

This Report will be made public on 3 November 2020

Report Number **C/20/47**

To: Cabinet
Date: 11 November 2020
Status: Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader

SUBJECT: UPDATE TO GENERAL FUND BUDGET 2020/21

SUMMARY: This report sets out the proposed amendments to the General Fund budget for 2020/21 to reflect the impact of COVID-19 on the Councils financial position in year.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because:

- a) The Local Government Finance Act 1992 requires authorities to set a balanced budget. Whilst a balanced budget was set in February for the financial year 2020/21 a number of financial pressures have emerged since due to the global pandemic. This paper seeks to address how the emerging budget gap will be managed.
- b) Cabinet has the authority to approve virements to the in-year budget.

RECOMMENDATIONS:

1. To receive and note Report C/20/47.
2. To approve the virements to the 2020/21 General Fund budget as set out within this report.
3. To note the current reserves position and the potential requirement upon them.

1. BACKGROUND

- 1.1 This report sets out revisions to the general fund revenue budget for 2020/21. The original 2020/21 budget was built and agreed following an extensive process including revisions to the Medium Term Financial Strategy for the period 2020/21 to 2023/24 (reported to Cabinet 16 October 2019); development of the Budget Strategy 2020/21 (reported to Cabinet 13 November 2019); updates to the General Fund Medium Term Capital Programme (considered by Cabinet on 22 January 2020) and consultation & scrutiny on and the adoption of the detailed revenue budget during December 2020 & January 2021.
- 1.2 The final General Fund revenue budget for the year (2020/21) was recommended and adopted by Cabinet and Full Council (A/19/29) on 19 February 2020.
- 1.3 It is worth noting that when the Council's budget is adopted, in order to set the council tax we take into account precepts from Kent County Council, Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service; the special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity and individual town and parish council precepts. No changes are proposed to any of these items, nor are there any proposals to amend the level of Council tax for the district. The proposals contained within this report seek to allow the council to operate within the budget & Council tax requirement set in February 2020.
- 1.4 Since the budget for 2020/21 was adopted the COVID-19 pandemic has had a significant economic impact and the Council has not been immune from these financial challenges. Following an initial briefing paper in June to Cabinet outlining the potential scenarios, this paper now proposes some amendments to the 2020/21 budget for the general fund.

2. IMPACT OF COVID-19 ON GENERAL FUND REVENUE

- 2.1 The Council's overall financial position coming into this crisis was strong. However, all authorities are experiencing financial challenges due to the scale of the economic impact of the pandemic and Folkestone & Hythe is not immune to these issues.
- 2.2 The financial impacts include:
 - Unbudgeted costs to manage the response required to support the community, residents and the economy of the district
 - Reduced income from the many of key fees and charges collected by the Council
 - Reduced income collected on behalf of the Council and all preceptors for Council Tax and Business Rates
 - The cashflow implications of being a billing authority
 - Maintaining the solvency of the Council both during 2020/21 and future financial years.
- 2.3 The report to Cabinet in June outlined the evolving picture at that time, and the requirements placed on local authorities have continued to grow. To

date they have included housing the street homeless, opening community hubs, providing support to the vulnerable in our district, administration of NNDR reliefs, award of mandatory and discretionary business grants, supporting the safe re-opening of high streets and track and trace programme, as well as the administration of the new self isolation payments & discretionary scheme. In addition to the requirements being placed on the Council centrally other pressures have arisen during this time, such as the additional enforcement requirements placed on the district due to our coastal geography.

- 2.4 At the time of writing the June paper many factors were unknown, including how quickly income streams may recover and what level of Government funding we could anticipate to receive.
- 2.5 The paper outlined differing scenarios but the mid-case scenario identified a potential budget gap of £4.93 million in 2020/21. At the time of writing the Council had been allocated total grant funding of £1,194k.
- 2.6 Now at the mid point of the year, our understanding of the impact is greater, and whilst there remain unknown impacts (such as the impact of furlough ending on 31 October), we are now able to establish a position to update the budget.
- 2.7 Cabinet considered an update to the General Fund revenue monitoring position in October. This anticipates a (net after funding known at the time) projected outturn at year end of £1.322 million. It is proposed that the revisions to the budget are based upon these assumptions.

