

Financial Update

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report presents an update on the Council's financial position in the light of the Covid 19 pandemic.

This report makes the following recommendations to this Committee:

1. It is recommended that the Committee notes the report.

Timetable

Meeting	Date
Policy and Resources Committee	29 April 2020

Financial Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Council's strategic plan is supported by the Medium Term Financial Strategy (MTFS) and budget. Threats to the MTFS and budget will impact on the Council's capacity to deliver the strategic plan.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The MTFS and the budget support the cross-cutting objectives in the same way that they support the Council's other strategic priorities.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 4 of the report.	Section 151 Officer & Finance Team
Financial	The budget strategy and the MTFS impact upon all activities of the Council. It is therefore essential that the committee gives consideration to the strategic financial consequences of this report.	Section 151 Officer & Finance Team
Staffing	The financial implications of Covid 19 are likely to impact the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority. Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer to report to the authority's members if expenditure (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.	Legal Services
Privacy and Data Protection	Privacy and Data Protection is considered as part of the development of the MTFS and annual budget. There are no specific implications arising from this report.	Policy and Information Team
Equalities	The Council's future financial position will impact on service delivery. So far as possible, when a policy, service or function is changed	Equalities and

	or reviewed, an evidence-based equalities impact assessment will be undertaken. Should an impact be identified appropriate mitigations will be sought.	Corporate Policy Officer
Public Health	The resources to achieve the Council's objectives depend on the Medium Term Financial Strategy and annual budget.	Public Health Officer
Crime and Disorder	The resources to achieve the Council's objectives depend on the Medium Term Financial Strategy and annual budget.	Section 151 Officer & Finance Team
Procurement	The resources to achieve the Council's objectives depend on the Medium Term Financial Strategy and annual budget.	Section 151 Officer & Finance Team

2. INTRODUCTION AND BACKGROUND

2.1 This report provides an overview of the Council's current financial position in the light of the Covid 19 pandemic as follows:

- Background
- Additional spending pressures
- Income reductions
- Use of reserves
- Cash flow
- Capital programme

The position continues to change on a daily basis, so updates will be presented when the Committee meets and at each subsequent meeting.

Background

2.2 The Council has an agreed Medium Term Financial Strategy (MTFS) for the next five years and a budget for 2020/21. The Council was able to set a balanced budget for 2020/21 at its meeting on 26th February 2020 on the basis of the information available at the time and the assumptions set out in the budget report. This was the culmination of a lengthy budget process, which involved developing a whole range of savings and income generation plans.

2.3 In subsequent years, the projections in the MTFS indicated a likely requirement either to make further savings or to generate increased income. The exact size of the budget gap depended on the new local government funding regime to be introduced in 2021/22. Again, this was on the basis of the information available at the time.

2.4 Since the budget was agreed in February, the position has changed completely as the all-encompassing impact of the Covid 19 pandemic on society and the economy has become clear. The immediate implications for Maidstone Borough Council, as a district authority, have included the following:

- Redirection of existing resources, and employment of additional resources, to support vulnerable people
- Administering government support schemes, notably Business Grants
- Temporary closure of many Council facilities
- Reduction in levels of activity in many other Council services
- Income generating activities severely impacted by overall contraction in economic activity
- Change in working patterns, with almost all office-based staff now working from home
- Reduced levels of Council Tax and Business Rates collection.

2.5 Most of these have a direct financial impact on the Council's revenue budget, whether through increased expenditure or reduced income. It is important to note that, for a District Council like Maidstone, the impact of reduced income is much more significant than marginal increases in expenditure. Spending pressures and income reduction are considered in turn below.

Spending Pressures

2.6 The main marginal items of expenditure faced by the Council arise from our work to support vulnerable people, in particular finding accommodation for the homeless and establishing a community hub. Whilst many officers are now working directly on initiatives that respond to the pandemic, their pay is broadly fixed (although levels of overtime have increased significantly).

2.7 Where Council facilities have been closed or where there has been a reduction in activity levels, the Council is still obliged to incur most of the costs that it would normally do. Local authorities may not recover, as private sector employers may, 80% of the cost of paying furloughed staff.

2.8 So far as services and facilities operated by third party suppliers are concerned, the Cabinet Office has issued an action note (PPN 02/20) which sets out the approach that the government expects public bodies to take with its suppliers. Specifically, it states that contracting authorities 'must act now to ensure suppliers at risk are in a position to resume normal contract delivery once the outbreak is over'. The implication here is that, if a supplier is 'at risk', then public bodies should support the supplier financially even though the supplier may not be in a position to provide goods and services as normal.

2.9 An important area where many local authorities face this issue is leisure services, given that all local authority leisure centres have had to close. Where a third party supplier operates the Council's leisure centre(s), the supplier may have no other source of income, which puts an obligation on the authority to support them. The approach taken will of course vary from case to case, depending on the financial strength of the supplier.

