



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

**Joint Budget Overview and Scrutiny
Committee**

26 August 2020

Report of: Councillor Adam Stokes

Cabinet Member for Finance and
Resources



Amended Budget Proposals 2020/21

As a result of the Covid-19 crisis there is a requirement to review the budget framework to reflect the changes in the income and expenditure budgets set by Council on 2 March 2020.

Report Author

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Corporate Priority:	Decision type:	Wards:
Administrative	Budget and Policy Framework	All Wards

Reviewed by:	Alison Hall-Wright, Head of Finance	12 August 2020
Approved by:	Karen Bradford, Chief Executive	17 August 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	17 August 2020

Recommendation (s) to the decision maker (s)

- The Joint Budget Overview and Scrutiny Committee is asked to consider the draft proposed budget amendments for the 2020/21 budget framework and make any specific recommendations to Cabinet for its consideration on 8 September 2020 before it is presented to Council on 17 September 2020.**

1 The Background to the Report

- 1.1 The budget framework for 2020/21 was approved by Council on 2 March 2020 and was built on allocating resources to drive forward the Council's ambitions focussing on supporting the economy, competitiveness and providing quality services to its residents. Within a few weeks of the budget being approved, the country was facing the worst health crisis in a lifetime and the Council, like every organisation, has been impacted upon.
- 1.2 This report captures all of the financial implications of the pandemic that have impacted upon the 2020/21 budget and seeks changes to the current year's budget framework in order that amendment recommendations can be presented to Council on 17 September 2020. The report builds on the information presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on 26 May 2020, 30 June 2020 and 28 July 2020. All of the finance reports have provided members with the most relevant financial information and given the projected forecasts of financial impact from both an income and cost perspective. This continuous monitoring and forecasting has placed the Council in a positive position to make budgetary amendments with a higher degree of confidence.
- 1.3 The scope of the amended budget proposals are specifically General Fund revenue budgets as this is the area that has been impacted upon directly. Therefore there is no requirement at this time to propose any amendments to the revenue budgets for the Housing Revenue Account.
- 1.4 The Government's financial response to date can be categorised as
- Financial assistance to local authorities. To date the Council has received three specific financial support packages totalling £1.675m and an allocation of £924k for a Council Tax Hardship Fund. The Government has also deferred grant payments due from the Council for a three month period to provide some short term cash flow support.
 - Financial assistance to businesses. This has primarily been in the form of direct business rates relief to the retail and hospitality sector and cash grants to businesses (administered by the Council); alongside the Coronavirus Job Retention Scheme ("furloughing scheme"), administered by Central Government. To date over £27.5m of grant payments have been made to qualifying businesses in the district in recent weeks providing much needed cash-flow support.
 - Other funding measures. The announcement of the deferral of the funding reform and the Business Rates reset by a further year (i.e. no longer April 2021) provides some level of funding certainty for 2021/22. The Government also introduced the Coronavirus Job Retention Scheme and the Council has utilised this where appropriate, specifically the Arts and Building Control services. There has also been funding in respect of re-opening High Streets, Homelessness and New Burdens.
- 1.5 On 2 July 2020, the Secretary of State for Communities, Housing and Local Government announced the further funding support packages including:
- A further £500 million of funding to cover local authority spending pressures
 - A co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income
 - Phased repayment of Collection Fund of the predicted deficits over the next 3 years
 - A commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review

- 1.6 On 16 July 2020, the funding allocation of the £500m was announced and it was confirmed that the Council will receive £194k as a contribution towards spending pressures. The allocation methodology has been confirmed as primarily population and levels of deprivation. The split has allocated 93% to upper tier authorities and 7% to lower tier authorities.
- 1.7 As well as the increased spending during the pandemic, there has also been a significant impact on income. Again, this has been regularly reported to the Committee with actual income received and forecasting predictions based on assumed levels of economic recovery. To help mitigate this, the Government is introducing a co-payment scheme to compensate local authorities for relevant, irrecoverable losses in 2020-21. Under this scheme, councils bear the first 5% of losses compared to their budgeted income – reflecting the fact these income sources are by their nature volatile from one year to the next – but the Government will support those worst affected by covering 75p in every pound of losses beyond this. Further details of the scope of this scheme, including the principles of the areas which will be covered is not yet available so it is unclear what categories will be included within scope of reimbursement and whether this will be gross income lost or net of expenditure savings in the affected areas.
- 1.8 In summary the Council has received the following Covid-19 direct funding support:

