2020 are down 1.0 per cent - The Furlough scheme is to be replaced with a Jobs Support Scheme in October 2020.
- Business Rates collection rates to September 2020 are down 0.6 per cent - The government support scheme means that half of all businesses are not required to pay business rates this year – The quarter rentals due in January 2021 will be crucial along with Christmas trading.
- Empty business properties were 331 in September 2020 compared to 314 properties pre-covid.

2.26 The current in-year budget gap projections reflect the local economic data to September 2020, the estimated level of SFCs income compensation by the government and quarterly improvements in economic activity (but not recovering to pre-Covid-19 levels). The graph below shows a deficit of £2.35 million which will be funded through the use of reserves:



2.27 The current year’s budget forms the base budget upon which projections are made for the next five years to reflect the Council’s Five-Year Plan and other strategies. The projection model has been updated to reflect expected changes at this time and is summarised in Appendix A.

2.28 The current position of adhering to the budget strategy is shown below:

Budget Update November 2020

	£000s
Employment Costs	447
Transport	0
Premises	35
Business Rates	43
Supplies and Services	0
Contracts	198
Sales, Fees & Charges	3,000
Settlement Funding Assessment	40
Additional Council Tax Income	(199)
Collection Fund	0
Use of Reserves	0
Spending Review	0
Funding Gap	3,564

2.29 A subjective breakdown of the current years budget is available on the Council's website.

Budget Strategy

2.30 There remains a deficit forecast for 2021/22 of £3,564,000 which, if left unmanaged, would need to be funded from reserves. In normal times the use of general reserves is unsustainable over the longer term which led Cabinet in 2012 to set a definition of a balanced budget as follows:

"Where ongoing expenditure is met from fees, charges, government grant and council tax with only the use of earmarked reserves being used to meet one-off priority expenditure."

2.31 These are not normal times and the Council will need to continue to meet as a priority the impact of the ongoing national emergency, the Council's responsibilities under the Civil Contingencies Act 2004 and the provision of statutory services.

Council Tax Strategy

2.32 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold for triggering a referendum.

2.33 In previous years, the most efficient authorities such as this Council will be able to increase council tax up to £5.00 a year rather than the cap of 2 per cent. The Government assumes this Council will increase Council Tax by the maximum permitted in their assessment of this Council's available financial resources. It will be for Full Council in February 2021 to decide the level of Council Tax.

Fees and Charges

2.34 For the fees and charges which are not imposed by central government a report will be considered by Cabinet in November.

Car Parking Charges

2.35 There are no plans to increase pay and display car parking charges.

Staff Savings and Efficiencies

2.36 Directors/ Heads of Services and Portfolio Holders have been busy trying to identify further efficiency options to reduce the cost of their services and to increase income. These are still in the discussion stage and need refining before they can be submitted to the Cabinet Advisory Board or in the case of staffing changes to the General Purposes Committee.

Digital Transformation

2.37 It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council will need to find new ways of working smarter and deliver services in a more digitally efficient form which meets with the way the public now interact with service providers. The Council has a Digital Services and Transformation Team in place to improve operational delivery and transform the way that services are provided. Details of these projects are reported quarterly to Cabinet and the resulting efficiencies will be incorporated into the budget-setting process.

Capital and Revenue Reserves

2.38 The Medium-Term Financial Strategy maintains the following as an adequate level of reserves:

	Minimum
General Reserves (Revenue)	£3.0 million
Capital Receipts	£1.0 million

2.39 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget in 2021/22 but a sustainable budget for the future.

In addition to the revenue and capital budget, the Council has earmarked reserves which form part of the Budget and Policy Framework and are available to fund the specific purpose of the reserve in accordance with the virement procedure rules. The projected balances of these reserves are shown below and assume that the revenue budget is balanced from 2022/23 without further utilisation of reserves:

	31-Mar-20 Actual	31-Mar-21 Forecast	31-Mar-22 Forecast	31-Mar-23 Forecast	31-Mar-24 Forecast	31-Mar-25 Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	4,090	4,090	4,090	4,090	4,090	4,090
Earmarked Reserves	11,261	10,561	8,929	8,454	7,979	7,479
2020/21 Budget Deficit	0	-2,216	-2,216	-2,216	-2,216	-2,216
2021/22 Budget Deficit	0	0	-3,564	-3,564	-3,564	-3,564
Capital Grants & Contributions	1,802	1,802	1,802	1,802	1,802	1,802
Capital Receipts Reserve	1,000	2,570	1,000	1,000	1,000	1,000
Amelia Scott Capital Receipt	3,076	6,131	6,131	6,131	6,131	6,131
Amelia Scott Capital Spend	0	-6,131	-6,131	-6,131	-6,131	-6,131
Total Reserves	21,229	16,807	10,041	9,566	9,091	8,591
Outstanding Financing						
33 Monson Road	-1,567	-1,496	-1,425	-1,354	-1,282	-1,211
Dowding House	-2,049	-1,960	-1,870	-1,781	-1,692	-1,603
The Lodge, Calverley Park	-511	-489	-468	-447	-426	-404
Royal Victoria Place	-1,007	-966	-924	-882	-840	-798
Waste Bins & Caddies	-665	-598	-532	-465	-399	-333
Civic Site Essential Works	0	-1,442	-1,866	-1,789	-1,712	-1,635
Amelia Scott (additional funding)	0	0	-2,000	-1,920	-1,840	-1,760
Total Outstanding Financing	-5,799	-6,951	-9,085	-8,638	-8,191	-7,744

