

2020-21 Budget Strategy

Cabinet	19 November 2020
Report Author	Tim Willis, Deputy Chief Executive and S151 Officer
Portfolio Holder	Cllr Rob Yates, Portfolio Holder for Finance, Administration and Community Wealth Building
Status	For Decision
Classification:	Unrestricted
Key Decision	No/Budget and Policy Framework
Ward:	All

Executive Summary:

At this stage there is too much uncertainty to develop a meaningful four year Medium Term Financial Strategy. As such, the MTFS has been deferred to later in the budget setting cycle, and Cabinet is instead presented with a budget strategy for 2021-22. The purpose of this strategy is to set out the approach and principles the Council will apply to develop and deliver a balanced budget for 2021-22.

The Council was already under financial pressure before the Covid-19 pandemic. Excluding the impact of Covid the forecast budget gap for 2021-22 is approximately £840k. Permanent budget savings or solutions are required to address this structural deficit and deliver a balanced budget for 2021-22.

The strategy sets out the following for consideration:

- Service directors exemplify options for savings from controllable budgets.
- Management action is taken to address historic budgetary shortfalls, namely Property, Building Control, Land Charges, Coastal and Licensing.
- The replenishment of reserves be delayed until 2022-23.
- Allowance be provided for contractual inflation, but any other growth pressures be funded from within existing service budgets.
- The increase in council tax is anticipated in the Equalisation Reserve in 2020-21 by allocation of £200k from the Covid Shortfall reserve.

Recommendation(s):

That the 2021-22 Budget Strategy be approved.

Corporate Implications

Financial and Value for Money

This is a key report in the 2021-22 budget setting process. Cabinet approval is sought for the strategy to set the 2021-22 budget and address the anticipated funding shortfall. The budget gap estimated for next year in this report presumes all services that have incurred non-Covid income shortfalls in previous years and this year will address those shortfalls by the start of 2021-22. The base budgets, apart from the earmarking of the £200k fees and charges and council tax increases, have been compiled assuming no Covid impact. Therefore any impact of Covid in 2021-22, beyond these limited assumptions, that is not funded from Government grants, will need to be addressed when it manifests.

So the key risks for this budget strategy are that national or local events give rise to costs which have not been factored into the budget - there is no headroom. These risks are discussed in the report and could include, nationally, Covid-19, EU Transition and uncertainty regarding Government funding; and locally, Your Leisure, a failure to take management action now to stay within next year's budget and political instability.

Cabinet will receive a further report on Covid Emergency Funding in 2020-21 and how to account for that, to follow on from the Cabinet report of 30 July and Council report of 10 September. It will be important to recognise the corporate risks for the 2021-22 budget when deciding how to manage the 2020-21 funding, e.g. if we estimate the £3m use of reserves gives rise to an excess of Covid funding for 2020-21, the first call should be to protect the 2021-22 budget from further one-off demands arising from the risks referred to above and in this report. To this end and as a start, the budget monitoring report on this agenda recommends that £400k of 2020-21 Covid funding is specifically set aside as a small provision against Covid losses in income in 2021-22. This enables the £400k generated from fees and charges increases and an assumed Council Tax increase in 2021-22 to be used to help bridge the budget gap in 2021-22.

Legal

Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out this function.

The requirements of other relevant statutes have been referenced within the body of this report, where relevant.

Corporate

The report details the financial and corporate risks of adopting this strategy and also the risk of inaction. The report also sets out the importance that any budgetary action must be taken in accordance with the Council's corporate statement. Budgetary reductions are likely to diminish or delay the Council's ability to meet its objectives as set out in the Statement, therefore resource or saving allocations must consider these priorities and the impact upon them.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity

between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

There are no direct equality implications arising from this report, however the delivery and implementation of and budgetary changes will consider this as part of the budget setting process and be reported to members in due course.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- *Growth*
- *Environment*
- *Communities*

1.0 Introduction

At this point in a 'normal' budget setting cycle Cabinet would typically be considering the Council's medium term strategy and its plans to balance the budget over the next few years.

However, in current circumstances given the huge uncertainty regarding Covid-19, the manner of the UK's exit from the EU and Government policy regarding local government, the Medium Term Financial Strategy (MTFS) is being pushed back to later in the budget process. At this stage there is too much uncertainty to develop a meaningful four year budget strategy.