Table 1 – Covid-19 funding

Funding	Amount (£)	Allocation Details
Tranche 1	64,622	Mixture of Adult Social Care Relative Needs Formula (87%) and Settlement Funding Assessment (13%)
Tranche 2	1,416,290	Allocation based on a per capita basis, and a 65:35 split between county and district authorities
Tranche 3	194,639	Allocation 93% upper tier and 7% lower tier authorities based on population and deprivation
Re-opening High Streets Safely fund	126,000	Contribution towards direct costs and support resourcing
Co-payment scheme	TBA	75% of income losses beyond 5% of planned income
Total	1,801,551	This is shown at table 3

Fees and Charges

- 1.9 The Finance, Economic Development and Corporate Services Overview and Scrutiny Committee has been monitoring the key fees and charges income since the beginning of the financial year in order to assess the financial impact of the lockdown restrictions. The first quarter of the financial year has now been completed (April – June) and the actual income is shown below (and shown in greater detail at Appendix A). The adverse variance when compared to approved budgets for the same period is £914,675. The recovery modelling is constantly reviewed as the Council, like the majority of districts, relies on fees and charges as a key component of its financial structure as it plays a key role in enabling

the Council to continue to provide quality services to its residents and support the delivery of the Council's priorities. The impact of specific key areas that were identified from the outset of the pandemic continue to be impacted upon and the latest position is outlined below. Appendix A provides full details of the analysis of the income received and the assumed recovery over the remainder of the year. Therefore, it is accepted that the longer-term full impact will not be known for many months. Based on the table analysis below, the 'at risk' income budgets will be reduced by £3.1m for the current year.

Table 2 – Proposed Amended Income Budgets

Service Area Income Budgets	Gross Income Current Budget (£)	Profiled Original Budget 1 April – 30 June (£)	Actual Income for the period 1 April – 30 June (£)	Proposed Amended Gross Income Budget (£)
Arts Centres	1,149,250	287,312	20,200	221,319
Building Control	657,900	164,475	125,300	470,698
Car Parking fees	1,293,000	323,250	11,100	366,675
Planning and Land Charges	1,370,600	342,650	235,800	955,365
Markets	252,700	63,175	18,000	100,128
Licensing	282,500	70,625	91,200	260,700
Property Commercial Income	1,107,850	276,962	187,100	851,810
Trade Waste	366,500	91,625	39,200	249,938
Treasury Investment Interest	236,000	59,000	36,500	142,700
Totals	6,716,300	1,679,074	764,400	3,619,333

1.10 Given the volatility that has been experienced since the commencement of the financial year, it is inevitable that the budget framework is no longer reflective or accurate of the current operational issues and demands. This is taking the form of income no longer performing at budgeted levels but also new cost pressures being experienced. There are also positive cost avoidances and lower than originally budgeted expenditure activities. In total 37% of the budget framework requires amendment which reflects the scale of the changes that are required.

- 1.11 The budget set by Council on 2 March 2020 was £19.157m. Subsequent amendments to the budget framework have been approved by the Council and there have been a number of budgets carried over that were approved by the Governance and Audit Committee on 13 August 2020. This has had the effect of increasing the budgets for the General Fund to £20.195m at net cost level.
- 1.12 The table presented below shows at summary level the General Fund and provides an update on the proposed budgets at each Directorate Level. It can be seen that, at net cost level, there has been a net £4.1m increase which is a combination of income losses, expenditure reductions and anticipated cost increases. This analysis has been based on three months of actual activity (April – June) and forecasting for the remaining 9 months of the financial year. It is therefore inevitable that there remains a degree of volatility and uncertainty in the forecasting assumptions for the financial year.

