



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Cabinet

8 September 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 amend 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:	Claire Morgan, Senior Accountant	25 August 2020
Approved by:	Karen Bradford, Chief Executive	26 August 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	27 August 2020

Recommendation (s) to the decision maker (s)

1. Cabinet is asked to recommend to Council an increase to the salary and member allowances budgets of an additional 0.75% in order to meet the national pay agreement for 2020/21 of 2.75%.
2. Cabinet is asked to consider and recommend to Council the draft proposed budget amendments for the 2020/21 budget framework.

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 that has been presented throughout the financial year to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee, Cabinet and the Budget Joint Overview and Scrutiny Committee. Due to the timing of the publication of this report, any observations or proposed amendments following the Joint Budget Overview and Scrutiny Committee will be provided to Cabinet at the meeting.
- 1.3 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.
- 1.4 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.
- 1.5 On 16 July 2020, a funding allocation of the £500m was announced to help authorities meet the costs that have arisen as a result of the pandemic and it was confirmed that the Council will receive £194k as a contribution towards its 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.
- 1.6 As well as the increased spending during the pandemic, there has also been a significant impact on income. Again, this has been regularly reported 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. An analysis of the projected income losses based on the guidance has been undertaken and an indicative funding level of £1.4m has been calculated. Reimbursement payments will be made in October 2020, January 2021 and May 2021 covering specific periods during the financial year. Therefore during this period the projected total reimbursement is likely to vary based on actual rather than projected losses.
- 1.7 The details of the scheme have now been released with the following guiding principles:
 - The income is transactional income from customer and client receipts (excluding rents and investment income), which is generated from the delivery of goods and services and which was budgeted for in 2020/21.

- As a result of Covid-19, and consequent reductions in economic activity, this income has been unavoidably lost and will not be recovered in this financial year.
- Compensation will be based on net losses. Where a local authority has been able to reduce expenditure, or has received other compensation, compensation will only be provided for the residual loss.
- Areas of income that are not eligible for compensation are:
 - Investment income
 - Rental income
 - Compensation paid to third parties for loss of revenue
 - Income which was not included in the authority's General Fund budget for 2020/21
 - Income that can be reasonably recovered later in the financial year
 - Income losses that can be mitigated by reductions in expenditure or which have already been compensated for by other government funding

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 (provisional)	1,400,000	75% of income losses beyond 5% of planned income
Total	3,201,551	This is shown at table 3

Fees and Charges

1.9 The Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on behalf of Cabinet 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. On 26 August 2020, the Joint Budget Overview and Scrutiny Committee met to consider the budgetary amendment proposals that are detailed in the report and supporting appendices. Members reviewed the proposed amendments in detail and no changes to the proposals were recommended.

1.10 The first quarter of the financial year has now been completed 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	107,300
Totals	6,716,300	1,679,074	764,400	3,583,933

1.11 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.

- 1.12 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 13th August 2020. This has had the effect of increasing the budgets for the General Fund to £20.195m at net cost level.
- 1.13 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 £4.4m increase which is a combination of income losses, expenditure reductions and anticipated cost increases. This analysis has been based on actual activity since the beginning of the financial year and forecasting for the remainder of the year. It is therefore inevitable that there remains a degree of volatility and uncertainty in the forecasting assumptions for the financial year.
- 1.14 The Local Government Service Pay Agreement 2020/21 has recently concluded at a pay increase settlement of 2.75% for the period 1 April 2020 – 31 March 2021. The budget framework approved on 2 March 2020 included a 2% pay award and so the proposals detailed in this report and shown in detail at Appendix B reflect the additional 0.75%.

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	8,634	1,226
Finance, Legal & Democratic	4,847	5,886	1,039
Growth	6,536	8,643	2,107
Transformation & Change	3,962	3,985	23
HRA Recharge	(2,558)	(2,566)	(8)
Net Cost of Service	20,195	24,582	4,387
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	20,581	4,362
General Funding	(15,860)	(15,860)	0
Covid-19 specific funding	0	(1,801)	(1,801)

Co- payment losses contribution*	0	(1,400)	(1,400)
Total Funding	(15,860)	(19,061)	(1,161)
Transfers to/(from) earmarked reserves	(359)	(298)	61
Net Budget Deficit	0	1,222	1,222

*the figure shown is provisional and will depend on the actual net income losses declared in accordance with the Government scheme criteria.

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	3,132	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	(1,243)	Reduced expenditure as detailed at supporting Appendix B
Change to net cost of service	4,387	This is shown at table 3 above – net cost of service

- 1.15 After applying the confirmed and expected funding contributions from Government, the funding deficit is reduced to £1.2m. However, the actual funding shortfall will be exposed to ongoing uncertainty and volatility in the forecasting assumptions of income recovery and further exposure to unforeseen costs.

It is a statutory requirement to approve a balanced budget and in order to do this further measures will need to be introduced to ensure a balanced position is achieved by the end of the financial year.

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.

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.

Therefore, the proposal can be stated as:

Heading	£'m
Net Budget Deficit	1.222
1. Other intervention measures (cost reductions, further savings)	(1.222)
2. Budget Stabilisation reserve use (to meet remaining deficit)	
Net Budget Deficit	0

1.16 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.

1.17 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 take effect from 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 2020/21 £'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.
- 4.2 In respect of the pay settlement award, the Chair and Vice-Chair of the Employment Committee have been consulted and have given their approval for the recommendation to be presented to Cabinet directly rather than Employment Committee in the first instance in order to expedite the matter.

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

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. In respect of the proposed pay award of 2.75%, the Chair and Vice-Chair of the Employment Committee were consulted on the proposal and have agreed that the matter can be considered by Council without recourse to the Employment Committee. This is in the interests of expediency.

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