As such, Cabinet is instead presented with a budget strategy for 2021-22. The purpose of this strategy is to set out the approach and principles the Council will apply to develop and deliver a balanced budget for 2021-22. This budget strategy will enable the Council to respond effectively to changing circumstances while maintaining a focus on the Council's financial sustainability. The report outlines the key issues which will need to be considered as part of development the 2021-22 budget, setting out the key points and proposed timetable of key dates between now and the budget setting Council meeting on 11 February 2021.

It should be noted that this strategy applies to the General Fund budget only and that a separate budget strategy will be developed for the Housing Revenue Account.

2.0 Background and Context

The Council was already under financial pressure before the Covid-19 pandemic. It has been well reported that the Council has relatively low reserves and has experienced substantial reductions in Government funding in recent years, in-line with the Government's

austerity programme. Accordingly over the last decade the Council has gone through a series of cost cutting, budget saving and transformation programmes in order to find the reduction in resources needed to balance the budget. For example, when the 2020-21 General Fund budget of £17.1m was agreed at the Council meeting on 6 February 2020 the balancing of this budget was underpinned by the expected delivery of £730k of income generation and efficiency proposals to bridge the funding gap. Moreover, the 2020-21 budget approved by Council in February 2020 included forecast budget gaps in excess of £1m across the medium term prior to the onset of the Covid pandemic.

The 2020-21 budget was developed in a pre-covid world and the Covid-19 crisis has had a significant financial impact on the Council and also across the communities and businesses within the district. Since March 2020, the council's focus has been on the immediate coordinated response to support our residents during the initial lockdown period. Business rates relief and grants for businesses in the retail, hospitality and leisure sectors have been administered in-line with government guidelines helping more than 3,000 businesses in the granting to recipients of council tax support through the Government's hardship fund.

A community hub was set up in collaboration with partners and volunteers to support vulnerable residents, ensuring food and other essential items were delivered to those with particular health conditions.

The Council has provided accommodation for all the district's known rough sleepers and continued to provide housing to others where its duty to do so had ceased. It is anticipated that the pandemic will have a significant impact on the Council's ability to collect income, both from taxpayers and services such as car parking.

There are also additional cost pressures as the Council responds to the outbreak and provides support to the most vulnerable residents. The Government has allocated emergency Covid-19 funding to local authorities, but this is unlikely to be sufficient to cover the estimated budget gap.

On 10 September 2020 Council received and approved a revised 2020-21 budget report. The report estimated that the overspend for the year could be £5.6m, 32% against the net revenue budget, which after consideration of expected government support in the region of £2.6m resulted in a forecast budget gap of £3m for 2020-21. Council agreed to the allocation of reserves to bridge the £3m gap.

The extent of the impact of Covid upon the Council's finances for 2020-21, let alone 2021-22, remains uncertain. This continues to be monitored closely and a further update on the in-year position is provided to Cabinet elsewhere on this agenda, within the Budget Monitoring Report #2. The further national lockdown, announced for an initial four weeks from 5 November 2020, adds further to the uncertainty.

Beyond the implications of Covid-19, the future for local government funding remains very uncertain, with no information available on funding from April 2021 onwards. The current four year Comprehensive Spending Review (CSR) period came to an end in 2019-20, with the

CSR 2020 delayed until the autumn of 2020 because of Covid-19. It has now been announced that there will be a one-year Spending Review, to be announced on 25 November. The spending round will inform the local government finance settlement and therefore the shape and size of any core central government funding to be allocated to TDC remains unknown at this time.

In addition, the Government has previously announced a number of significant policy changes for local government funding including the:

- **national move to 75% Business Rates retention** - a 50% retention scheme is currently in operation, with an stated policy aim of eventually moving to 100% retention.
- **resetting of baselines** - from which Business Rates funding allocations will be determined, the impact being that councils would lose the growth they have accumulated since 2013-14, for TDC this would result in a further £500k.
- **Fair Funding Review** - to examine the relative needs of councils and the allocation of resources between them.

The timing of the implementation of all of the above remains unknown, but again it is now thought to be more likely that the above policies will be deferred for another year.

In summary, the Government has provided virtually no indication of the level of funding local authorities can expect to receive for 2021-22 and beyond.