Note: Schemes not funded from reserves need to be charged to revenue and this repayment is reflected in the reduction in financing over the life of the asset.

2.40 The Council does not have any external debt but with borrowing costs reducing to record low levels the s151 Officer has the flexibility to take advantage of this situation and borrow as an alternative to utilising capital receipts.

Significant Areas of Risk and Uncertainty

2.41 With the country reportedly facing the greatest recession in 100 years and the pandemic health emergency continuing to loom large for some time, there are some sectors of the economy which may never recover. The following areas of uncertainty carry a significant risk to the Councils budget forecasts:

- Collection of Council Tax and Business Rates. The Government is expected to announce a scheme to partly compensate councils for reduced income from local taxation.
- Collection Fund losses. The Government is expected to set out details to allow losses on the Collection Fund to be spread over a number of years rather than fully impacting on the general fund the following year.
- Collection of Income from Sales, Fees and Charges. The Government's compensation scheme is only currently in place for 2020/21.

- Additional expenditure to respond and recovery from the continuing impact of Covid-19 pandemic.
- A significant increase in local unemployment and a significant reduction in economic activity.
- Market and contractor failure on existing and to be procured services.
- Further economic and health measures to address the Covid-19 Pandemic.
- A lack of confidence by the private sector to invest in the borough.

National Policy and Legislative Changes

2.42 The above forecasts are subject to changes from the following government activities:

- The health and financial measures required for Covid-19 Pandemic
- The implications of the UK leaving the European Union
- The Provisional Local Government Finance Settlement; and
- The White Paper on Local Government Reorganisation.

3. Options Considered

3.1 The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives but ultimately the Council must produce a budget which meets its statutory responsibilities.

4. Preferred Option and Reason

4.1 This report is the second in the formal budget-setting process which will be informed through consultation and research. Decisions on priorities and services will be communicated on a regular basis.

5. Consultation on Options

5.1 The Council already has a wealth of information from previous budget consultation exercises and residents' surveys, the most recent being undertaken in 2015.

5.2 Early public engagement is essential to arrive at suitable feedback which can be developed in time to be incorporated within the budget. Information will be placed on the Council's website along with articles in Local which allows members of the public,

staff and businesses to provide their ideas for how to reduce spending and optimise income while protecting the quality of public services.

5.3 The Cabinet Advisory Boards will continue to provide a good source of challenge in developing the budget and to the level of service provided.

5.4 The above will form an overall picture of prioritisation. Cabinet proposals for savings and growth can then be tested through consultation in December when the draft budget will be placed on the Council's consultation portal.

6. Implementation

6.1 This report sets out the mechanism by which Cabinet will deliver its service and budget strategy. The report and recommendations will be subject to comment by the Finance and Governance Cabinet Advisory Board and further reports to Cabinet in due course. The draft budget proposals will be considered by Cabinet in December and published onto the consultation portal. Final proposals for the budget will be agreed by Cabinet in February and proposed for approval by Full Council in February 2021.

7. Appendices and Background Documents

Appendices:

- Appendix A: Five Year Budget Projections

Background Papers:

- None

8. Cross Cutting Issues

Issue	Implications	Sign-off
Legal including Human Rights Act	The Five-Year Plan and budget form part of the Council's Policy Framework.	Director of Finance, Policy and Development, 30 September 2020
Finance and other resources	This report forms part of the Council's Budget and Policy Framework.	Director of Finance, Policy and Development, 30 September

		2020
Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Director of Finance, Policy and Development, 30 September 2020
Risk management	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding streams which is being monitored by Cabinet and the Audit and Governance Committee.	Director of Finance, Policy and Development, 30 September 2020
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 10 September 2019
Community safety	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 30 September 2020
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 30 September 2020
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 30 September 2020
Equalities	Changes to service delivery may impact on equalities; however, heads of service will ensure that an equality assessment is in place where this has been identified.	Director of Finance, Policy and Development, 30 September 2020