3. FUNDING RECEIVED TO DATE

- 3.1 The table below outlines the funding received from Government to date in respect of the response to the pandemic:

| | £ |
|---|------------------|
| Tranche 1 funding (street homeless) | 65,737 |
| Tranche 2 funding | 1,128,417 |
| Tranche 3 funding | 219,926 |
| Reopening High Streets funding | 100,751 |
| Emergency assistance grant (via KCC allocation) | 61,521 |
| Enforcement grant | 62,559 |
| Track & trace grant (via KCC allocation)* | 50,000 |
| Anticipated Fees & Charges reimbursement (April-July) | 347,850 |
| Administration of self-isolation payments | 27,738 |
| New Burdens Grant | 170,000 |
| Rough sleeping grant | 7,500 |
| | 2,241,999 |

*awaiting confirmation

- 3.2 Since the quarter 2 budget monitoring position was determined further announcements have been made regarding tranche 4 funding, and the

Council has been awarded a further £609,785. This will reduce the Quarter 2 projected outturn position to £712k.

- 3.3 Further funding (75% of losses after 5% top-slice) for fees and charges for the remainder of the year is anticipated to be made available which would also reduce the anticipated year end gap, the quantum of this is not known at this stage.

4. GENERAL FUND REVENUE BUDGET 2020/21

- 4.1 The projected year end deficit is a net position, building in all known grants, income and expenditure at this time. In year variance is to be expected however the level of variance this year is unprecedented for the Council. It is proposed to rebalance the 2020/21 budget through reductions in service budgets where the impact can be carefully managed and has minimal impact on residents.

- 4.2 To address the deficit the following service operational budgets are proposed to be reduced / grant funding applied as follows:

| | £ |
|--|----------------|
| Member Training | 5,000 |
| Conducting Elections (postponed due to COVID) | 30,000 |
| Legal Services – ICT Iken upgrade (alternative funding identified) | 5,000 |
| Planning Policy – Professional fees | 1,500 |
| Spotlight funding | 30,000 |
| Financial system upgrade (alternative funding identified) | 54,000 |
| Reduced postage costs | 14,000 |
| ICT Maintenance | 10,000 |
| Mobile telephones | 5,000 |
| DWP New burdens grant funding | 150,000 |
| VEP grant funding | 18,800 |
| Public conveniences | 43,000 |
| Pumping stations – transport costs | 5,000 |
| Pesticide motion (delayed to 2021/22) | 30,000 |
| Memorial Arch – maintenance costs | 4,000 |
| Car Parks – planned maintenance | 20,000 |
| Programme planned maintenance | 50,000 |
| Corporate estate – repairs & maintenance | 25,000 |
| Parks – materials | 2,850 |
| Royal Military Canal – planting | 1,000 |
| Royal Military Canal – drainage maintenance | 3,000 |
| Royal Military Canal – bridge maintenance | 22,480 |
| Engineers – Professional advice | 20,000 |
| | 549,630 |

- 4.3 The proposed changes will be virements to the base budget and will reduce the anticipated year end deficit from £712k to £162k. Cabinet have the authority to approve virements to the budget.

5. RESERVES

5.1 The Council has a strong track record of managing its financial position prudently and effectively. As a result the Councils reserves are in a healthy position coming into this crisis. However, reserves can only be applied once and they may be challenging to replenish over the short term, they should therefore be deployed conservatively.

5.2 The current Earmarked reserves position is projected to be:

| Earmarked Reserve | Balance at 1/4/2020 | Forecast 2020/21 Movement | Estimated Balance at 1/4/2021 |
|--------------------------|----------------------------|----------------------------------|--------------------------------------|
| Business Rates | 5,699 | (4,300) | 1,399 |
| Carry Forward | 681 | (158) | 523 |
| Corporate Initiatives | 998 | (752) | 246 |
| IFRS Reserve | 30 | (23) | 7 |
| Invest to Save | 366 | (366) | 0 |
| Leisure | 497 | 50 | 547 |
| New Homes Bonus (NHB) | 2,360 | (19) | 2,341 |
| VET Reserve | 257 | (50) | 207 |
| Economic Development | 4,384 | (3,958) | 426 |
| Otterpool | 1,570 | (1,570) | 0 |
| Maintenance of Graves | 12 | 0 | 12 |
| Community Led Housing | 418 | (52) | 366 |
| Lydd Airport | 9 | 0 | 9 |
| Homelessness Prevention | 401 | 0 | 401 |
| High Street Regeneration | 3,000 | (934) | 2,066 |
| Climate Change | 0 | 4,960 | 4,960 |
| | 20,682 | (7,172) | 13,510 |

