

Report to: **Overview and Scrutiny Committee**
Date: **1st September 2020**
Title: **Amended Budget 2020/21**
Portfolio Area: **Budget Setting Process – Cllr Neil Jory**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**
Date next steps can be taken: **Council 22nd September 2020**

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Recommendations:

That the Overview and Scrutiny Committee resolves to recommend to the Hub Committee:-

- 1) To recommend to Council the five options set out in 5.2 totalling £501,000, in order to produce an Amended Revenue Budget for 2020-21
- 2) To note the future capacity of reserves set out in 5.8 and 5.9 which may have to be called upon to meet any future financial challenges and/or additional requirements
- 3) To recommend to Council to use £70,000 from the Business Rates Retention Earmarked Reserve, to fund the Town Centre support initiative set out in Section 6.

1. Executive summary

- 1.1 Covid 19 has caused financial strain for all Councils up and down the country where Councils find themselves being caught in a 'perfect storm'. Councils have to manage both the increased costs of coping with Covid19 and supporting vulnerable people in the community and the loss of key income streams such as car parking income and council tax income.

- 1.2 The factors affecting the Council's finances are issues affecting the whole Local Government sector. The Council is well-placed to meet the financial challenges arising from Covid19, due to its prudent financial management over previous years.
- 1.3 Due to the rapidly changing financial position, the Council is now undertaking monthly revenue budget monitoring reports (as opposed to quarterly). The latest revenue budget monitoring report for Month 3 (end of June) predicts a budget shortfall of £0.501 million for 2020/21. This equates to 6.9% of the overall budget set of £7.212 million. The options set out in 5.2 are being proposed, in order to produce an Amended Budget for 2020-21.
- 1.4 This figure will change throughout the financial year as more information comes to light on items such as the collectability of outstanding debt and arrears and how income streams have been affected by the pandemic.
- 1.5 This position is after taking into account the £0.585 million Government grant already received for Covid-19 and the estimated £0.453 million Government funding that the Council is anticipating towards income losses on sales, fees and charges (the Government 'income guarantee scheme'). More detail on this is in section 3.10.
- 1.6 This forecast shortfall is based on a range of assumptions which have been made as to how much the income streams of the Council could be affected by Covid19. Projections could improve and it is difficult to predict as we don't know how quickly things will bounce back. We will be monitoring our finances on a monthly basis and as actual figures emerge, we will refine these figures and our assumptions.
- 1.7 Financial Stability is one of the themes within the Recovery and Renewal Plan which is a separate agenda item on this Committee agenda. The action plan, setting out the areas being progressed and the timescales within which this will take place, is set out in Appendix 1 of the Recovery Plan. Following consideration of the Renewal and Recovery Plan in the Summer, the Action Plan for the Financial Stability Theme was updated and agreed by the Financial Stability Review Group (FSRG) on 18 August 2020.

2. Background

- 2.1 On 18 February 2020, the Council approved the Revenue Budget for 2020-21 of £7.21 million. During March 2020, the Covid 19 pandemic started to affect the finances of Councils up and down the country. Income Losses in April, May and June totalled £474,000 from areas such as car parking income, planning income, rental income and the business rates pooling gain.

- 2.2 Prudent financial management in the past has meant that the Council was in a relatively healthy position financially before the pandemic hit. Since 2010, we have had to redesign our services to balance the books. We have done this by sharing a single workforce with South Hams District Council, generating an ongoing annual saving of £2.2 million for West Devon and by reducing our staffing levels by 30% through our Transformation Programme.

3 LATEST REVENUE BUDGET MONITORING POSITION

- 3.1 The latest revenue budget monitoring report for Month 3 (end of June) predicts a budget shortfall of £0.501 million for 2020/21. This equates to 6.9% of the overall budget set of £7.212 million. In this report, assumptions have been made as to how much the income streams of the Council could be affected by Covid19. For example for car parking losses, the report assumes a 40% drop in income levels from 1st July 2020. Projections could improve and it is difficult to predict as we don't know how quickly things will bounce back. We will be monitoring our finances on a monthly basis and as actual figures emerge, we will refine these figures and our assumptions.
- 3.2 The shortfall predicted will change throughout the financial year as more information comes to light on items such as the collectability of outstanding debt and arrears and how income streams have been affected by the pandemic.
- 3.3 The unprecedented nature and scale of the Covid19 pandemic has resulted in severe financial pressure on every Local Authority. Councils are still under a legal obligation to manage their finances to ensure that they provide best value whilst not operating with an overall budget deficit.
- 3.4 Section 30(6) of the Local Government Finance Act 1992 requires precepting authorities to set a balanced budget on an annual basis. A Council's budget must be "balanced", meaning that Councils must ensure that their planned spending can be met by taxation, grants and other income raised in the year, or by the use of their reserves.
- 3.5 Section 25 of the Local Government Act 2003 requires the Council's Chief Finance Officer (known as the S151 Officer), to report to Full Council on the robustness of the Council's budget and the overall adequacy of its reserves.
- 3.6 Balancing the Council's Budget has become more challenging over the years as the demand for services and the reduction in government grant funding via the austerity programme has reduced the financial flexibility of Councils.

