

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet
Finance & Audit Committee

Date: 09 November 2020 / 11 November 2020

Reporting officer: Director (Corporate Services)

Subject: General Fund Budget Monitoring Report
2020/21 – Quarter Two

Purpose and summary of report:

To provide Members with information on actual performance against the approved Revenue and Capital budgets for 2020/21, including projected variances agreed or identified through budgetary control activity.

To update Members on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan, or Financial Statements.

Recommendations:

1. This report is for information only.

1. INTRODUCTION

- 1.1. The Constitution of the Council requires Members to receive reports in respect of the Council's finances and financial performance. This report therefore provides an assessment of performance against approved budgets for the 2020/21 financial year for the first quarter to 30th September 2020, as well as updating Members on other key areas of financial performance.
- 1.2. The Council continues to operate robust budgetary control actions to ensure good financial governance and respond to the pressures on the Council's finances. In addition to the reporting of financial performance through regular budget monitoring reports, these actions include:
 - Requiring all financial decisions and major acquisitions to be brought to Management Team for discussion and approval;
 - Appropriate controls in approving purchase orders;
 - Requiring all recruitment activity to be considered and approved by Management Team;
 - Monitoring the delivery of activity under the Medium Term Financial Strategy (MTFS).

2. EXECUTIVE SUMMARY

Revenue

- 2.1. At the end of Quarter Two, there is a projected overspend for the year of £2,360,950. Movements affecting the forecast position against the original budget for the year are largely attributable to reduced income projections arising from the Covid-19 pandemic.
- 2.2. The council ended 2019/20 in a favourable position, enabling budgets totalling £85,800 to be approved for carry forward into 2020/21.
- 2.3. The level of Working Balances at year-end is projected to be £8.86m, constituted of the minimum working balances of £2.0m, the General Fund reserve of £3.25m and usable Working Balances of £3.61m.
- 2.4. Movements in the year are projected to result in a net decrease in reserves of £0.76m, with the level of reserves being £11.91m at start of year, and projected to be £11.15m at year- end.
- 2.5. Significant risks to the General Fund's financial position continue to come from the lack of clarity regarding the long-term future of local government funding and the financial consequences of the Covid-19 pandemic.

2.6. **Capital**

- 2.7. The General Fund Capital Programme working budget is £33.52m, including £6.95m to support furtherance of the council's land and commercial property portfolio; £4.7m for developing Land at Dering Way and £14.2m for The Charter development works. Actual spend for Quarter Two was £2.58m.

3. REVENUE

3.1. Budget 2020/21

- 3.1.1. The approved Original Budget Requirement for 2020/21 was £11,543,950, funded by a combination of retained Non-Domestic Rates, New Homes Bonus, and Council Tax. It also enabled a contribution of £270,100 to be made to Usable Working Balances, in accordance with the Medium Term Financial Strategy.
- 3.1.2. The table on the next page sets out the current assessment of performance against the Original Budget by Directorate, based on known and projected variances as at 30 September 2020.

Directorate / Budget Heading	Original Budget 2020/21 (£)	Forecast 2020/21 (£)	Variation 2020/21 (£)
Chief Executive	26,810	26,810	0
Communities	3,509,280	4,693,900	1,184,620
Corporate Services	2,978,780	3,828,840	850,060
Housing & Operations	3,680,230	3,746,740	66,510
Planning & Development	1,850,240	1,919,630	69,390
Items Carried Forward from 2019-20	0	85,800	85,800
Non-Directorate Specific	850,200	850,200	0
Interest and Investment Income	(850,000)	(745,430)	104,570
Government Grant Funding	(1,267,930)	(1,267,930)	0
Transfers to/ (from) reserves	(515,180)	(352,180)	163,000
Transfers to/ (from) balances	603,010	603,010	0
Transactions below the line	678,510	515,510	(163,000)
BUDGET REQUIREMENT	11,543,950	13,904,900	2,360,950
Business Rates Income	(3,698,510)	(3,698,510)	0
Council Tax Income	(7,144,320)	(7,144,320)	0
Parish Precepts	(368,210)	(368,210)	0
New Homes Bonus	(603,010)	(603,010)	0
Transfers to Working Balances	270,100	270,100	0
BUDGET SHORTFALL/(UNDERSPEND)	0	2,360,950	2,360,950

Table 1: General Fund Revenue Outturn by Directorate / Budget heading

3.2. CHIEF EXECUTIVE'S DIRECTORATE – NIL VARIANCE

3.2.1 There are no significant variances to report.

3.3. COMMUNITIES DIRECTORATE – £1,185k ADVERSE VARIANCE

3.3.1. **Leisure Services Income: £149k adverse variance** – the Council has considered financial support to Gravesham Community Leisure Limited who manage Cascades and Cygnet Leisure Centres within the borough, in the light of the centres' enforced closure resulting from government actions to combat Covid-19. Resultantly, fees payable for quarters one and two of 2020/21 have been waived with the effect of reduced income to the council of £149k.