3.0 Current Position

It has been assumed at this stage that the financial impact of Covid-19 will be temporary, albeit of unknown duration. This assumption underpinned the Council decision to reallocate £3m of earmarked reserves to meet the in-year shortfall, as reserves should only be used to finance temporary and not permanent or structural budget issues. It is further assumed that although the budget gap can be reduced by income from fees and charges and Council Tax increases, a similar sum will be earmarked from the 2020-21 Covid reserve to protect against Covid losses in 2021-22. Additionally, it is assumed that past and current income shortfalls, that are not related to Covid, will be addressed before the start of 2021-22.

With these key assumptions in place the current projected gap for the 2021-22 budget has been derived as follows:

Factor	£000
Pay award (1%), increments, living wage - inflationary increases in pay budgets	294
Non-pay inflation	268
KCC recycling enabling payment reduction - anticipated reduction in the	220

payment from KCC to encourage and enable districts to provide recycling services	
Housing grant removal - only funded one-off in 2020-21	300
Commercial waste increased income - increase agreed in 2020-21 budget	(25)
MRP and interest - Reduction on interest earned on investments due to ultra low interest rates plus increased cost of repaying and servicing borrowing associated with the capital programme	160
Revenue Support Grant - Anticipated reduction in funding	100
Reduced contribution to reserves and other minor funding adjustments	(77)
2% Increase in fees and charges	(200)
Assumed 2% increase in Council Tax	(200)
Total gap	840

However, it is recognised that this is a complex and dynamic situation and this, alongside other assumptions will be monitored and reviewed throughout the 2021-22 budget setting process.

One of the key risks when setting next year's budget, as well as a risk this year, is related to leisure services. All the council's leisure services are provided by Your Leisure and that organisation is facing unprecedented financial pressures as a result of Covid. At the time of writing, the council is supporting Your Leisure in relation to direct funding, helping with bank negotiations and lobbying Government. A £100m fund has been announced by the Government to support local authority leisure providers, but the distribution of this funding is unknown. Even if Your Leisure/TDC is eligible for some funding, Your Leisure may still require further financial support from the council in the current year and next year.

4.0 How to close the gap

The budget gap can be considered as on-going or relating to structural issues and as such permanent solutions are required to address them. Unlike the presumed temporary pressures faced by Covid-19, it is not sustainable or feasible to address these permanent budget pressures by drawing down on our reserves.

The following sections set out action that will or can be taken to balance the 2021-22 budget.

4.1 Savings

There are few easy ways of finding the savings. The following strategy is to be adopted:

- Each Service Director has been tasked with identifying savings from their controllable budgets. This excludes budget lines that are outside of their control, such as overheads or recharges, or where there are contractual commitments that cannot be broken without incurring substantial penalties.
- Savings are exemplified by reductions in expenditure and not funded from increased income. There is a separate strategy proposed for income described below.
- It is anticipated that the above action will generate enough options to cover the budget gap, but hard choices will need to be made.

These options have been considered by the Corporate Management Team (CMT) and informally with Cabinet Members. Savings proposals are well advanced and this gives the S151 Officer some comfort that a balanced budget can be presented formally to Cabinet, as part of the budget report.

4.2 Historic Budget Shortfalls

There are a number of service areas where historic budget pressures or income shortfalls remain (these are Property, Building Control, Land Charges, Coastal and Licensing). Cumulatively, these services were provided with approximately £250k of additional base budget corporate resources in 2020-21 in recognition of these pressures, however it was agreed that management action would be taken to address the residual underlying budget issues. Covid has understandably resulted in a delay to some of these management actions being deployed and as such, some of these overspends or income shortfalls are expected to manifest again in 2020-21. This budget strategy assumes that the necessary management action will be taken in 2020-21 and that no further corporate resources will be allocated.

4.3 Reserves

Reserves do need to be replenished, but given the challenges next year, it is proposed that contributions to reserves should begin in 2022-23.

4.4 Growth

The budget already assumes a £268k pressure for non-pay inflation pressure, largely relating to non-negotiable contractual commitments. Any growth proposed by a service or department over and above those listed in the budget gap must be contained by savings within that service or department, outside of and additional to the corporate savings target. To do otherwise at this stage would swell the budget gap further and place serious risk on the council's ability to deliver a balanced budget.

