
Subject: APPROVAL OF REVISED 2020/21 GENERAL FUND REVENUE BUDGET AND PROJECT PROGRAMMES

Meeting and Date: Cabinet – 5 October 2020
Overview and Scrutiny Committee – 12 October 2020
Cabinet – 19 October 2020
Council – 21 October 2020

Report of: Mike Davis, Strategic Director (Corporate Resources)

Portfolio Holder: Councillor Chris Vinson, Portfolio Holder for Finance, Governance and Digital

Decision Type: Key

Classification: Unrestricted

Purpose of the report: To seek approval for the revised 2020/21 General Fund (GF) revenue budget and project programmes.

Recommendation: It is recommended that Cabinet recommends to Council that the General Fund Revenue Budget and the Capital & Special Projects Programmes be approved including;

- Forecast increase in the GF revenue budget deficit;
- Reduction in proposed transfers to reserves and use of Government funding to offset the forecast deficit;
- Addition, removal and amendments to projects.

1. Summary

1.1 This report has been prepared in order to present the revised 2020/21 General Fund revenue budget alongside the updated Capital and Special Project Programmes taking into account the forecast impact of Covid 19, the lockdown period and the on-going impact on the economy.

1.2 This report is split into the following sections:

- (a) 2020/21 GF revenue budget;
- (b) Budget risks, uncertainty and unknowns;
- (c) Revised Capital and Special Projects programmes;
- (d) GF Reserves and Balances;
- (e) 2021/22 budget update;
- (f) Section 114 notice.

1.3 It is recommended that a strategic approach is taken to the 2020/21 budget position utilising reserves, balances and a revised project programme to balance the revenue budget and additional projects requested. A full review of the 2021/22 budget will be undertaken and the changes required to deliver a balanced proposal will be incorporated into the budget process to be brought to Cabinet and Council in February / March 2021.

2. Background

- 2.1 The fall in GDP for the second quarter in 2020 recognises the UK economy as being in recession. The fall in the second quarter (April-June) of 20.4% was the steepest fall on record as the Covid 19 lockdown took effect, bringing much of the economy to a standstill. Although there were signs of some recovery in July with GDP growth of 6.6%, there have since been more severe lockdown and quarantine rules introduced in September, increasing uncertainty of the on-going effects on the economy.
- 2.2 For district councils such as Dover, the financial impacts in 2020/21 come from a combination of some additional cost pressures (mainly homelessness and support to leisure operators) and very significant losses of income.
- 2.3 The uncertainty surrounding the future lockdowns, the rate and timing of economic recovery, the impact of the UK transition, the future of local government financing and any potential additional government support combine to create a significant range of unknowns. Therefore, it is not possible to provide certainty as to the impact on the Council's future financial position. However, this report has been produced to provide Members with the most up to date analysis available, including the revised 2020/21 budget forecast and the proposed changes to the project programmes to release reserves to support financing of the in-year budget pressures.
- 2.4 Whatever measures the Council takes, the current circumstances are likely to have a significant impact on the Council's financial position and the range of services it provides.

3. 2020/21 GF Revenue Budget

- 3.1 The revised GF Revenue Budget is detailed at Annex 1. The budget has been reviewed taking into account the main known pressures forecast from the impact of Covid 19 on expenditure and income streams:

Ref	Description	£000	£000
	Net Cost of Increased Homelessness Support	350	
	Additional ICT investment	50	
	EU Transition Port Health Authority resources	50	
	Additional Revenues & Benefits support	50	
	Community Grant Scheme	50	
	Other shielding support	50	
1	Total Corporate Resources		600
	Loss of leisure centre income	750	
	Estimated payments re DDLC	750	
	Refuse & Recycling charges	50	
	50% Reduction in parking income	1,325	
	Loss of other leisure income	30	
	25% Reduction in Building Control income	80	
	20% Reduction in Land Charges income	35	
	Estimated reduction in rent income	50	
	Estimated reduction in other income streams	100	
2	Total Operations & Commercial Services		3,170
3	Property Investment unlikely in current climate	100	
4	Economic impact on financial investments	180	
5	Short term borrowing to support cash flow	150	
6			
	5% reduction in NDR income (excluding EZ & renewable energy)	280	
7	4% reduction in Council Tax income	300	
	Total NDR & Council Income		1,010