3.3.2. **Woodville & Market income: £118k adverse variance** – due the outbreak of the Covid-19 pandemic and government measures designed to combat the spread of the virus, both The Woodville and Borough Market ceased operations immediately in March 2020. Following the partial lifting of restrictions, the Market reopened in early June, with a Woodville cinema offering commencing in early July (although the theatre itself remains closed and is not expected to reopen until later in 2020/21). Financial projections have been undertaken to analyse the impact of reduced income at both the Market and Woodville, with the combined effect projected at being £443k for the current financial year.

- 3.3.3. Following the Government's announcement on 2 July of a Sales, Fees and Charges Compensation Scheme designed to support Local Authorities for lost income streams as a result of the Covid-19 pandemic, detailed guidance has been received and worked through enabling a first claim to be submitted on 30 September. For The Woodville, the projected full-year compensation is currently anticipated to be £325k, therefore giving rise to the projected net adverse variance for 2020/21 of £118k. Market rental income is not covered by the compensation scheme.
- 3.3.4. **Rental Income: £466k adverse variance** – the Council's original budget for 2020/21 included an estimation of £4,625k for rental income, predominantly within the Communities directorate. An exercise has been undertaken to evaluate this income stream closely in the light of the Covid-19 pandemic which has included an assessment of the likely impact on properties acquired under the Council's Property Acquisition Programme, as well as existing sites held such as Industrial Units and District Shopping Centres.
- 3.3.5. For the most significant income streams and where greater information is known about tenants and payment habits, detailed projections have been considered. For the residual items held under the rental income heading, an estimate of a 25% potential income reduction has been applied. The net effect of both sets of calculations is a projected adverse variance of £466k for 2020/21.
- 3.3.6. **Parking Income: £452k adverse variance** – following the lockdown announcement of 23 March in response to the Covid-19 pandemic, parking charges – both on-street and within car parks – were suspended whilst government restrictions were in place to combat the spread of coronavirus. As restrictions were partially lifted, parking charges and enforcement were reintroduced across the borough from June, however, with no income being realised across the first two months of the financial year and lower levels of usage since this time, there is an adverse effect on the Council's Medium Term Financial Plan.
- 3.3.7. Additionally, with the proposed development of The Charter gaining momentum in 2020/21, it had anticipated that Horn Yard and Market Square car parks would be closed from September 2020. Officers in Finance have been working with the Parking Services Manager on updated income projections to take account both of these closures, and the wider income reduction arising from the Covid-19 pandemic. The net effect of these projected income reductions is an adverse variance of £1,020k in 2020/21.
- 3.3.8. In the same fashion as described in section 3.3.3, the compensation claim for lost income submitted includes elements relating to Parking Services. This is anticipated to have a positive effect of £568k, thus reducing the net projected variance for the service to £452k for 2020/21.
- 3.3.9. **Safer Stronger Communities: Neutral variance** – the Council has successfully secured a Crime Reduction Grant of around £35k from the Police and Crime Commissioner to support the Community Safety service. This will be directed to the upgrade of CCTV cameras in key locations within the town centre and other known areas of crime.
- 3.3.10. **Market Equipment: Neutral variance** – reserve funding of £33k has been made available to finance necessary works at the Borough Market to extend the number of units capable of accommodating food traders. This incorporates a combination of electrical, extraction and kitchen works, and will extend food-trading capabilities to an additional six units. This links with the vision set out in the Market Strategy, which was formally adopted in May 2020, for the market to become a key local destination within the community, with food as its core offer.

3.4 CORPORATE SERVICES DIRECTORATE – £850k ADVERSE VARIANCE

- 3.4.1 **Fees & Charges: £758k adverse variance** – work is ongoing across the Council's finances to assess the impact of the Covid-19 pandemic, particularly in relation to a range of fees and charges budget lines. For significant income streams, detailed projections have been ascertained following work between the Finance team and budget holders e.g. Parking, Planning, Rental Income, with variances reported within their respective directorates. For the residual items within fees & charges across all directorates, an assumption of a 25% reduction has been applied and recorded under Corporate Services, giving rise to a projected £800k adverse variance. This assumption has been derived on the basis of little income realised April-June, with a staggered increase occurring across the rest of 2020/21. It is consistent with expectations of other District Councils in Kent, and will continue to be monitored throughout the year.
- 3.4.2 In line with the Government's Sales, Fees & Charges Compensation Scheme, described more fully in section 3.3.3, £42k is projected to be received relating to residual fees & charges income lines, giving rise to the net reported adverse variance here of £758k.
- 3.4.3 **The Charter: £81k adverse variance** – In order to facilitate the building of The Charter, the Council will be borrowing £82m from PWLB and onward lend it to Rosherville, its wholly-owned trading company, during the construction phase. Interest will be payable on the loans but as Rosherville will not be generating income during the construction phase, the Council will need to meet the interest costs. The interest costs over the construction phase will total around £2.3m. On practical completion, the Council will refinance the loan and will capitalise the interest costs as part of this refinancing to enable Rosherville to repay the interest costs the Council has incurred. Therefore, whilst there is an adverse variance in 2020/21, there is ultimately a nil impact on the MTFP.
- 3.4.4 **Property Fund Management Fees: £11k adverse variance** – The Council invested £10m across three Property Fund's in 2016. Each Property Fund pays a quarterly dividend to the Council, which is treated as investment income. However, the dividend's payable are reduced by fees which are incurred as part of the day to day management of the funds, such as legal costs. As a result of the COVID-19 pandemic, Property Funds have incurred additional costs to collect rental income and renegotiate tenancies to avoid properties becoming vacant. Therefore, the Council has seen higher management fees as a result.
- 3.4.5 **Climate Change Initiatives: Neutral variance** – as part of the budget-setting process, the establishment of a £500k Climate Change earmarked reserve was agreed at Full Council in February 2020. In quarter two of 2020/21, a scheme to replace litter bins and trial recycling "on-the-go" at St Andrew's Gardens has been developed, for which £3k has been made available from the reserve.
- 3.4.6 A further £12k has been released from the reserve to purchase the "Carbon Reduction Options for Housing Managers" (CROHM) package which is designed to create a detailed model of the energy performance of the Council's housing stock. This system will also have the ability to model scenarios and costings for specific carbon reduction work the Council may wish to consider in the future.