4.5 Pay and Remuneration

The council will seek to restrain the cost of living pay award in 2021-22 in order to protect services and minimise and staffing reductions. A 1% increase in pay is proposed to be built into the budget, along with the cost of paying the National Living Wage and increments. Incremental increases through the grading structure are a contractual obligation to the

council and a right for staff. In addition, the council is legally required to implement the increase in the National Living wage which is forecast to increase by 5.5% to £9.20 per hour on 1st April 2021. The combination of these pay pressures will cost the council an estimated £294k in 2021-22.

The pay award is determined locally and subject to consultation with local union bodies.

4.6 Fees and Charges

Cabinet is receiving proposed fees and charges increases elsewhere on the agenda, with a similar report going to Council in December. The approach to setting fees and charges will be as follows:

- The default position will be to increase all fees and charges by at least 2% and all fees and charges income budgets by 2%. The only exceptions to this will be:
 - Where individual charges cannot rise by 2%, e.g. individual car parking charges, but the service (in this example, parking) will still need to generate at least 2% increase overall.
 - Where a service is being fundamentally reviewed as part of a review of its fees and charges income shortfall.
- It assumed all services that identified a significant projected shortfall last year and this year, will take action to eliminate the shortfall. This might be by increasing charges by more than 2% if the market/regulation will tolerate it; or by restructuring charges; or by fundamentally reviewing the service. This will enable the overall budget strategy to presume no additional burden from historic income shortfalls.

It is anticipated that a 2% increase in charges will generate approximately £200k of income.

4.7 Council Tax & Business Rates

There is similar uncertainty here. Collection rates are down, perhaps not as far as first expected, however substantial shortfalls in collection are expected on both Council Tax and Business Rates. The size of these shortfalls still can not be estimated with certainty.

The impact of Covid on the council's Council Tax income could manifest from the ending of the furlough scheme, and increased unemployment from an economic downturn (resulting in more Council Tax Support (CTS) claimants and non-payment by those not in receipt of CTS).

Business Rates income could similarly be hit by business failures from an economic downturn. There is also the potential cliff-edge of Business Rates relief for small businesses and those in retail, leisure and hospitality, which has applied for this year but (based on current policy) will end in 2021-22, with those businesses expected to start paying rates again. It is also unlikely that there will be a similarly generous business grants scheme as in this year, worth £34m so far. There is also the prospect of possible policy changes, as

mentioned in section 2, such as the re-basing of Business Rates. This could have a significant adverse impact on Kent, and Thanet. This backdrop may lead to the ending of the Kent Business Rates pool, which has been beneficial to TDC.

It had been agreed that all the projected 2020-21 losses of Business Rates and Council Tax of £1.6m can be contained within the Equalisation reserve, as approved by Council on 10 September 2020. This budget strategy assumes that the burden on the Equalisation Reserve will be reduced by £200k and this is reflected in the budget monitoring report elsewhere on this agenda. It is still possible that the Government will announce specific cash funding to assist with CT/BR losses, which would ease the burden on the Equalisation Reserve, but none has been evident so far.

The strategy also assumes that Council will approve further increases in the premium long-term empty properties, as permitted by statute, and that this will be reflected in the Council Tax base to be approved by Cabinet in January 2021.

4.8 Corporate Statement and Priorities

It is important that any action taken to address the financial position is done so in accordance with the Council's Corporate Statement for 2019-24 that was approved by Council on 10 October 2019. Budgetary reductions are likely to diminish the Council's ability to meet its objectives as set out in the Statement, therefore resource or saving allocations must consider these priorities and the impact upon them.

The plan sets out the council's programme of priorities and identifies three core aims that will help focus efforts towards achieving the vision:

Growth: We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a Council that is financially strong to discharge its services and invest in the growth of the District.

Environment: Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.

Communities: Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

4.9 Climate Change

The Council passed a motion to declare a Climate Emergency on 11th July 2019. The Council resolved to:

- Declare a climate emergency;
- Pledge to do what is within our powers and resources to make Thanet District Council carbon neutral by 2030, taking into account both production and consumption emissions;
- Call on Westminster to provide the powers and resources to make the 2030 target possible;

Going forwards the Council has a role as:

- **A service provider** by delivering services that are resource efficient, less carbon intensive, resilient and that protect those who are most vulnerable to climate impacts.
- **An estate manager** by ensuring that our own buildings and operations are resource efficient, use clean energy, and prepared for the impacts of a changing climate.
- **A community leader** by helping local people and businesses to be smarter about their energy use and to prepare for climate impacts.