Forecast Total Impact on Budget**4,780**

- 3.2 As detailed the forecast impact on the GF budget is a £4.73m additional in year pressure.
- 3.3 The table below details the Government funding and other options proposed to offset this forecast pressure:

Ref	Description	£000	£000
	Forecast Total Impact on Budget		4,780
10	Government Funding Received	(1,470)	
10	Estimated funding from Income Compensation Scheme	(1,660)	
	Total Forecast Government Funding		(3,130)
	Remaining Budget Deficit		1,650
9		(600)	
	Remove investment income reserve contribution		
9	Remove Renewable Energy NDR reserve contribution	(930)	
	DDC Contribution to Deficit		(1,530)
	Net Pressure		120

- 3.4 These changes result in a net impact of an additional £120k pressure on the GF balances in 2020/21, forecasting and overall deficit of £118k and a retained GF balance of £2.4m at the end of the financial year.
- 3.5 This forecast pressure is lower than previously reported in June, however we started with prudent assumptions around the levels of core income streams and the pattern to date has not seen as significant a fall in these as forecast. The position is therefore improved on the original estimates but remains very volatile as detailed in the next section.
4. **Budget Risks, Uncertainties and Unknowns**
- 4.1 The current financial position is one of unprecedented uncertainty. A summary (not exhaustive) of the major “unknowns” identified to date is provided below.
- 4.2 Pattern of economic recovery – The economy is now in recession and with on-going tightening of restrictions across the country the timing and shape of any recovery, medium and long term impact cannot be meaningfully predicted. As a result of this, combined with the various grants and support to Businesses and Universal Benefit claimants, the current patterns are also a poor basis upon which to predict the remainder of the year’s income and next year’s income.
- 4.3 Government support to businesses – The NDR support schemes and the furloughing policy has provided interim support to businesses and reduced the level of business failures, preventing some level of unemployment in the short-term. As these schemes are reduced and withdrawn there will be a detrimental impact on the NDR income received and the level of Council Tax Support claimant. However, the uncertain nature of these means it continues to be challenging to identify the effect and start to measure the impact.
- 4.4 Council Tax – The majority of Council Tax is paid in instalments, most being “10 monthly”. The economic downturn had an impact on the ability of residents to pay the amounts due. As with all local authorities in Kent, recovery action ceased to minimise citizen distress. Statutory reminder activity recommenced in August. National indications are that Council Tax collections will be reduced by up to 5%. For Dover, current indications are that an impact of up to 2% is more likely, although the end of

the furlough scheme in October and potential local lockdowns may impact this further. Due to the on-going uncertainty in this area the revised budget forecast a reduction of 4% in Council Tax income.