5.3 In addition the Council holds General reserves of £3.31 million.

5.4 The Council holds reserves for four reasons main reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

5.5 After the application of the tranche 4 funding and the proposed virements, the remaining anticipated gap in 2020/21 is £162k. This is a manageable sum for the Council to operate within, and officers are working towards minimising costs so that there is no year end gap.

However, Members should note that if the remaining gap cannot be closed the use of reserves would be appropriate given the circumstances. There are no current identified plans for the use of the remaining Corporate

Initiatives earmarked reserve therefore it is proposed to utilise the remaining £246k should the year end position be an anticipated deficit.

- 5.6 The Council reallocated a number of reserves for 1 April 2020 to create the Climate Change reserve. This reserve is the largest earmarked reserve the Council holds. The current projected outturn position remains an early estimate and the full impact of the recovery is not yet known. There are no current plans to utilise this reserve to address the financial pressures of COVID-19 on the Council, but should the situation worsen the Council may need to consider the application of this reserve. Should this be required a further report will be brought forward.
- 5.7 Furthermore small year end variances can be managed through the Council's General Reserve as long as we maintain the reserve at a level of at least £2.5 million.

6. CONCLUSION

- 6.1 Cabinet is asked to agree the virements outlines within 4.2, and note both the government funding position and the potential application of reserves in respect of the General Fund budget for 2020/21. These amendments can be summarised as:

| | £'000 | £'000 |
|---------------------------------------|-------|---------|
| Balanced budget 2020/21 | | 0 |
| Projected overspend (Q2) | | 1,322 |
| | | 1,322 |
| Tranche 4 funding | (610) | |
| Virements to identified budgets (4.2) | (550) | |
| | | (1,160) |
| Revised projected overspend | | 162 |

- 6.2 The remaining projected overspend is anticipated to be funded from a combination of further fees & charges reimbursement (August onwards); prudent approach to spending; and potential application of reserves if required.

7. RISK MANAGEMENT ISSUES

- 7.1

| Perceived risk | Seriousness | Likelihood | Preventative action |
|--------------------------------|-------------|------------|---|
| Deteriorating economic climate | Medium | High | Setting of a prudential budget and continuing strong financial control in the Council's decision making. The enhanced monitoring of the budget will continue for the remainder of the financial year. |

| Perceived risk | Seriousness | Likelihood | Preventative action |
|--|-------------|------------|---|
| No further Government grants awarded | Medium | Medium | Monitor closely Government announcements and identify early action to address any potential issues. Lobby where necessary. Scope provided within recommendations for a marginal worsening of the position. |
| MTFS becomes out of date. | High | Low | The MTFS is currently being reviewed for reporting to Cabinet / Council in the Autumn. |
| Demand for services on behalf of the government continues without associated funding | High | High | Funding announcements will be closely monitored. Any requests for support will be evaluated and discussed with the relevant Portfolio Holder. We will seek to utilise base establishment resources in the first instance. |
| Assumptions may be inaccurate. | High | Medium | Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed. |

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 Legal Officer's Comments (AK)

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

8.2 Finance Officer's Comments (CS)

The Financial implications are detailed in the report.

8.3 Diversities and Equalities Implications (CS)

There are no direct diversities and equalities implications resulting from the recommendations of this report.

15. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Charlotte Spendley – Director of Corporate Services

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Email charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

- 16 October 2019 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2020/21 to 2023/24
- 13 November 2019 - Reports to Cabinet - Budget Strategy 2020/21 and Fees & Charges 2020/21
- 11 December 2019 - Report to Cabinet - Draft General Fund Original Revenue Budget 2020/21
- 19 February 2020 – General Fund Revenue Budget 2020/21 and Council tax setting
- 24 June 2020 – Financial Impact on 2020/21 of COVID-19
- 21 October 2020- General Fund Revenue Budget Monitoring – 2nd quarter 2020/21