3.5 HOUSING & OPERATIONS DIRECTORATE – £66k ADVERSE VARIANCE

- 3.5.1 **Garden Waste Collection Service: £37k favourable variance** – the garden waste subscription service continues to expand in 2020/21. This additional volume of around 1,600 new customers since April 2020, in conjunction with a review of the existing charging structure from the same date, has led to additional net income of £37k compared to the original budget.
- 3.5.2 **Waste Recycling Income: £15k favourable variance** – income received from recycling credits has been higher than budgeted due to an increase in recyclable waste in the first quarter of the year.
- 3.5.3 **Increased fuel costs: £20k adverse variance** – following the recent expansion of the Brookvale Depot fleet of vehicles, combined with additional domestic collection and fly-tipping recovery journeys as an indirect consequence of lockdown measures associated with the Covid-19 pandemic, there is projected additional fuel expenditure of £20k in 2020/21.
- 3.5.4 **Trade Waste Collections: £98k adverse variance** – as a result of government restrictions following the outbreak of the Covid-19 pandemic, many local businesses were required to close temporarily and thus no longer required the Council's trade waste collection services. Although many have now re-opened, some are running at reduced capacity compared to pre-lockdown, with others closed permanently. There is therefore a reduced demand for trade waste collection services, which gives rise to the projected income deficit of £98k for 2020/21.

3.6 PLANNING & DEVELOPMENT DIRECTORATE – £69k ADVERSE VARIANCE

- 3.6.1 **Planning Services Income: £37k adverse variance** – there has been a reduction in demand for planning experienced in the first part of the year. The volume of planning applications since lockdown was announced on 23 March has decreased by 20-25%. This has been experienced at both a national and local level, and has occurred due to the restrictions in place delaying applications and works that were previously envisaged. Although it is hoped that volumes will increase during the rest of the year, an overall income reduction of 25% is currently expected, equating to a financial reduction of £103k for 2020/21.
- 3.6.2 It is anticipated that through the Government's Sales, Fees & Charges Compensation Scheme outlined in section 3.3.3, a full-year reimbursement of £66k will be received relating to Planning Services. This will reduce the projected overall budgetary impact of the Covid-19 pandemic within the service to £37k.
- 3.6.3 **South Thames Gateway Building Control Partnership: £32k adverse variance** – in a similar fashion to the variance described above, Building Control activity has been substantially affected by lockdown restrictions arising from the Covid-19 pandemic. The Partnership as a whole is forecasting an income deficit for 2020/21 of £512k, of which the Gravesham share would be £77k. This represents an additional £32k over and above the originally budgeted contribution payable from the Council to the Partnership of £45k.
- 3.6.4 **Street-Lighting: Neutral variance** – reserve funding of £50k each from the NNDR Growth Fund and Revenue Grants not yet applied has been made available to facilitate the conversion, where possible, of Council-owned street and amenity lighting to LED lighting, as well providing for maintaining and fixing existing assets.

3.6.5 **Bus interchange at Rathmore Road: Neutral variance** – reserve funding of £15k has been made available as a contribution to a Kent County Council-led project to implement a new bus hub to improve the transport interchange between bus and rail in Gravesend town centre at Barrack Row.

3.7 ITEMS CARRIED FORWARD FROM 2019/20 – £86k

3.7.1 The following items from 2019/20 have been approved for carry forward to 2020/21 by the Section 151 Officer and the Council’s Management Team:

Summary of General Fund Revenue 2019/20 year-end carry forward requests			
Directorate	Service	Amount	Reason for carry-forward request into 2020/21
Communities	Community Engagement	£7,610	Unspent MOD grant to be rolled forward. The MOD have agreed that this money can be carried forward and used against an appropriate project next year.
Communities	Community Involvement	£12,640	Unspent Community Involvement budget to be used to bolster activities and events in the new year due to the cancellation of a number of activities in 2019/20.
Communities	The Woodville	£15,000	Unspent Woodville budget to be rolled forward to cover the cost of new lighting in the Kent Room and Bar.
Communities	Arts Development & Cultural Events	£6,000	Grant associated with The Arts Council Service Level Agreement. Outstanding information delayed due to organisational restructure. Funds will be re-aligned in the 2020/21 Service Level Agreement.
Communities	Arts Projects	£3,450	Income received from ticket sales of the annual Outdoor Theatre held at Nurstead Court. The funds raised from the previous years performance will be used to cover 2020/21 production costs.
Communities	Licensing	£6,200	Budget needed to fund the cost of new tablets for the Licensing Team, this has been delayed due to COVID-19.
Communities	Major Outdoor Events	£17,690	Social Values income received in 2019/20 which has not been allocated to events. This will now be spent in 2020/21.
Corporate Services	Corporate Management Expenses	£13,710	Budget to be rolled forward to pay for the solicitors cost for the sale of Lord Street car park.
Housing & Operations	Burials Admin	£3,500	Safety equipment required for grave excavation which is a legal requirement, the delivery of this equipment was delayed due to COVID-19.
Total carry-forward requests		£85,800	