2.10 The following table summarises known additional spending pressures faced by the Council as at 15 April, as set out in the return that we were required to submit to MHCLG on that date.

Additional Spending Pressures			
	March 2020	April 2020	Full Year 2020-21
	£000	£000	£000
Housing (including homelessness)	10	28	135
Cultural services	0	0	38
Environmental and regulatory	0	0	10
Finance / Corporate Services	0	20	53
Other services (including hub)	0	13	30
Total additional pressures	10	61	266

This is likely to be a conservative estimate, given that more spending pressures are likely to arise over the following weeks and months.

Income Reductions

2.11 As members will know, the Council is broadly self-sufficient, so it depends on revenues raised locally to fund its services. Any income reductions will therefore have a direct impact on our ability to deliver services. The nature of the pandemic is such that virtually all the Council's sources of income are affected.

Business rates

2.12 The Council collects business rates, retaining a notional amount due after payments to preceptors and the government's tariff. The payments to preceptors and the government's tariff were fixed in January, therefore leaving the Council exposed in the short term to 100% of any fluctuation in actual amounts collected. Normally, an adjustment is made through the Collection Fund after year end to reflect actual business rates income, but given the scale of the difference between projected income and actual income, this delay in reimbursement would be very difficult to manage.

2.13 The government has recognised the cash flow pressure that this places on Councils and agreed on 16 April to defer the cash payments for business rates which are theoretically owing to it for the next three months. Discussions are also taking place with Kent County Council about whether they would be prepared to take similar steps.

2.14 Notwithstanding this, the Council is exposed to a reduction in business rates income so far as its own share of business rates is concerned. This is mitigated to an extent because the government compensates us for the reliefs that we give to businesses, including the 100% relief for leisure, retail and hospitality businesses, but it is still estimated on current trends that we are exposed to a loss of some £1.4 million.

Council Tax

2.15 At this stage the impact on Council Tax collection for the current year is unclear. Given the importance of cash flow to enable the Council to continue delivering services, we are emphasising to Council Tax payers the importance of keeping up to date with their payments. If they are unable to pay the full amount of Council Tax, for example through redundancy, they may apply for Council Tax support, which reduces their Council Tax by 80%.

2.16 It is nevertheless likely that Council Tax income will fall, through a combination of lower collection rates and a transition from full Council Tax to a reduced level of Council Tax for many households. At this stage we estimate a loss of £1.7 million.

Sales, Fees and Charges

2.17 The Council's biggest exposure falls in this area, which includes parking income, planning fees, green waste collection fees, property rentals and a

whole range of other charges for Council services. In most of these areas, it is also difficult to mitigate income loss through reductions in expenditure, given that most of our costs are fixed. On the basis that activity levels continue to be severely disrupted to the end of June, we project a loss of income of £4.3 million. If disruption continues for longer than this then the loss will be even greater.

2.18 The following table summarises projected income reductions as at 15 April.

Income Reductions			
	March 2020	April 2020	Full Year 2020-21
	£000	£000	£000
Business Rates (MBC share)	0	128	1,403
Council Tax (MBC share)	0	156	1,711
Sales, fees and charges:			
<i>Parking services</i>	75	273	1,655
<i>Property rentals</i>	37	162	560
<i>Leisure services</i>	0	78	531
<i>Planning fees and advice</i>	0	51	500
<i>Other fees and charges</i>	1	79	1,087
Sub-total sales fees and charges	113	643	4,333
Total income reductions	113	927	7,447

This gives a total impact as follows:

	March 2020	April 2020	Full Year 2020-21
	£000	£000	£000
Expenditure pressures	10	61	266
Income reductions	113	927	7,447
TOTAL IMPACT	123	988	7,713

It should be emphasised that these figures are simply our best estimates at this stage. The return to MHCLG required us to express a level of confidence in the accuracy of the estimates – red, amber or green. These estimates have an ‘amber’ level of confidence.

2.19 The figures for expenditure pressures and income reductions have been prepared in close liaison with other authorities in Kent and Medway. Across the whole of Kent and Medway, the projected additional expenditure for the full year is £126 million and the projected income reduction is £261 million. Note that the upper tier authorities – Kent County Council and Medway Council – bear the biggest burden of additional expenditure, given their social care responsibilities, which involve increasing the amounts paid to providers, procuring PPE to support existing vulnerable clients, and dealing with the increased client numbers being discharged into social care. Meanwhile, districts are more vulnerable to loss of income.

2.20 MHCLG have asked for these figures to be updated on a regular monthly basis. The updates will also be reported to Members.