- 4.5 Council Tax Support (CTS) - CTS is paid for the full year in advance and tends to peak at the start of the year and drift lower (by around 2%) over the rest of the year as changes in circumstances erode the award. There was an initial significant initial increase in CTS awards, but trend analysis suggests that the rate of increase is now more stable. Based on trend analysis, it is currently estimated that the impact of higher CTS awards on Dover District Council will be between £85k and £110k (this reduction is included in the 4% Council Tax reduction included above). CTS will be particularly impacted by changes to the national furlough schemes and is likely to increase beyond these levels should there be a further economic downturn.
- 4.6 Business Rates – Retail, leisure and hospitality businesses have been taken out of the system for a year, and small businesses have been given grants. In the short term this protects business rates income. In the longer term it is not clear what proportion of these businesses will survive the lockdown. As with all local authorities in Kent, recovery action ceased to minimise business distress and this is yet to restart. National indications are that Business Rate collections will be reduced by up to 10%, but currently at Dover underlying payments are within profile targets. There are risks to this as Businesses who are currently receiving a full discount, cease trading, and empty rates then become payable on the property, but this is under close scrutiny. DDC is also in the unusual position with a small number of companies with a significant proportion of NDR income. This means that if they pay but no-one else does, DDC is protected to a large extent, whilst on the other hand if they face difficulties DDC is disproportionately impacted, at the moment though there are no significant alarm bells over them. The forecast includes a 5% reduction in income to reflect the uncertainty in this area.
- 4.7 Business Rates Retention – Government has been working on reforms to the Business Rates Retention (BRR) model but without notable success, so the current model will continue through 2021/22. This current model is volatile and unpredictable.
- 4.8 Business Rates Pool – DDC is a shadow member of the Kent business rates pool. There is a possibility that all (or the bulk) of the pool members suffer adverse business rates performance next year and it is not clear how the government's safety net will be applied to the pool, if levels drop significantly. It is estimated by our advisors, Local Government Futures, that there will continue to be a benefit in maintaining the pool until Business Rates income has fallen by 11-12% therefore it is likely that maintaining the pool will still provide a benefit to the participating districts and KCC.
- 4.9 Business Rates Timing – BR are paid into the collection fund from which Dover and the other stake-holders precept (draw) their shares. So poor BR performance in 2020/21 would not actually affect the DDC precept for the year but would leave a deficit in the collection fund. This deficit would not be confirmed until April / May of 2021, by which time the precept for 2021/22 would already have been set (based on an estimated deficit), so the impact of the 2020/21 poor performance impacts on the DDC budget for both 2021/22 and 2022/23. This makes the link between what is happening in the local economy and how it impacts upon the DDC budget rather tenuous. The 2020/21 forecast includes a reduction in BR performance as a direct impact upon the Council in year. This reflects the forecast reality of the BR performance rather than the technical accounting treatment.
- 4.10 EU Transition – The impact of the EU transition period remains uncertain and no positive or negative impacts have been assumed in the forecasts at this stage. However, as detailed in the report “EU Transition – Dover Port Health Authority” (included separately on the agenda) the preparations for the potential requirements as

Port Health Authority (PHA) alone are likely to result in a need for recruitment of a significant level of resources (c.140 staff by July 2021). At present the Government have only advised of funding support for additional PHA staff up to the end of financial year 2020/21.

- 4.11 Reserves and Balances – The Council has maintained prudent balances and reserves, although the capital programme has been steadily depleting these reserves and this is unsustainable. The original 2020/21 budget assumes some transfers to reserves. It is proposed that some of these transfers could be forgone to reduce the financial pressure in the year, however this will leave less in reserves for future years investment in projects and this must be borne in mind when considering prioritising projects in the amended capital programme.
- 4.12 Future Leisure Centre income – The return to use and the pattern of use and membership at both Dover District Leisure Centre & Tides are clearly significant unknowns, as is the level of competition that will survive and remain in the market after the lockdown and the level of support to be provided by the Council to support service delivery.
- 4.13 Rental income – This income stream comes from a diverse portfolio with a small number of high value leases and a high number of smaller leases. At present the majority of major rental streams are maintaining their payments at an acceptable level. An allowance for some reduction in the smaller income streams has been included based on activity to date.

5. **Revised Capital and Special Projects Programmes**

- 5.1 The report to Cabinet in June proposed the following changes to the Capital Programme:
- (a) A new town centre regeneration fund of £2.5m to support the recovery.
 - (b) An additional £1.5m to fund the Maison Dieu project.
 - (c) Transition costs of £0.5m to support any organisational changes required for 2021/22 and subsequent years.
- 5.2 In order to finance these projects and to recognise the reduction in contribution in reserves through the revenue budget a full review of the Capital and Special Projects Programmes has been undertaken. This review has identified savings / reductions in the programme of £9.2m, the main changes are detailed below:
- (a) Remove the commitment to the proposed £4.9m budget for the Tides Leisure Centre replacement project. A full review of leisure provision across the district will be required to assess the impact of Covid-19 and economic changes on future requirements in leisure services.
 - (b) Remove the £2m budget for Strategic Land Purchases. Any proposals to be self-financing and progressed through the Property Investment Strategy process.
 - (c) Remove £600k provision for planning enforcement. Projects to be assessed on an individual basis when specific requirements arise.
 - (d) Reduce street-lighting project by £300k to fund essential works and urgent repairs only.
 - (e) Reduce remaining budget on property renovations grant scheme by £200k to reflect the level of expenditure to date and to link proposals to the proposed new £2.5m town centre regeneration budget.