Table 2: Items Carried Forward from 2019/20

3.8 INTEREST AND INVESTMENT INCOME – £105k ADVERSE VARIANCE

3.8.1 The COVID-19 pandemic has had a significant impact on the world’s economy. In the UK, the Monetary Policy Committee (MPC) made two emergency cuts in quick succession to the Bank of England Base rate, reducing it firstly from 0.75% to 0.25% and then further to 0.10%. The value of equity markets has fallen to record lows and property rental income streams have become uncertain as business property requirements change.

3.8.2 The Council generates investment income through dividends from Property Funds and Multi Asset funds as well as interest earned from investing the remaining cash balances in Fixed Term deposits, Call accounts and Money Market Funds.

3.8.3 Whilst Property Fund Managers are working closely with all their tenants to secure the rental income, a reduction in dividend income is expected as some companies will not be able to fully meet their rental obligations. Void properties may not be able to re-let as quickly as they might previously have been and additional legal costs are being incurred to renegotiate tenancies. The forecast dividend from Property Funds this year is around £343k.

- 3.8.4 The income from Multi Asset Funds is expected to be reduced for a number of reasons including some companies holding off paying shareholder dividends and investments not returning the expected level of interest due to the reduction in the Bank of England base rate. The forecast dividend from Multi Asset Funds this year is approximately £329k.
- 3.8.5 For internally invested cash balances, the reduction in the Bank of England's Base Rate will result in forecasted investment income of around £114k.
- 3.8.6 The combined effect of these forecasts, taking in account the allocation of investment returns to the HRA, result in an adverse variance on investment income of £105k.

3.9 FUNDING STREAMS – NEUTRAL VARIANCE

- 3.9.1 **Transfers to/(from) reserves & Transactions below the line: net neutral variance** – under accounting arrangements the corresponding entries relating to reserve-funded expenditure within services (the drawdown from the reserve and the transfer into the specific service) are shown here. The total of £163k relates to projected reserve funded items as described within individual Communities, Corporate Services, and Planning & Development Directorate sections above.

3.10 WORKING BALANCES AND RESERVES

- 3.10.1 The variances and Carried Forward items outlined in this report have the following effect upon the General Fund working balances:

Working Balances	£
Balance Brought Forward from 2019/20	10,350,750
New Homes Bonus (Straight to working balances)	603,010
Budgeted contribution to Working Balances	270,100
Variances per budget report (Incl.items Bfwd from 2019/20)	(2,360,950)
Forecast Working Balances C/Fwd (as at 30 September 2020) including Minimum GF Working Balance	8,862,910
Less: Minimum GF balance	(2,000,000)
Less: Additional General Fund Reserve	(3,250,000)
Forecast Usable Working Balances C/Fwd (as at 30 September 2020)	3,612,910

Table 3: Effect on General Fund Balances

3.10.2 The general working balance is supplemented by specific reserves, established to assist with future funding obligations or initiatives. The table below provides a summary of the final movements on these specific reserves during the year.

General Fund Earmarked Reserves	Opening Balance 01/04/2020 £'000	Forecast Use of Reserve (Expenditure) £'000	Forecast Contributions (Income) £'000	Forecast Balance 31/03/2021 £'000
Planning Policy Reserve	369	(280)	50	139
Asset Enhancement Reserve	1,320	(489)	100	931
Spend to Save Reserve	160	(162)	2	--
Leisure Centres Reserve	1,649	(189)	359	1,819
Corporate Priorities Reserve	250	--	--	250
Town Pier Pontoon Reserve	111	(24)	12	99
Local Authority Mortgage Scheme (LAMS)	25	(25)	--	--
Elections Reserve	74	--	--	74
NNDR Collection Fund Equalisation Reserve	500	--	--	500
IT Infrastructure Reserve	340	(330)	75	85
DSO Vehicle Capital Reserve	102	(105)	105	102
Freighter Replacement Reserve	1,002	(400)	231	833
NNDR Growth Fund Reserve	588	(110)	239	717
Lower Thames Crossing Reserve	150	(100)	--	50
Woodville Repairs Reserve	227	--	58	285
Investment Interest Equalisation Reserve	500	--	--	500
Housing & Commercial Growth Fund	700	--	--	700
St George's Income Protection Reserve	948	--	--	948
Commercial Income Protection Reserve	483	--	210	693
Service Review Reserve	241	(158)	--	83
Playgrounds Reserve	117	(55)	--	62
Decriminalisation Reserve	185	(285)	100	--
Enterprise Reserve	--	(349)	500	151
Climate Change Reserve	--	(15)	500	485
Sub-total - Specific Earmarked Reserves	10,041	(3,076)	2,541	9,506
Revenue Grants not yet applied	1,865	(228)	--	1,637
Total - All Earmarked Reserves	11,906	(3,304)	2,541	11,143

Table 4: Analysis of Specific Reserves

3.10.3 New approved uses of reserves are already referred to within individual directorates – see sections 3.3.10, 3.4.5, 3.6.4 and 3.6.5.

