Report to:	**Cabinet**
Date of Meeting:	21 July 2020
Public Document:	Yes
Exemption:	None
Review date for release	None

Subject:	**Financial implications of COVID-19 on the Council's budget**
Purpose of report:	This report follows on from the briefing note issued to all members in April on the financial implications of Covid-19. An update to that position is being provided including consideration of the Governments recent announcement of additional funding to local authorities.
Recommendation:	**1) Members note the updated position on the Council's finances.** **2) That a further report will be brought to Cabinet in September with recommendations to address the current year budget deficit, reflect on any priority spend changes by the new administration and consider the financial shortfall in the Council's Medium Term Financial Plan.**
Reason for recommendation:	The Council finds itself with an overspend in 2020/21 due to the implications of Covid-19. Members need to understand the position and consider actions needed to address the issue.
Officer:	Simon Davey, Strategic Lead Finance, CFO/S151 officer
Portfolio Holder:	Portfolio Holder for Finance
Financial implications:	These are outlined in the report
Legal implications:	There are no legal implications requiring comment.
Equalities impact:	Low Impact
Climate change:	Low Impact
Risk:	Medium Risk
Links to background information:	
Link to Council Plan:	Outstanding Place and Environment Outstanding Homes and Communities Outstanding Economic Growth, Productivity, and Prosperity Outstanding Council and Council Services

1. Introduction.

1.1 The purpose of this report is to inform members of the current financial position as a result of Covid-19. To outline options available to ensure a balanced budget is maintained to give sufficient resources to continue to deliver key services to its residents.

1.2 EDDC is no different to other authorities reporting similar financial positions as a result of the pandemic and in many cases they are stating a worse position. Options are available and the Council has the ability to rectify the financial position giving confidence as the Council's S151 Officer that the Council is still a going concern.

1.3 Once clarifications is received on the recent Government funding announcement for local authorities and the performance of the key income budgets through the summer months is known a further report will be presented to members with final recommendations to balance this year's budget.

1.4 The Council's cash flow remains healthy through steps we have taken and steps by Government – payment of grants upfront and a 3 months deferral on its share of business rates income (£1.5m a month). This has been actioned for all authorities. These are cash flow initiatives and do not affect the position being outlined in this report.

2. 2020/21 – Revised budget position

2.1 General Fund

2.1.1 The Council set a balanced budget for 2020/21 at the end February 2020. As a result of Covid-19 we have seen a significant drop in our income streams along with additional costs. We are now looking at an estimated in year **deficit of £4.5m**. We also need to consider the reduction in Council Tax and Business Rates income which mainly effects next year's budget. The overall financial position continues to be monitored and the position being reported here is an improvement on the initial assessment contained in a briefing note to members in April. This is as result of a quicker return in key income areas, particularly car parking, than expected.

2.1.2 In year budget deficits are being reported by all Councils, a significant fall in income is particularly relevant to district councils who rely on their own fees and charges to support the cost of the services they provide.

2.1.3 The Government's initial allocation to Local Authorities in support of Covid-19 implications was £1.6bn, the majority of which was paid to support social care in top tier authorities. Our allocation from this sum was £47k. A second round of funding of another £1.6bn was more reflective of the severity being seen by lower tier Council's and gave us an allocation of £1.467m.

2.1.4 Below is an extract of the assessment of our financial position for the current year, **showing a projected £4.5m in year deficit.**

	£		£
Gross Expenditure on services	**56,670,050**		**56,670,050**
		Estimated Additional Costs - mail outs, PPE, signage, overtime, homeless accommodation, community group grants	**220,000**
		Toilet re-opening	**80,000**
		LED - Needs careful consideration - initial request scenario range £0.616m to £1.276m	**1,276,000**
			58,246,050
Income to Balance Expenditure		**Risks Commentary**	**Reassessed Income**
Government Grants (admin/Housing Benefit etc.)	26,592,030	Low Risk	26,592,030
Other Grants & Con't - 3rd party/donations	777,000	Medium Risk	552,655
Customer Receipts	11,593,480	High Risk	9,079,355
Income Other	194,760	Low Risk	194,760
HRA recharge	1,878,360	Low Risk	1,878,360
Net Interest (after loans)	374,610	Medium Risk - Includes new property Fund Investment (£200k)	174,610
New Homes Bonus	1,500,000	Low Risk - Gov't	1,500,000
Rural Service Delivery Grant	225,590	Low Risk - Gov't	225,590
Savings Target Procurement	70,000	Low Risk - assume savings still on spend areas.	70,000
Collection Fund Surplus	122,000	Low Risk - In Collection Fund	122,000
Earmarked Reserves	305,330	Low Risk - may consider if still priority spend	305,330
Business Rates Baseline	2,674,930	Low Risk - Gov't	2,674,930
Business Rate Uplift	1,500,000	Low risk - majority of any reduction effects following year	1,500,000
Council Tax	8,827,500	Low Risk - Reduction effects following year	8,827,500
Balance	34,460		34,460
	56,670,050		**53,731,580**
Covid 19 Assessment on income - 2020/21 Balanced Budget now shortfall			**4,514,470**

2.1.5 The significant driver to this deficit position is the income reduction from customer receipts; a reduction of £2.5m. Reduced income is based on a number of assumptions and the position has improved significantly compared with the initial assessment in April as the effect of lockdown did not last as long as envisaged. Although a second lockdown period is not an impossible scenario.