- 3.7 Each month, Councils complete a national return that informs the Government of how much COVID-19 is affecting the finances of Councils. The point has been made that these income losses have had a much bigger impact (in proportion to Net Budgets) on District Councils, than they have on County Councils and Unitaries.
- 3.8 A lobbying letter from South West Councils was sent to the Rt Hon Robert Jenrick MP (Secretary of State for Housing, Communities and Local Government). This letter set out that the latest Government returns to MHCLG showed a financial challenge to South West Councils of over £1 billion across the region.
- 3.9 The Society of District Council Treasurers (SDCT) has engaged Local Government Futures (who are specialists in the field of Local Government Finance), to put together evidence to show the losses experienced by District Councils. This will then be used for the purpose of lobbying the Government for further funding for District Councils. In a letter from the Chairman of the District Councils' Network to the Chancellor, the financial needs of District Councils were set out, as well as stating that no part of the public sector is better placed than District Councils to catalyse and lead the recovery and that we will rise to the challenge.
- 3.10 ***On 2nd July, the Rt Hon Robert Jenrick MP announced a new comprehensive package of support for Councils, to address spending pressures and losses in income streams. There were three central pillars of support announced:-***
- A new scheme to compensate Councils for losses of income, though not in their entirety (an 'income guarantee' scheme). Councils have to meet the first 5% of losses of all budgeted sales, fees and charges and only some categories of income are allowable under the scheme. For the categories allowed, once the 5% is deducted, the Government will reimburse 75pence in every £1.
 - An extra £500million to cover extra COVID19 expenditure costs (the Borough Council's allocation of this funding has been announced at £89,686)
 - To allow council tax and business rate losses in income to be repaid over the next 3 years of budget cycles, instead of just the next one year
- 3.11 We are very pleased that our lobbying has been successful but there is still further work to do on this.
- 3.12 The main element of the announcement is that the Government will compensate Councils for their income losses above the first 5% of their budgeted income from sales, fees and charges. Income losses above the first 5% will be compensated by the Government paying for 75 pence in every pound of the losses thereafter. This is only the income losses from sales, fees and charges and excludes any rental income and investment income.

- 3.13 This has been estimated at £453,000 for the Council based on the income shortfalls to date. Detailed guidance from the Government is awaited on this.
- 3.14 The Government announcement is below:
<https://www.gov.uk/government/news/comprehensive-new-funding-package-for-councils-to-help-address-coronavirus-pressures-and-cover-lost-income-during-the-pandemic>
- 3.15 On 19 March 2020, £1.6bn emergency funding was announced to help local authorities respond to the COVID-19 pandemic. On 18 April 2020, a further £1.6bn funding for local authorities was announced. On 2 July 2020, a further £500m funding for local authorities was announced as part of a new funding package for councils to address coronavirus pressures. West Devon Borough Council has received £674,444 from this £3.7bn of funding (being £585,000 from the first two tranches and £89,686 from the 3rd tranche).
- 3.16 It is recognised that Town and Parish Councils have also similarly had their finances adversely affected by the pandemic. The Council is lobbying alongside NALC (National Association of Local Councils) for a separate financial package of support for Town and Parish Councils.

4 Medium Term Financial Strategy (MTFS)

- 4.1 Whilst looking to set an Amended Budget for 2020-21, the longer term position for the medium term will be borne in mind. The last Medium Term Financial Strategy in February 2020 showed an anticipated Budget Gap for 2021/22 of £0.4million. The aggregated Budget Gap by 2024/25 was £1.6 million.
- 4.2 The key variables will be items such as New Homes Bonus, negative RSG, business rates and council tax collection rates and previous income assumptions around the leisure contract. In the next MTFS (being presented in October), various scenarios and modelling around these key variables will be shown and we are pressing the Government for some early announcements on things like negative RSG and NHB (or its replacement) to inform our MTFS which we are currently modelling.
- 4.3 It should be noted that the financial landscape for Councils is ever-changing and there is still a great deal of uncertainty that Councils are working with in planning their finances for the longer term, in particular the items listed in 4.2
- 4.4 Negative RSG provides a 'cliff-edge' for many Councils and it would be an untenable position to introduce this in 2021-22, when there is a need to provide stability for Councils in the current financial climate. It is accepted that this would cost the Government over £150million but it would also benefit over 160 Councils. (In 2019-20 negative RSG totalled £152.9m and affected 168 Councils).