An action plan has been developed to address the three main identified focus areas as follows:

- Reducing emissions and improving energy efficiency through the Council's operations, and supporting the community to do this, within the powers of the Council.
- Supporting and protecting the District's nature and biodiversity.
- Improving the management of waste and resources across the District.

It is inevitable that further resources will need to be prioritised to deliver the Council's climate change objectives. The Council calls on Westminster to provide the powers and resources to make the 2030 target possible.

5.0 How to manage to the risk of Covid

It is probable that the Covid-19 pandemic will continue to have some impact on the Council's finances in 2021-22. However, there are a raft of unknown factors that make planning for such a scenario extremely difficult; the extent and duration of the pandemic continues; its impact on public and customer behaviour; and also the level, if any, of government support that will be provided in 2021-22. To apply these variables consistently across the council's numerous service budgets for 2021-22 would be extremely challenging and would most likely result in a disparate and fragmented approach.

It is also uncertain as to whether Thanet District may be subject to any local covid restrictions. Kent County along with the whole of southern England was in the tier 1 'medium' rating of the Government's Covid local alert levels, until an announcement on 31 October that a new national lockdown will be in place from 5 November. In the event of Covid continuing to be evident during the 2021-22 municipal year there would be further restrictions on social and economic activity, which would inevitably impact on the Council's

operations and finances. The probability and impact of this event occurring at this time is unknown and therefore at present the budget strategy has not assumed any provision for this risk manifesting (apart from the £400k referred to below); but that if it arises, it will be covered by Government funding and the Council's reserve holdings. Of course, the council's already low reserves were further diminished by the £3m cost of Covid in 2020-21, so there is little or no headroom.

It is proposed that £400k of the additional £1.1m Covid funding from Government in 2020-21 is used to protect the council from income losses arising from Covid in 2021-22. By using some of this funding in this way, services can plan for 2021-22 on the assumption that Covid will not impact detrimentally on demand for services that generate fees and charges income. If it transpires that Covid has an adverse impact greater than can be contained through the above strategy, and there is no new Government funding, then the council will have to address that scenario next year. This strategy carries risks, but is balanced against the alternative: to build more protection into budgets, increase the budget gap, and carry the risk of not delivering the required larger budget savings.

6.0 Other Risks

In addition to the Covid related risks set out about above, there are a number of other risks and variables that officers and members must consider when preparing the 2021-22 budget. In particular, the Deputy Chief Executive in his capacity as Section 151 officer must have assurance that a balanced budget will be delivered. Assurance must be provided that a balanced budget is built upon sound and robust estimates and that adequate reserves are in place to mitigate the financial and non-financial risks the council faces. Failure to do so will lead to the consolidation of a section 114 notice.

The other key risks that will be considered within the budget setting environment are:

- Historic non-delivery of savings.
- Local political stability.
- Brexit.
- Level of government financial support.
- Climate Change.

7.0 Next Steps

A draft timetable and activities similar to last year is set out below.

Date	Action/decision
19 November 2020	Cabinet approves the 2021-22 Budget Strategy Cabinet agrees the 2021-22 fees and charges Cabinet agrees the 2020-21 budget monitoring report no.2
November -	Informal updates on budget progress to Cabinet members

December 2020	Budget briefings for Shadow Cabinet and all members
25 November 2020	Government Spending Review giving an indication of local government spending levels
December 2020	Government draft financial settlement for 2021-22 giving an indication of TDC funding
10 December 2020	Council approves fees and charges
Christmas	Draft budget report to Cabinet
14 January 2021	Cabinet approves the 2021-22 budget (with OSP on 19 January and Cabinet on 28 January if required) Cabinet approves the 2021-25 MTFS
11 February 2021	Council approves the budget

Contact Officer: *Tim Willis, Deputy Chief Executive and Section 151 Officer*
Reporting to: *Madeline Homer, Chief Executive*

Background Papers

Corporate Consultation

Finance: Chris Blundell, Director of Finance and Deputy Section 151 Officer

Legal: Tim Howes Corporate Director of Governance