2.1.6 Added to our estimated costs since the initial assessment is the implication of supporting LED's additional losses through the effect of Covid-19. Initial details have been proved and discussions taken place but further work is required and an understanding of the national picture on any likely funding of leisure trusts by Government. At this stage a prudent figure of £1.276m has been included in our projected financial position to ensure a full picture is included for members to be aware of. Also the additional costs associated with opening selected toilets and ensuring they are Covid-19 compliant has been included.

2.1.7 **The following sums are available to help meet this estimated deficit of £4.514m, bringing the balance to be found down to £2.797m**

						£000
2020/21 Budget Shortfall from Covid-19						**4,514**
Government Grant						- 1,514
Furlough Funding & other savings such as travel						- 103
Additional Strata savings made to assist their partners						- 100
Balance to be found						**2,797**

2.1.8 **The above position does not take into account the announcement on 2 July of another round of Government funding**. This being an extra £500m for local authorities (I would not expect our allocation to be significant) and importantly **a new scheme to cover lost income streams.** This reimbursement mechanism - "co-payment mechanism" (75% of losses beyond 5% of planned income) is extremely helpful to our positon. Further details have been promised so this can be assessed properly but on the assumption that lost income from customer receipts are covered by this scheme and the monies received to date from Government is to cover expenditure then **this could give us additional funding of £1.791m. Deducting this grant from the £2.797m which we had to find leaves us with a remaining gap of £1m**. This does come with a health warning until we see the exact details of the scheme but is the best assumption at the moment.

2.1.9 **The Council needs to consider options available to it to meet the remaining deficit whether it be the £1m, or a different sum:**

- **General Fund Balance** - The Council holds a General Fund Balance of £3.8m; the range that has been deemed appropriate to hold is between £3m and £3.8m. Therefore £0.8m is available to support the deficit. Should more of the Fund be used it would need to be replaced quickly or the Council cannot consider itself as financially stable. **Therefore £0.8m of the General Fund Balance** could be utilised**.**

- **Budgets savings:**

  - Carbon Reduction Funding, from the £0.323m budget it is considered part will be unused in year **£0.081m**

  - Agency Staff in Streetscene (grounds maintenance), not required as rewilding taken place. **£0.0.71m**

  - Other service/staff savings – sum to be determined. This needs considering, if permanent savings are made this reduces future savings required to balance the Medium Term Financial Plan funding gap.

  Such savings will need to be considered against the following principles:

  We will continue to deliver good services to our District.
  We will use our best endeavours to protect front line services.

We will use our best endeavours to protect services which are highly valued by our communities.

- **New Homes Bonus to revenue - £2.054m** of NHB was approved in the budget to be used as funding for 2020/21 capital programme. This is revenue income and could be replaced with PWLB borrowing to support the capital programme instead. This will be a cost to revenue going forward of £94k a year.

- **2019/20 Outturn Position –** The final accounts are close to being completed and the net position is likely to give a windfall sum available of around **£2.5m** (to be confirmed). This is mainly attributable to additional business rate income generated through income maximisation and growth. This sum would be available to offset an in year loss in part and/or could be set aside to mitigate risk of losses identified in the Medium Term Financial Plan where timings and amounts are uncertain. This would be in relation to the rebasing of business rates and the demise of the New Homes Bonus Scheme. If a significant sum was set aside then this would give the Council a cushion against the reality of these occurring and give time to plan in certainty when details are known. The monies can be used to fund services whilst plans are put in place to reshape the budget as necessary with the advantage of the sum and its definite requirement being known.

- **Use of earmarked reserves repurposed –** Reserves have been set aside for specific purposes**,** Council can decide to use them for other purposes which would be reasonable under the current circumstances although not ideal**.** Reserves to consider, either in part or all:

  - Additional income attributable to 100% rate pool for the year, this money was set aside to fund business support **£0.450m**

  - Asset Maintenance Reserve, this money came from VAT reclaimed as a joint action against HM Customs & Excise and set aside to help backlog maintenance of our assets **£0.904m**

  - Transformation Fund, this was set aside from saving in previous years. The use of this reserve will be important to help generate savings in future years including to meet the cost of possible redundancies **£0.960m**

2.2 Housing Revenue Account (HRA)

2.2.1 With the HRA the main implication will be around a likely reduction in rental income. The position is more comfortable with the HRA; we have a volatility fund of £1.6m and a projected budget surplus of nearly £1m being held for RTB/carbon reduction actions which could be switched out to capital or stopped.

2.2.2 At £2.6m this would allow for a 14% fall in rental income.

2.2.3 Approximately 48% (£8.4m) of rents is met by benefits (rent rebates). This is a direct credit to individuals rent accounts and is guaranteed income to the HRA. In addition there is an HRA General Balance held of £3.1m and other measures available

to stop expenditure if required. Rental income currently appears strong, although it is too early to be sure.