3.10.4 Other reserve movements are forecast as per the original budget and will be updated once further expenditure plans/drawdowns are established.

3.11 MEDIUM TERM FINANCIAL PLANNING

- 3.11.1 The Medium Term Financial Plan (MTFP) is reviewed on an ongoing basis in order to take into account longer-term assumptions around cost pressures and central government funding announcements, together with building in all known variances to the Council's budget as a result of Management Team and Cabinet decisions. The latest version of the Medium Term Financial Plan is attached to this report at Appendix Two.
- 3.11.2 Following the recent conclusion of pay award negotiations, an increase for 2020/21 of 2.75% has been paid in September, back-dated to April 2020. This is 0.75% above what was included in the original budget, and on a full staffing establishment would equate to an additional cost pressure of around £100k. The latest projections for staffing costs indicate that this rise can be contained within existing budgets due to less expenditure than expected in relation to employees, but will be monitored closely for the remainder of the year and reported appropriately in due course.
- 3.11.3 Although not expected to have a significant impact on 2020/21 budgets, the confirmed pay-award will have an impact on future years within the MTFP, where the compound year-on-year effect of this change will be over and above what has currently been budgeted for employee costs. The Finance team are commencing work on the salaries estimates process and will build in these projections accordingly, with the overall impact being part of the budget-setting papers produced for Members in early 2021.
- 3.11.4 The Covid-19 pandemic has significantly affected the Council's financial outlook in 2020/21. As set out within the previous sections of the report, it is anticipated that during the current financial year the Council will see significant reductions of income, for example in the following areas:
- Rental income payments from tenants within commercial and investment properties
 - Fees charges – for example car parking income and receipts at The Woodville
 - Investment income from Property and Multi-Asset Funds
 - Council Tax and Business Rates
- 3.11.5 As referenced elsewhere in this report, on 2nd July the Government announced a Sales, Fees and Charges Compensation Scheme whereby 75% of sales, fees and charges related income losses arising from the Covid-19 pandemic, beyond 5% of budgeted income, would be reimbursed. Under the scheme, amounts claimed are based on net losses i.e. compensating reductions in expenditure are also taken into account. Reimbursements work on an instalment basis, with claims submitted in September & December 2020, and April 2021. The first claim was submitted on 30th September (covering the period April to July 2020) and amounted to £300,925.
- 3.11.6 The full year projected compensation for Gravesham is currently around £1m and is dominated by claims relating to Parking, Planning, Waste and Woodville services. It should also be noted that the scheme is subject to further MHCLG refinements over the coming months and will be impacted by actual income received in the remainder of the financial year. The mechanism does not cover:
- Losses from commercial rental income and investment income
 - Voluntary decisions made locally which result in losses which are out of line with government guidance.

- 3.11.7 As of writing, the Council has received around £1.3m funding from Central Government in order to assist with expenditure pressures associated with responding to the pandemic. This comprises of three separate tranches received of £53k, £1,054k and £194k respectively.
- 3.11.8 On 22 October Local Government Secretary Robert Jenrick confirmed allocations for individual councils from the £1 billion of additional support announced by the Prime Minister earlier in the month. £919 million has been allocated to Tranche 4 funding for the ongoing work of councils to support communities during the pandemic. Gravesham's allocation was £486k. A further £100 million will be used to introduce a new fund which will support council leisure centres most in need. Further details on the scheme will be set out shortly.
- 3.11.9 In relation to Council Tax and Business Rates, the Government is implementing a further scheme to assist with Covid-19 related income shortfalls. Whilst under conventional collection fund accounting arrangements, any deficits experienced in 2020/21 would normally be repayable from the General Fund in the following year i.e. 2021/22, provision has been made to spread these payments over a three year-period instead. This will assist both the Council's Medium Term Financial Plan and cash-flow arrangements over the next three years.
- 3.11.10 The Council has also been acting in an agency capacity, administering a series of business grants as part of a national scheme the Government designed to help support local economies. As of writing, some £14.7m has been distributed to local businesses qualifying under this scheme, which has been enabled through cross-departmental working involving officers from the Finance, Revenues & Benefits and Economic Development teams.
- 3.11.11 The financial environment within which the Council operates continues to remain challenging and with significant uncertainty in 2020/21 and future years. The Spending Review scheduled for 2020 is expected to be published in November 2020. The Government confirmed on 21 October that this will cover a one-year period only and focus on prioritising the economic response to the coronavirus crisis. The Fair Funding Review which was originally due to take place during 2020/21 has been postponed until after April 2021.
- 3.11.12 In addition to announcements about financial recovery and support packages arising from the Covid-19 pandemic, the Government also intends to publish its recovery and devolution paper in autumn this year. However, there has been press speculation that this may now be deferred into 2021 to enable the current focus on the Covid-19 pandemic.