- 4.5 Sparsely populated rural Councils also need the certainty that Rural Services Delivery Grant will be continued for 2021-22, at least at its present value of £81 million in total.

5 Options to address the Budget Shortfall of £0.5million in 2020-21

- 5.1 A Member Budget Workshop took place on 25th August, to explore all options with Members on their preferred approach to addressing the Budget Shortfall identified for 2020-21 of £0.5million. Nineteen responses were received from Members on the SurveyMonkey tool used to capture Members' views on the options.
- 5.2 Each of the below options were supported by the substantial majority of Members who expressed a view:

COVID impact on the Revenue Budget		£
<i>Budget shortfall identified for 2020-21 from the Month 3 Revenue Budget Monitoring report to the Hub Committee on 28 July 2020</i>		501,000
Options to address the budget shortfall		£
As per 5.3	Use the 3 rd tranche of COVID funding received from the Government (WDBC share £89,686)	89,000
As per 5.4	Use the New Burdens Government grant funding received for the administration of the Business Rates Grants	130,000
As per 5.5	Utilise the 2019-20 Statement of Accounts underspend	133,000
As per 5.6	Allocate the uncommitted New Homes Bonus from 2020-21 to further fund the Revenue Base Budget	69,000
As per 5.7	Reduce the capital budget for the remedial works to the Tavistock Viaduct from £100,000 to £20,000 (This capital budget was being funded by NHB which is revenue funding).	80,000
TOTAL		501,000

- 5.3 The Council has received a 3rd tranche allocation of COVID Government funding totalling **£89,686**. The funding was the Council's allocation from the £500 million of un-ring fenced grant funding from the Government, to respond to spending pressures.
- 5.4 The Council has paid out over £16 million in Business Grants and the **£130,000** is a New Burdens funding grant (un-ringfenced) from the Government to compensate Councils for the cost of administering the Business Grants on behalf of the Government.

- 5.5 The Statement of Accounts for 2019-20 were presented to the Audit Committee in July 2020 and these showed that the final outturn was an underspend against the budget for 2019-20 of **£133,000**. This underspend on last year's budget could be used to finance part of the budget shortfall in 2020-21.
- 5.6 The report to Council on 18th February 2020 setting out the Revenue Budget Proposals for 2020-21, stated that the Council's New Homes Bonus allocation for 2020-21 was £347,000 and recommended that £228,000 of this was used to fund the Revenue Base Budget for 2020-21 and £50,000 was used to fund the 2020-21 Capital Programme for affordable housing. This left an amount of **£69,000** currently unallocated. This would increase the amount of NHB used to fund the revenue base budget in 2020- 21 to £297,000.
- 5.7 Officers have reviewed the Capital Programme to identify projects that could be reduced in scope or deferred. Further professional advice was sought on the level of maintenance work required to the Tavistock Viaduct. The outcome is that the capital budget can be limited to further vegetation clearance and some drainage improvements and the budget is able to be similarly reduced to £20,000 (a reduction of **£80,000**). This capital budget was being funded by New Homes Bonus funding, which is a revenue source of funding.
- 5.8 The sixth option that was supported in the priority ranking was to use the uncommitted balance of £116,000 from the Budget Surplus Contingency Earmarked Reserve. This Earmarked Reserve has a balance of £196,000, with commitments relating to the Capital Programme (£50,000), future IT procurement (£18,000) and community housing staffing (£12,000), leaving an uncommitted balance of £116,000. This reserve was originally created in 2016/17 when the Transformation Programme (T18) yielded a surplus, which was built into the base budget in future years. Although this amount is not needed to fund the Amended Budget at this point in time, it does provide an element of 'headroom' for the future if further funding should be required. It is acknowledged that the budget shortfall will be carefully monitored and will continually change as we move through the financial year.
- 5.9 The next two options that were supported in the priority ranking were to reduce Unearmarked Reserves and/or to make use of a portion of the unallocated funding in the Business Rates Retention Earmarked Reserve. Any decision that Members subsequently take at Full Council on 22nd September in relation to additional funding for leisure, please see section 7 below, would potentially require a call on these further options. All such decisions would require difficult choices to be made.