Table 3 – General Fund Proposed Budget Framework

Description	2020/21 Current Budget + Approved Carry Forwards £'000	2020/21 Proposed Budget £'000	Proposed Amendment Variance £'000
Commercial & Operations	7,408	8,586	1,178
Finance, Legal & Democratic	4,847	5,850	1,003
Growth	6,536	8,587	2,051
Transformation & Change	3,962	3,931	(31)
HRA Recharge	(2,558)	(2,566)	(8)
Net Cost of Service	20,195	24,388	4,193
Interest Payable and Receivable	(236)	(107)	129
Minimum Revenue Provision	302	148	(154)
Revenue Contribution to Capital	72	72	0
Depreciation	(4,114)	(4,114)	0
Net Budget Requirement	16,219	20,387	4,168
General Funding	(15,860)	(15,860)	0
Covid-19 specific funding*	0	(1,801)	(1,801)
Total Funding	(15,860)	(17,661)	(1,801)
Transfers to/(from) earmarked reserves	(359)	(263)	96
Net Budget Deficit	0	2,463	2,463

*the detail of this is provided at table 1 but does not include any funding in respect of income funding losses. The details of this scheme have not been announced at the time of compiling the report.

The detail for the proposed budget amendments are contained in the supporting appendices under each Directorate heading but the following is a summary:

Table 4 – Budget Movement summary

Heading	Financial Impact £'000	Commentary
Income Changes – high risk areas	3,097	This is detailed at column K at Appendix A
Other Income Changes	277	Lower than budgeted benefits overpayments
Cost Pressures	1,421	Covid-specific costs and realignment and reduced budget for transformation, procurement and process automation
Leisure Provider support payments	800	Approval by Council 16 th July 2020
Forecast expenditure reductions	(1,402)	Reduced expenditure as detailed at supporting Appendix B
Change to net cost of service	4,193	This is shown at table 3 above – net cost of service

- 1.13 After applying the confirmed funding contributions from Government, the funding deficit is reduced to £2.4m. However, the actual funding shortfall will be exposed to ongoing uncertainty and volatility in the forecasting assumptions of income recovery and limited further exposure to unforeseen costs. As referenced previously, the detail of the income losses co-payment scheme that has been announced by Government is not currently known but based on the headline summary of the scheme, indicative calculations suggest that a contribution of between £1.5m and £2m will be available. If this is the case, then the Council will only be facing a shortfall of between £500k - £1m.

It is a statutory requirement to approve a balanced budget and therefore in order to do this, it is proposed to utilise the budget stabilisation reserve in the event that the Government income losses co-payment scheme is insufficient to meet the shortfall.

Members will recall that Council approved the formation of a budget stabilisation reserve as part of the 2020/21 budget framework, the primary objective of which is to respond to budget volatility and ensure a balanced position is maintained without any detrimental impact on services. The scenario currently facing the Council aligns to the objective and should be utilised as necessary. The balance of the reserve is currently £2.843m. Therefore, the proposal can be stated as:

Heading	£'m
Net Budget Deficit	2.463
Combination of budget stabilisation reserve, co-payment scheme funding and further expenditure reductions (to be identified during the year)	(2.463)
Net Budget Forecast	0

The use of the budget stabilisation reserve is positioned as 'as last resort' and will only be considered after other proactive cost avoidance and reduction initiatives have been considered. These include the continual review of expenditure to identify reductions (including the deferral or removal of non-urgent expenditure), review of staffing vacancies and the prioritisation of key staffing recruitment and the acceleration of savings, transformation and invest to save proposals. As the implementation of these initiatives continue, the positive impact on the deficit reduction will be reported to members during the remainder of the financial year.

1.14 The proposed amended 2020/21 budget framework is shown at Appendix D alongside the indicative budget proposals for the following two years (2021/22 and 2022/23). These years remain unchanged from those presented to Council on 2 March 2020. It is highly anticipated there will be an ongoing impact on the future years' budgets specifically from an income perspective. However it is too soon to accurately predict what this may be at the present time but the budget preparatory work will consider this in the coming weeks.

1.15 Other areas that will require a review for 2021/22 are contained at lines 12 – 17 at Appendix D:

Line 12 – Council Tax. The highest risks contained in this line relate to the increase in Council Tax support scheme claimants, slower than modelled tax base (housing) growth and future Council Tax increases.