4. GENERAL FUND CAPITAL PROGRAMME

4.1 The following table details the position of General Fund Capital Programme as at the end of Quarter Two. This includes the revised original budget for 2020/21, taking into consideration adjustments for carried forward items as approved by the Section 151 Officer and the Council's Management Team.

Scheme	2020/21 Original Budget inc C/Fwd £	2020/21 Approved Adjustments £	2020/21 Working Budget £	2020/21 Actual Expenditure £	Outstanding Balance £
Essential Repairs to Buildings	898,870	0	898,870	549,180	(349,690)
Gravesend Cemetery Improvements	14,830	0	14,830	0	(14,830)
Parrock St Car Park - resurfacing	11,740	0	11,740	26,990	15,250
Purchase of Vehicles (DSO Fleet)	275,830	0	275,830	133,170	(142,660)
Gatekeeper Replacement	50,000	0	50,000	0	(50,000)
New Wheeled Bins for Flat Recycling	100,000	0	100,000	0	(100,000)
Waste & Horticulture back office system	108,690	0	108,690	0	(108,690)
Replacement Playground Programme	104,870	0	104,870	0	(104,870)
IT Equipment Air Conditioning Unit	40,000	0	40,000	0	(40,000)
Brookvale Office Accommodation	1,400,000	0	1,400,000	0	(1,400,000)
Property Acquisition Programme	3,286,980	0	3,286,980	0	(3,286,980)
Land Acquisition Programme	3,658,810	0	3,658,810	0	(3,658,810)
Land at Dering Way	4,702,910	0	4,702,910	1,110,620	(3,592,290)
Heritage Quarter - St George's Centre	130,000	0	130,000	35,640	(94,360)
Cascades Replacement Flumes	29,440	0	29,440	25,710	(3,730)
Heritage Assets	388,580	0	388,580	6,950	(381,630)
Gym Equipment Leisure Centres	386,000	0	386,000	338,200	(47,800)
Back up Generator	75,000	0	75,000	0	(75,000)
Parking Machines	251,200	0	251,200	0	(251,200)
LATCO development costs	24,110	0	24,110	5,510	(18,600)
LATCO working capital provision	500,000	0	500,000	274,990	(225,010)
Elizabeth Huggins Cottages	2,000,000	0	2,000,000	0	(2,000,000)
Town Centre Improvements	67,590	0	67,590	70,350	2,760
Parking Software	74,750	0	74,750	0	(74,750)
Purchase of Freighters	400,000	0	400,000	0	(400,000)
Enforcement of Private Housing Standards	55,000	0	55,000	0	(55,000)
IT Infrastructure Assets	330,000	0	330,000	0	(330,000)
The Charter	0	14,156,770	14,156,770	0	(14,156,770)
	19,365,200	14,156,770	33,521,970	2,577,310	(30,944,660)

Table 5: General Fund Capital Programme 2020/21

- **Essential Repairs to Buildings**

The following work has been completed this year:

- Refurbishment of First Floor Flats;
- The replacement of the main roof at Cascades Leisure Centre, for which the majority of costs will be reimbursed via an insurance claim.
- Flume repairs at Cascades Leisure Centre

On-going work to be funded from the Essential Repairs budget includes:

- LED lighting for the remainder of the council building - work is now being planned to replace the lighting in the basement and foyer areas;
- Cascade Ceiling repairs;
- Rebuilding a section of retaining boundary Churchyard Wall at St Peter's and St Paul's Church in Milton.

- **Gravesend Cemetery Improvements** – the infrastructure of both Cemeteries (such as litter bins) is currently being reviewed to establish the priority of improvements.
- **Parrock Street Car park resurfacing** – the resurfacing work has now been completed with all invoices have now been paid.
- **Purchase of Vehicles (DSO Fleet)** – the fleet replacement programme for 2020/21 is in place with vehicles having either been ordered or delivered.
- **Gatekeeper Replacement** – KCC approval has been received to Automatic Number Plate Recognition (ANPR) enforcement of the King Street bus gate. Finalisation of the legal agreement is awaited prior to capital expenditure on the equipment being made.
- **New Wheeled Bins for Flat Recycling** – the review of all flatted developments across the borough is underway to establish what bins are required to enable residents in flats to be able to recycle their waste. A project plan for the implementation of recycling bins in flats will be produced once the review has been completed.
- **Waste & Horticulture Back Office System** – the administrative aspects of the trade waste service have been successfully transferred onto the Bartec Collective System. The team are currently looking at the digital options available for playground; open space and tree inspections.
- **Replacement Playground Programme** – a 20 year replacement programme is in place, however any renewals for 2020/21 are currently under review due to restrictions arising from the Covid-19 pandemic.
- **IT Equipment air conditioning unit** – the final specification for this work is being prepared and will then be tendered.
- **Brookvale Office Accommodation** – as a result of lockdown restrictions arising from the Covid-19 pandemic there have been delays to commencement of the private vehicle servicing operation. This has had a corresponding delay on work to redesign the Brookvale depot. As Covid-19 related restrictions are lifted, attentions are now returning to this scheme with an updated expenditure schedule to be prepared in due course.
- **Property Acquisition Programme** – this activity is currently on hold given the pandemic situation. The Property Acquisition Strategy has been reviewed and property investment guidance updated to assist with future investment proposals and as a tool in the ongoing management and monitoring of the portfolio. This updated guidance was considered by the Commercial Services Cabinet Committee and was adopted by Full Council on 6 October 2020.
- **Land Acquisition Programme** – the council continues to maintain an overview of strategic land sites in the borough so that, as sites come to the market, their acquisition can be considered as a means of delivering development and revenue generating opportunities for the council and the wider borough in the future.
- **Land at Dering Way** – as a first step, a master planning exercise of the various landholdings in the wider area has been undertaken, considering complementary uses of the adjacent land holdings to ensure that development in that area maximises benefits to the council and to the wider community, taking advantage of opportunities to improve access to and provision of services, green space and high quality housing. A final report is being worked upon to include additional material received from Southern