5.10 A national pay award has just been reached which equates to a 2.75% increase from 1st April 2020. The Council had budgeted for 2% within its budget and therefore the extra 0.75% would cost an extra £33,750. This will be shown within the next revenue budget monitoring report for 2020/21 and will be reflected within the Medium Term Financial Strategy and incorporated within the budget setting process for 2021/22. This will form part of the year end outturn reported in the Council's Accounts for 2020-21.

6. TOWN CENTRE SUPPORT INITIATIVE

6.1 Working in partnership with the Borough's Town Councils, Chambers of Commerce and Business Improvement District (BID), West Devon Borough Council is developing a support package for the Town Centres, with an additional £70,000 of funding.

6.2 This money is being provided on top of £20,000 of funding already made available by the Borough Council, with the aim of supporting and enabling the great work the Town Councils and BID are doing to get their town centres back on their feet.

6.3 To help boost the local economy, the Borough Councils is looking at a number of proposals to support the local economy.

6.4 These areas include:

- A Town Centre Boost Grant
- Business training, advice and support
- Marketing campaigns for the area
- Local events
- Amending some car park and toilet provision to encourage shoppers and visitors to shop on our high streets

6.5 It is recommended that the £70,000 additional funding is funded from the Business Rates Retention Earmarked Reserve. The £70,000 does not increase the £501,000 budget shortfall which has been addressed above.

7. Leisure provision

7.1 Leisure is one of the hardest hit sectors of industry from the lockdown restrictions of the pandemic. Government mandated the closure of leisure centres in March 2020 and they had to remain closed until the announcement of an opening date of 25th July 2020.

7.2 The current Government guidance now allows Leisure Centres to reopen with restrictions in place which limit the capacity of the facilities and key guidelines around operating practices to ensure social distancing, enhancing cleaning regimes and changes in ventilation of facilities.

- 7.3 The Covid19 pandemic and a lack of central Government support have created very challenging conditions for Fusion. At a Special Council meeting on 29 July 2020, Council agreed to provide interim financial support of £97,000 to Fusion to secure positive health and wellbeing outcomes in the Borough, which were the re-opening of the Okehampton Leisure Centre (both wet and dryside) in August and the mothballing costs for the Tavistock Leisure Centre. The cost of mothballing both centres in April, May and June has also been funded by the Council at a cost of £15.3K per month. An amount of £45,900 was approved by Council to be funded from the Leisure Services Earmarked Reserve. Therefore financial support to date for Fusion has totalled £142,900.
- 7.4 At the 22nd September Council meeting, the Council will be taking a strategic decision on leisure provision for the months of October 2020 onwards, alongside the decision on the Amended Budget 2020-21 Proposals set out in this report.
- 7.5 The costs of further interim support to Fusion for the months of October 2020 to March 2021 will be set out within the 22nd September Council report and these costs are not included within the £501,000 budget shortfall identified within the recent revenue budget monitoring report and would be in addition to this. Options as to how any further support to Fusion could be financed will be set out within this Council report.
- 7.6 The Council is continuing to lobby alongside South West Councils and through the Local Government Association for a specific package of Government support for the provision of leisure facilities. The Department for Culture and Media has also put a specific request for funding to the Treasury and there may be future Government support targeted at the leisure sector but we await announcements on this.
- 7.7 Members will be aware from the previous report that decisions about the operation of the Borough's leisure centres from October 2020 to March 2021 include a range of potential additional costs from £92,000 to £292,000. These decisions will be a matter for Full Council on 22nd September 2020.

8 The Collection Fund - Council Tax and Business Rates Income

- 8.1 The Collection Fund holds all payments in and out relating to Council Tax and Business Rates. As such any losses incurred will be suffered by the Collection Fund in the year and then distributed to the Council and Precepting Authorities in future years. A large part of the reductions in income will affect the Council's financial position in 2021/22 onwards, although it does affect the cashflow position of the Council in 2020/21.