Line 13 – Government grants. The figures shown are based on pre-Covid-19 announcements and the Spending Review will undoubtedly result in a change to the figures presented.

Line 14 – Retained business rates. The figures shown are based on previously provided funding levels following the business rates reset that was due for implementation from April 2021. It has been confirmed that the business rates review and reset will now be delayed by a year and therefore will be April 2022. This line will be updated once further information is provided.

Line 15 – New Homes Bonus. It has been announced that the scheme will cease from April 2023 but there are no details of any scheme that may replace it.

Line 16 – Collection Fund. This Fund is a statutory requirement of the Council and all the income from Business Rates and Council Tax is contained in this account as well as the payments to the major precepting authorities. The primary risks are in respect of the ongoing collection from residents and businesses and the impact on the Council tax base.

2 General Fund and Housing Revenue Account Capital Programmes 2020/21

- 2.1 The capital programmes have been updated to reflect the anticipated forecast position as at 31 March 2021 and these are shown in detail at Appendix E. The following table provides a summary position:

Heading	Current Budget (inc. carry forwards) 2020/21 £'m	Forecast updated Budget 2021/22 £'m
General Fund	4.077	3.622
Housing Revenue Account	27.736	17.616
Total	31.813	21.238

Each of the projects set out in each capital programme have been reviewed and where necessary, proposed deferrals or re-profiling of expenditure has been included for 2021/22. This will continue to be reviewed during the remainder of the financial year.

3 Looking Ahead

- 3.1 The focus of the report is primarily reviewing, updating and proposing amendments to the 2020/21 budget framework in response to the Covid-19 impact. The budget setting proposals for 2021/22 will commence in the coming weeks and will align and drive forward the actions arising from the Corporate Plan. It is clear there will be financial challenges ahead arising from the ongoing impact, specifically income recovery levels and emerging expenditure pressures. Therefore, the medium term outlook will remain uncertain for the foreseeable period.

4 Consultation and Feedback Received, Including Overview and Scrutiny

- 4.1 The Finance, Economic Development and Corporate Services Overview and Scrutiny Committee has been kept up to date throughout the financial year.

5 Available Options Considered

- 5.1 There is no option but to review and amend the current budget framework due to the ongoing impact from both an income and expenditure perspective.

6 Preferred Option

- 6.1 The preferred option is set out in this report.

7 Reasons for the Recommendation (s)

- 7.1 The current approved budget framework is no longer reflective of the actual position and requires amendments in specific areas.

8 Next Steps – Communication and Implementation of the Decision

- 8.1 Following the Joint Budget Overview and Scrutiny Committee meeting, the proposals will be presented to Cabinet on 8 September and then Council on 17 September 2020.

9 Financial Implications

9.1 These are included and considered throughout the report.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

10 Legal and Governance Implications

10.1 The arrangements for making in-year amendments to the budget framework are set out at Article 4.21 of the Constitution. The responsibility for agreeing the budget framework lies with the Council.

Legal Implications reviewed by: Shelley Hardy, Legal Executive

11 Equality and Safeguarding Implications

11.1 There are no equality or safeguarding implications arising as a result of this report.

12 Risk and Mitigation

12.1 An updated Risk Register is provided at Appendix C.

13 Community Safety Implications

13.1 There are no community safety implications arising as a result of this report

14 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

14.1 This report does not have a carbon impact.

15 Background Papers

15.1 Council Budget Report:

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=261&MId=3827&Ver=4>

Finance, Economic Development and Corporate Services Overview and Scrutiny Committee Reports:

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=664&MId=3897&Ver=4>

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=664&MId=3907&Ver=4>

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=664&MId=3908&Ver=4>

16 Appendices

16.1 Appendix A – Income Budget Projections

16.2 Appendix B – Details of proposed budget amendments

16.3 Appendix C – Financial Risk Register

16.4 Appendix D – Medium Term Financial Plan Summary

16.5 Appendix E – Forecast Capital Programmes

Report Timeline:	Date of Publication on Forward Plan (if required)	8 June 2020
	Previously Considered by:	Not applicable
	Final Decision date	17 September 2020