Water, and a Supplementary Planning Document will be produced. As such, the project has been re-profiled within the Capital Programme.

- **Heritage Quarter (St George's Centre)** – the works to re-enliven the mall areas of the St George's Centre have now been completed. Further works at the site have been re-profiled within the Capital Programme, in line with the latest projected pattern of development.
- **Cascades Replacement Flumes** – the major internal and external works have now been completed and will be operational once the pools are fully re-open. Only minor follow up painting/snagging works remain, which will be completed in due course.
- **Heritage Assets** – Capital expenditure relates to surveys and site investigations in support of progressing works to the council's heritage property assets, including repairs to the Larkin Memorial, Higham, a conservation management plan for Gravesend Cemetery and maintenance of the Gravesend Blockhouse. Preparations have been made for works to the riverwall at St Andrew's, which has been out to tender, with method options currently being reviewed. Submissions to the National Heritage Lottery Fund have been on hold due to Covid-19, but it is an aspiration to submit applications to that fund, once supporting information is in place.
- **Gym Equipment Leisure Centres** – Cascades and Cygnet Leisure Centres have both received brand new fitness kit which was installed prior to the re-opening of the sites on 25 July. In light of the Covid-19 pandemic, a decision has been made in partnership with GCLL not to replace the specialist spin bike equipment at the present time and so approximately £47k is left within the capital budget for future replacement, anticipated to take place later in 2020/21.
- **Back-up Generator** – tender documents to procure a back-up generator have been prepared. The project manager is currently making arrangements for the tender to be issued.
- **Parking Machines** - Options are currently being appraised for replacement and upgrade of Pay & Display machines and recommendations will be put forward for decision later in the year.
- **LATCO Development Costs** – the work has now been completed; no further costs are expected.
- **LATCO Working Capital Provision** – in June 2020 the Cabinet considered and approved the release of funding to support the proposed working budget for Rosherville Limited. A request for drawdown of funds was subsequently received from the Chairman of Rosherville Limited.
- **Elizabeth Huggins Cottages** – Trustees are continuing to seek external grant funding and evaluate tender submissions in order to take this scheme forward, and will return to officers in due course once pre-conditions of the Council's loan agreement have been met.
- **Town Centre Improvements** – the capital budget expenditure to date has funded the acquisition of a MV7000 Gladiator Machine to assist with street cleansing and gum removal, and is now operational in the Town Centre. The remaining budget will be spent on the purchase of 28 Big Belly bins as itemised in the report to Full Council on 25 February 2020.

- **Parking Software** – a supplier has been confirmed and an order has been placed for supply, installation and training in accordance with the figure in the Capital Budget.
- **Purchase of Freighters** – two new refuse collection vehicles are currently on order and due to be delivered during quarter three. A replacement programme is in place to ensure refuse collection vehicles are replaced in a timely manner.
- **Enforcement of Private Housing Standards** – the planned enforcement action was delayed as a result of the Covid-19 pandemic. However, the contractor started on site on 5 October 2020 and the works are estimated to be completed within 12 weeks.
- **IT Infrastructure Assets** - new IT Storage and Disaster Recovery hardware and software have been purchased for £183k. The hardware components have been delivered to the site, but the installation by Dell engineers was initially postponed due to the Covid-19 pandemic. However, engineers are now making visits on-site again and a project manager has been assigned to Gravesham who will be leading officers through the installation process. Procurement of a new telephony platform is about to begin, with the first procurement working group due to take place in quarter three.

4.2 Capital Resources

4.3 The table below shows the General Fund resources available to fund capital projects in the future:

General Fund Capital Resources	Opening Balance 01/04/2020 £	Actual Income 2020/21 £	Anticipated use of Funding 2020/21 £	Projected Balance 31/03/2021 £
Capital Receipts	(596,280)	(6,670)	602,950	0
S106 Capital Contributions	(531,050)	0	67,590	(463,460)
Capital Grants unapplied	(147,190)	0	0	(147,190)
Total Capital Resources	(1,274,520)	(6,670)	670,540	(610,650)

Table 6: General Fund Capital Resources 2020/21

Capital Grants Unapplied	Opening Balance 01/04/2020 £	Actual Income 2020/21 £	Anticipated use of Funding 2020/21 £	Projected Balance 31/03/2021 £
Transport Quarter Stage 3	(2,970)	0	0	(2,970)
Localised Council Tax Support	(89,220)	0	0	(89,220)
Land at South of Hever Court Road	(55,000)	0	0	(55,000)
Total Capital Grants Unapplied	(147,190)	0	0	(147,190)

Table 7: Capital Grants Unapplied 2020/21

4.4 The table below lists the S106 developer contributions currently held by the council. These contributions are treated as specific grants as they have conditions attached to their use.