3 Implication of Covid-19 on future budgets (MTFP).

3.1 The Council's Medium Term Financial Plan (MTFP) has been updated. The position has not changed significantly in the main other that an announcement on 28th April that the Government is deferring again it's fairer funding review and business rates rebasing. This delays the Council losing its business rates growth (£1.5m in the MTFP) until its assumed 2022/23. Although there is still a risk the growth element could still be lost in full or in part in 2021/22 as the Government looks at the Local Government Funding round next year.

3.2 A summary of the revised MTFP looking from 2021/22 to 2030/31 is given below. This extract of the MTFP does not take into account proposed actions to make savings.

Summury MTFP	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000
Annual (Surplus)/Deficit	-	629,219	2,926,247	3,941,413	4,142,331	4,176,351	4,667,501	4,702,057	4,743,304	4,791,536	4,847,058
In Year addition to Annual (Surplus)/Deficit	-	629,219	2,297,028	1,015,166	200,918	34,020	491,150	34,556	41,247	48,232	55,522

3.3 If the Term of the current Council is focused on then savings are required of £3.9m; to produce a balanced budget in 2021/22 costs are required to be reduced, or income increased (or a combination of both) to create a saving on our net costs of £0.629m. These savings need to occur annually to bring down the net ongoing costs of running the Council. If this is achieved then further savings of £2.297m are required for 2022/23 and finally a further sum of £1.015m for 2022/23. This gives the £3.9m.

3.4 As explained income is critical to our financial stability and whether our receipts return to the pre Covid-19 level will depend on how the economy bounces back; planning, building control, landcharges, peoples ability to pay council tax and business rates and also growth in business rate and council tax bases along with tourism. These factors are being grappled with at national level and the Government's initiatives are driving to try and influence a quick return but economic forecasts do not look promising.

3.5 Income following lockdown has returned quicker than expected so at this stage the assumptions remain unaltered in the MTFP and deemed reasonable. A national decline in economic factors could affect our position but this is unknown. Also unknown is future funding of local authorities, the Government appears to be listening to the financial woes of local authorities and they have indicated they are considering the future position.

3.6 We are experiencing **a decline in our Council Tax collection** rate (end of May 0.99% down on previous year) and an increase in the Council Tax Reduction Scheme (5.32% increase) which reduces the taxbase (basis of which council tax income is calculated). Other authorities are projecting an in year 10% reduction in Council Tax income.

Councils receive the precept sum requested, if there is then a deficit compared with what's collected, this is taken into account in the following year to be made good. 10% non-collection for us equates to £883k. We currently hold a surplus on the fund of £255K and normally create an in year surplus of £100k - £200k. The MTFP assumes growth of 500 properties per annum; in the last few years this has been closer to 1,000; 500 properties is worth income of £74k. Taking these factors into account then we could see a possible reduction in Council Tax Income of say £400k for 2021/22. The Government has recognised this potential loss and in its recent announcement stated that such losses can be spread over 3 years and it would consider further the implication in its spending review. Until these details are known and with the government giving the ability to spread any losses **no additional costs are included in the MTFP at this stage.**

3.7 Turning to **business rate** income, this is complex in accounting treatment; in part it is like Council Tax with any deficits being taken to recoup in the following year, but part in terms of growth income is taken in year. Other authorities are assuming a 10% to 15% drop off in business rate income; for us this being between £417k and £626k. At the end of May we were down 6.18% compared with the previous year. Before the crisis we were projecting a significant sum above budget due to recent growth in the order of £2m, the Council also has an earmarked reserve of £693k set aside to deal with volatility in business rate income. **Therefore at this stage it is suggested no amendment is made to the MTFP assumptions.** Again any losses like Council Tax the Government have indicated this can be spread over future years.

4. Conclusion.

4.1 For the current year the Council will have funding gap to find, the final sum will depend on how our income streams hold up during the remainder of the year, particularly in the summer months, any additional costs in terms of Covid-19 implications not factored in as yet and finally the details behind the Governments recent funding announcement.

4.2 The picture is more favourable then first predicted and as can be seen the Council has options by year end to allocate funding or make savings to balance the 2020/21 financial year. A further report will be brought to Cabinet in September for final recommendations to be made to Council.

4.3 This report has concentrated on reacting to the financial implications of Covid-19 and options to addresses projected deficits; this report does not factor in any change in priority spend that the new administration may wish to consider and this needs to be factored into a future report.

4.4 There is a MTFP gap that the Council needs to address and was present before Covid-19, a number of actions previously considered in meeting this gap were a combination of income generation and better asset utilisation. This needs to be reflected on by the new administration in terms of giving direction on these matters

4.5 This report suggests that members may wish to consider setting aside windfall business rate monies to mitigate the immediate necessity to find all savings and/or increase income to meet the full MTFP gap until more certainty on timing and amount is known.

4.6 Consideration needs to be given on the level of savings to address this year's deficit in terms of the balance to be struck between using one off monies or to make ongoing savings which would in turn help address future year deficits as they reduce our net budget going forward.