- (f) Remove the £200k allowance for officer time to be charged to project feasibility works. It is not expected that many new initiatives will be developed in the current climate so internal feasibility costs should be absorbed within existing revenue / project budgets.
 - (g) Removal of c.£1m of numerous repairs and maintenance and other small projects. Programme to include essentials works and health & safety requirements only unless external funding is identified, or in-house delivery can be provided.
- 5.3 In addition, the following changes are proposed to be incorporated into the programmes:
- (a) Addition of new project £150k to support enhancements to the Sandwich Quay.
 - (b) Additional allowance of up to £1.5m to support the Dover Cable Car project, subject to the development of an appropriate business case, identification of external funding, etc.
 - (c) Further increase the funding to the Maison Dieu Town Hall project by £600k to reflect the withdrawal of funding from Kent County Council. Reduce £1m of the total additional commitment from DDC reserves by financing through borrowing, to be funded by the expected revenue turnaround from running the café and other services in the refurbished model.
 - (d) Increase the provision for Tides Leisure Centre repairs by £200k to support essential works and maintain service provision.
- 5.4 In summary additional projects totalling £7m have been proposed. In order to finance these projects savings of £9.2m have been identified and borrowing of £1m is proposed. This results in a net saving against DDC reserves and capital resources of £3.2m which can be set aside to support future projects or to finance additional pressures resulting from further lockdown periods or additional economic pressures if required.
- 5.5 The full, revised Capital and Special Revenue programmes are detailed at Annexes 2 & 3.

6. Reserves and Balances

- 6.1 Over many years the Council has maintained financial discipline and adopted prudent financial policies that have given it a sound financial position. The reserves and balances are held for three main purposes:
- (i) Balances – these are good buffer against unexpected overspends and “one-off” shocks. The Council has, in recent years, maintained the General Fund balance at over £2.5m. Based on the budget forecast at this time it is not necessary to utilise the GF balance and it can be retained to support any future pressures that may occur if tighter lockdown measures are implemented.
 - (ii) Smoothing reserves - these are used to set aside funding for periodic large expenditure areas, such as, managing the complexities around the Collection Fund surplus & deficits, district elections, the LDF process, ICT equipment replacement, planning appeals, etc. It is proposed that transfers to these reserves are not reduced at this stage due to the on-going need to fund these areas.
 - (iii) Capital and Revenue Project Reserves – These are held to support future projects and maintain healthy reserve levels. These are usually from one-off income streams or savings that are not considered prudent to include in the

base budget due to volatility or other factors. The transfers to these reserves have been reviewed to support the current budget financing and it is proposed that the following transfers are not made in 2020/21:

- £600k transfer of increased investment income returns;
- £930k one-off prior year renewable energy NDR income.

6.2 At the end of 2019/20 the Council held £2.5 in General Fund balances and over £33m in GF earmarked reserves. Following the review of the project programmes, and the revised current year budget it is forecast that at the end of 2020/21 the earmarked reserves will be in the region of £30m, reducing to £10m by the end of the 3-year planning period.

7. The 2021/22 Budget

7.1 For 2021/22, there is forecast to be a mix of on-going pressures from a reduced resource base and the pressures created by a slow recovery of other income streams, in addition to whatever changes government may make to the financing of local government.

7.2 The council therefore continues to face some conflicting requirements:

- (a) Trying to find some certainty in an uncertain situation;
- (b) Avoiding over-reaction and making undue reductions in service budgets;
- (c) Avoiding under-reaction and insufficient reductions in service budgets leading to possible last minute / emergency reductions in budgets at the start of 2021/22;
- (d) Avoiding making non-essential commitments during 2020/21 which may require reversal in 2021/22.