S106 Developer Contributions	General Fund £	HRA £	Third Party Contributions £	Total S106 Income 2020/21 £	Purpose of S106
Infrastructure Maintenance Depot (IMD) Compensation fund	(2,590)	0	0	(2,590)	This grant fund was established by money secured from Union Rail the developers of the Channel Tunnel Rail Link. The original contribution was £242,000. Its aim is to support the delivery of landscape access, wildlife and recreation schemes in the Wards and Parishes affected by the development.
Land at the South of Hever Court Road	0	0	(80,000)	(80,000)	Highways contribution.
Whitehill Open Space	(52,000)	0	0	(52,000)	Towards qualitative improvements to the wider Whitehill amenity space. These funds might be put towards a number of potential opportunities including, for example, new seating, footpath improvements, new planting and/or the levelling of the retained amenity space to the north of the proposed development.
Land South of Dalefield Way, Dering Way	(17,000)	0	0	(17,000)	Flood Risk Management - £12,000, Bus Shelter - £5,000.
Whitehill Road	0	0	(1,000)	(1,000)	Highways contribution
Springhead Leisure Contribution	(150,000)	0	0	(150,000)	To provide additional and/or improved play facilities at the Recreational ground and if not expended in 7 years after payment any unspent sum should be repaid
Bluewater - Gravesend Town Centre Improvements	(259,460)			(259,460)	A scheme to improve or enhance the environmental setting, visitor and shopper experience, and / or attractiveness of Gravesend Town Centre.
Dover Road - Open space	(50,000)			(50,000)	For use by Gravesend Council leisure for Springhead Recreation Ground pitch improvements at Dover Road Development, Includes levelling works to make 'pitch' 2 more usable to accommodate junior markings and potential 5V5 pitch.
Total S106 Contributions	(531,050)	0	(81,000)	(612,050)	

Table 8: S106 Contributions 2020/21

5 TREASURY MANAGEMENT

5.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which sets out the principles and guidelines to be followed in borrowing and investment operations undertaken by Local Authorities. On 25 February, Full Council approved the Treasury Management Strategy Statement for 2020-21, based on the Code. The authority's Annual Investment Strategy is incorporated in the TMSS and outlines the authority's investment priorities as being:

- Security of Capital
- Liquidity
- Yield

5.2 An update on Treasury Management performance is provided to Members through budget monitoring reports, with more detailed reporting of treasury management activity to the Finance & Audit Committee every six months. A full list of internally managed investments held by the Council at 30 September 2020 can be found at Appendix Three of this report.

5.3 The Council currently pursues a variety of investment opportunities within its Treasury Management strategy which prior to Covid-19 were generating the following returns:

- a) Around £10m is invested in Externally Managed Property Funds generating returns in the region of 3-5%
- b) A further £10m is invested in three Multi-Asset funds generating returns of around 3-4%.
- c) Remaining cash balances are generally invested in short-term deposits and overnight money market funds currently generating returns of around 0.67%.
- d) A total of £22.9m has been expended purchasing Investment Properties (including acquisitions and external professional support) from which initial yields have typically been upwards of 6%.

5.4 Due to the current economic climate, investment returns have reduced but are being carefully monitored by Officers within Finance, who are in regular contact with the External Fund Managers.

5.5 The following summary of Key economic developments within this reporting period has been provided by Link Asset Services, the authority's Treasury Management advisors.

5.6 The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6 August. It also kept unchanged the level of quantitative easing at £745bn. It's forecasts were optimistic in terms of three areas.

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

- It forecasts that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- 5.7 It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.
- 5.8 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- 5.9 The MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. However, localised lockdown measures should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. The Chancellor announced in late September a second six month package from 1st November of government support for jobs. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses.
- 5.10 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- 5.11 There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services have seen huge growth.
- 5.12 One key addition to the Bank’s forward guidance was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

The background papers to this report are held within the Accountancy Section

IMPLICATIONS	APPENDIX 1
Legal	There are no specific legal matters arising from this report.
Finance and Value for Money	The financial implications are contained within the body of this report.
Risk Assessment	The purpose of this report is to demonstrate financial performance as at 30 September against the original budget set for the 2020/21 financial year, and assess full year projections to 31 March 2021. It also illustrates how the projected position affects the Working Balances and Earmarked Reserves held by the Council.
Data Protection Impact Assessment	<p><i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i></p> <p>a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data?</p> <p>A definition of each type of data can be found on the Information Commissioner’s Office website via the above links.</p> <p>N/A</p> <p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p> <p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk.</p> <p>N/A</p>
Equality Impact Assessment	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>No decision – paper is for information only.</p> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p> <p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Corporate Plan	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks

Climate Change	No direct implications.
Crime and Disorder	No direct implications.
Digital and website implications	No direct implications.
Safeguarding children and vulnerable adults	No direct implications.