Government support for local government

- 2.21 The position set out above is replicated for local authorities across the country. In response, central government initially allocated £1.6 billion of funding to support local government, most of which went to upper tier authorities. Maidstone's allocation was just £57,000.
- 2.22 A further £1.6 billion was announced by the Secretary of State for Housing, Communities and Local Government on 18 April. The distribution between authorities has not been announced at the time of writing. There was extensive lobbying by District Councils about their relatively meagre allocations from the first tranche of funding, so it is to be hoped that we will receive more than £57,000. However, it is clear that the amount we will receive will in no way cover our expected losses.

Use of Reserves

- 2.23 The Council holds reserves to protect it against eventualities such as this, albeit that the impact of the pandemic is greater than was ever anticipated. The Council sets a minimum level of reserves of £2 million, which is plainly inadequate in the current circumstances.
- 2.24 In the event, the level of reserves currently held is well in excess of the £2 million minimum. When setting the budget in February 2020, an unallocated general fund balance of £8.4 million was projected as at 31 March 2020. A further £4.6 million of balances were due to be earmarked for a range of purposes, including the Local Plan Review, schemes funded from the Business Rates Retention Pilot/Pool, and Homelessness initiatives, giving a total of £13.0 million.
- 2.25 The actual figures will not be known until the accounts for 2019/20 are closed. Prior to the onset of the pandemic, it was anticipated that the outturn would be broadly in line with the projected figures.
- 2.26 Whilst the projected financial impact of the pandemic as shown above is clearly only a very early estimate, and cannot be relied upon, if the impact is as projected, namely £7.7 million, then the Council has adequate resources to meet the expected expenditure. The Section 151 Officer is not therefore obliged to report that expenditure is likely to exceed the resources available. However, it can be seen that almost all of the unallocated general fund balance of £8.4 million would be used up.

Cash Flow

- 2.27 The Council's cash position is subject wide income fluctuations, whilst most of our outlays are fixed. This position has been mitigated somewhat by the action taken by central government to defer collection of their share of business rates (see paragraph 2.13 above). Nevertheless, we are seeking to minimise our risk by maintaining cash investment in as liquid a form as possible. Cash balances as at 16 April amounted to £15.6 million (excluding monies held for distribution as business grants), which is expected to be adequate on the basis of the projected additional expenditure and income shortfalls outlined above.

Capital Programme

2.28 A Capital Programme was agreed by Council at its meeting on 26 February 2020. The Capital Programme totals £108 million over five years and includes a number of major schemes intended to achieve the Council's long term strategic objectives.

2.29 The schemes within the capital programme met the tests set out in the Prudential Code, in other words they were considered to be affordable on the basis of the returns generated and the capacity of the revenue budget to support any borrowing required. At this stage, decisions about the progress of individual schemes within the capital budget are being made on a case by case basis. The position in relation to key schemes for delivery in 2020/21 is as follows:

- Brunswick Street / Union Street – work currently on hold, but as the schemes are substantially complete it is proposed to progress with these schemes once the contractor is able to proceed
- Kent Medical Campus – work currently under way; ERDF funding remains available to support this scheme
- Lockmeadow – contribution to refurbishment of cinema and landlord works – see separate report on this agenda
- Mote Park dam – work required for health and safety reasons – work currently planned to proceed in Summer 2020
- Mote Park Visitor Centre and Estate Services Building – on hold.

3 AVAILABLE OPTIONS AND PREFERRED OPTION

3.1 Report is for noting only.

4 RISKS

4.1 This report sets out a summary of the Council's financial position at the time of writing. The figures included are subject to a very high degree of risk and uncertainty, given the circumstances. Whilst these have been considered to the extent possible, the position remains very unclear. Members will be kept up to date as events unfold.

5 NEXT STEPS

- 5.1 It is proposed to update Members at each subsequent meeting of Policy and Resources Committee on the financial position as it develops. It will however be evident from the information presented above that action needs to be taken as a matter of urgency to mitigate the financial losses that the Council faces. Accordingly, officers are working on a series of interim measures to address this.
 - 5.2 It is very clear that recovery from the pandemic will be a lengthy and difficult process. The Council, with its central role in the life of the local community, has a vital part to play in this, and is developing a strategy for recovery. This will link to work being carried out at a Kent-wide level.
 - 5.3 Both recovery from the pandemic and mitigation of the losses that we face will have major strategic impacts, and will require a review of our strategic priorities. Normally the Committee would consider the scope of any proposed changes to the five year Medium Term Financial Strategy at its meeting in July. This would have been a significant discussion in any case, given the proposed changes to the local government funding regime in 2021/22. It is now even more likely that a major re-casting of the MTFS will be required. It is suggested that in July there will be sufficient greater clarity about the nature of the recovery of the pandemic to use the meeting, currently scheduled for 21 July 2020, to consider the approach to future development for the MTFS.
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6 REPORT APPENDICES

None.

7 BACKGROUND PAPERS

There are no background papers.