7.3 The Medium-Term Financial Plan (approved by Council in February) shows DDC facing a projected budget shortfall in 2021/22 of £1.3m. The 12 months impact of full lockdown in 2020/21 is currently forecast to be £4.7m. Assuming the recovery is underway by that time, then this impact will be diminished, but still significant. In addition, the renewal of the refuse & recycling contract has generated an additional revenue pressure of c.£500k per annum.

7.4 The main factors forecast to impact the 2020/21 budget are:

- (a) Council Tax and NDR income collection levels
- (b) Inclusion or withdrawal from the Kent NDR pool
- (c) Recovery of car parking income streams
- (d) Recovery of leisure centres and level of on-going support required

7.5 Once the statutory services (such as refuse collection, environmental health, planning, etc.) are largely removed from this calculation, the percentage pressure on the remaining discretionary services is likely to be much higher.

7.6 It is important that the significant range of budget uncertainties is recognised. Some of these repeat points made above and in previous reports. But they continue to be major unknowns and therefore create significant volatility in producing forecasts for 2021/22 and subsequent budgets.

- (a) Council Tax collection rate
- (b) Council Tax Support Scheme costs, impacted by future unemployment levels
- (c) Business Rates Tax Base

- (i) Levels of bankruptcies and unoccupied properties
 - (ii) Potential loss of growth / reduction of the tax base
 - (iii) Collection rates
 - (iv) Appeals
 - (v) Defaults and bad debt levels
 - (vi) VOA and revaluations
 - (vii) Collection Rate
 - (viii) Pooling and the safety net operation
 - (ix) BR retention review and any scheme changes
- (d) Fair Funding review - the future model of council funding
- (e) Level of major income streams:
- (i) Car parking
 - (ii) Investment returns
 - (iii) Planning / building control / land charges, etc
 - (iv) Rents
 - (v) Other fees & charges
- (f) Leisure Centre support
- (g) Pension Fund impact – next triennial valuation.
- (h) New Homes Bonus
- (i) The free port
- (j) EU transition – the report “EU Transition – Dover Port Health Authority” (included separately on the agenda) should be read in conjunction with this report.
- (k) Major contract renewals.

8. **Section 114 Notice**

- 8.1 At this time the 2020/21 budget is in a balanced position, however, there is an on-going statutory obligation on s151 officers to make a report under s114 of the Local Government Finance Act 1988 should circumstances dictate (where the relevant finance officer considered the resources of the council insufficient to meet its plans). Every effort will continue to be made to balance the budgets in 2020/21 and 2021/22 and thus avoid the need for a s114 notice. However, the extreme uncertainty of the Council’s financial position in 2021/22, the lack of clarity on the Council’s income streams, government support and the staffing requirements of the Port Health Authority post Brexit make this a significant challenge.

9. **Resource Implications**

- 9.1 The resource implications are fully detailed in this report.

10. **Climate Change and Environmental Implications**

- 10.1 One constant during these uncertain times is the risk of Climate Change. Recovery plans, strategies and projects should all consider the impacts on Climate change on a case by case basis, and what could be done within the Council’s resources to reduce emissions to ensure DDC’s Climate Emergency ambition is achieved together with the legally binding National targets.

11. **Corporate Implications**

- 11.1 Comment from the Director of Finance (linked to the MTFP): No further comments to add.

11.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

11.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010:

<https://www.legislation.gov.uk/ukpga/2010/15/section/149>.

12. **Appendices**

Annex 1 – General Fund Summary

Annex 2 – Revised Capital Projects Programme

Annex 3 – Revised Special Revenue Projects Programme

13. **Background Papers**

Council Budget 2020/21 and Medium-Term Financial Plan 2020/21 – 2023/24 and associated working papers.

Contact Officer: Helen Lamb, Head of Finance and Investment