- 8.2 **Council Tax: The net collectable debt for Council Tax is £43m for 2020/21.** By June 2020, WDBC collected 28.4% of the yearly total (compares against 29.06% in 2019/20) – the 0.66% drop equates to £282,000 (WDBC share £33,800). This is how much council tax income is down by in June 2020, compared against June 2019. Collection Fund losses for Council Tax could total £1.5m for the full year 2020-21 (WDBC share £180,000).
(The collection rate was 97.71% for Council Tax in 2019-20)
- 8.3 **Business Rates: The net collectable debt for Business Rates is £4.86 million for 2020/21.** (Prior to the pandemic, this was predicted to be £10.6million and the additional NNDR reliefs for the total value of the expanded retail discount and nursery discount for 2020-21 total £6.087million).
- 8.4 By June 2020, WDBC has collected over 34% of the yearly total (compared to 31% in 2019/20). The higher collection rate is due to the impacts of the reliefs being given for retail, hospitality and leisure and timing differences of some larger payments. Business rates losses could total between £0.3million to £0.5 million and the Council's share would be 40%. No pooling gain for Business Rates has been assumed for 2020/21.
(The collection rate was 97.62% for NNDR in 2019-20)
- 8.5 Council Tax and Business Rates form a large share of the funding for the Council's budget and therefore these income streams are funding the essential services being delivered.
- 8.6 In the next Spending Review the Government will also determine what support Councils will need, to help them meet the pressures of income losses from council tax and business rates. The Government has said that they are bringing in changes to allow Councils to spread their Collection Fund losses (for losses in Council Tax and Business Rates income) over the next three years instead of over the next one year. So this will allow council tax and business rate losses in income, to be repaid over the next 3 years of budget cycles, instead of just the next one year. The Government will also agree an apportionment of irrecoverable council tax and business rate losses, between central and local Government for 2020 to 2021. More details are awaited on this from the Spending Review, to be able to understand the detail of how Councils will be supported by this.
- 9. Review of Earmarked Reserves and General Fund Reserves**
- 9.1 As part of the Budget Workshop on 25th August, the Council also undertook a review of its Earmarked Reserves through reviewing the commitments against the Earmarked Reserves, its unallocated balance and the contributions to/from Earmarked Reserves for 2020/21 also.

- 9.2 A schedule of Earmarked Reserves is attached at Appendix 1, which shows Earmarked Reserves have a balance of £4.984 million at 31.3.2020. Reserve levels will be kept under constant review.
- 9.3 The Council's level of Unearmarked Reserves currently stands at £1.1 million. As part of the Medium Term Financial Strategy, Members have set a minimum balance for Unearmarked Reserves of £900,000, based on a risk assessment basis.
- 9.4 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 9.5 As part of the Members' Budget Workshop, an option was discussed regarding whether Members would support using up to £200,000 of Unearmarked Reserves to contribute to the 2020/21 budget shortfall and then consider a plan to replenish these funds in future years. This was supported to an extent, in that some Members said if Unearmarked Reserves are reduced, they would support reducing them at a much lower level such as £50,000 to £100,000.

10. Spending Review and Business Rates Retention

- 10.1 The Government has also confirmed that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021-22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic.
- 10.2 The Chancellor has confirmed that the 2020 Spending Review will be finalised this Autumn and will cover the years 2021/22 to 2023/24.
- 10.3 Auditing regulations for the Council's accounts has also been changed. There have been amendments to the statutory audit deadlines for 2019/20 for all Local Authorities, meaning that the deadline for final, audited accounts has been extended to 30 November 2020.

11. Options available and consideration of risk

- 11.1 The financial forecasts are based on a number of assumptions including the level of income losses and support from the Government. In addition there are a number of uncertainties that could affect the financial position either now or in the future. These include whether there is a second wave and additional restrictions imposed.

12. Proposed Way Forward

12.1 Members are recommended to recommend to the Council in September to approve the options outlined in Section 5.2 for balancing the Council's Amended Budget for 2020-21.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Local Government Finance Act 1992 places a legal requirement on Council to approve not only the budget but also any changes to the budget proposed during the year. Council has a legal duty to ensure that the budget is balanced and that any changes to the budget are fully funded.
Financial implications to include reference to value for money	Y	<p>The budget monitoring report identifies an overall predicted shortfall of £0.501 million which is 6.9% of the overall budget set for 2020/21 of £7.212 million, due to the current pressures on the Council's income targets due to the Covid 19 situation and extra expenditure incurred.</p> <p>Following a Members' Budget Workshop on options for setting an Amended Budget for 2020-21, it is proposed to Council in September to approve the options set out in 5.2 totalling £501,000, in order to produce an Amended Revenue Budget for 2020-21,</p> <p>It is also proposed as part of this report, to use £70,000 from the Business Rates Retention Earmarked Reserve, to fund the Town Centre support initiative set out in Section 6.</p>
Risk	Y	See 11.1
Supporting Corporate Strategy		The budget monitoring process supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon / Biodiversity Impact		None directly arising from this report.
<i>Comprehensive Impact Assessment Implications</i>		

Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendix 1 – Schedule of Earmarked Reserves

Background Papers:

Hub Committee – 28th July 2020 - Month 3 Revenue Budget Monitoring 2020/2021

Special Council – 29th July 2020 – Fusion Interim Support

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A