

Covid-19 Financial Update 2020/21

Policy & Resources Committee

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- 1.1. This section of the report provides an update on the Council's current financial position and anticipated impact on the following areas in light of the Covid-19 pandemic:
 - Additional spending pressures
 - Income reductions
 - Use of reserves
 - Cash flow
 - Capital programme
- 1.2. The position continues to change, so regular updates will be presented at future meetings.
- 1.3. 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 range of savings and income generation plans.
- 1.4. 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.
- 1.5. Since the budget was agreed in February, the position for 2020/21 and future years 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 to support vulnerable people
 - Administering government support schemes, notably business rate reliefs and 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.
- 1.6. 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.

2. Spending Pressures

- 2.1. The main marginal items of expenditure faced by the Council have arisen 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).

- 2.2. 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 in general have not furloughed large numbers of staff, as private sector employers have.
- 2.3. 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. An update note (PPN 04/20) was later issued, setting out recovery and transition arrangements. This note advises councils to work in partnership with their suppliers and develop transition plans to exit from any relief as soon as reasonably possible.
- 2.4. 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.
- 2.5. The following table summarises known additional spending pressures faced by the Council as at 15 May, as set out in the return that we were required to submit to MHCLG on that date.

Additional Spending Pressures			
	April 2020	May 2020	Full Year 2020-21
	£000	£000	£000
Housing (including homelessness)	21	22	250
Cultural services	3	3	226
Environmental and regulatory	0	0	10
ICT	0	0	35
Revenues & Benefits	3	3	75
Shielding (including community hub)	20	20	65
Unachieved savings / delayed projects	0	0	80
Other services (including PPE)	2	2	12
Total additional pressures	49	50	753

Table 1: Additional spending pressures 2020/21

3. Income Reductions

- 3.1. 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

- 3.2. 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.
- 3.3. 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 were theoretically owing to it for the first three months of the year.
- 3.4. 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 £1.9 million.

Council Tax

- 3.5. 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%.
- 3.6. 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 £1.0 million.

Sales, Fees and Charges

- 3.7. 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.
- 3.8. The following table summarises projected income reductions as at 15 May:

Income Reductions			
	April 2020	May 2020	Full Year 2020-21
	£000	£000	£000
Business Rates (MBC share)	160	160	1,922

Council Tax (MBC share)	87	87	1,043
Sales, fees and charges:			
<i>Parking services</i>	267	251	990
<i>Property rentals</i>	116	127	1,270
<i>Leisure & cultural services</i>	45	9	809
<i>Planning fees and advice</i>	116	88	761
<i>Other fees and charges</i>	94	88	678
Total income reductions	885	810	7,474

Table 2: Loss of income

- 3.9. Combining the projected spending pressures and loss of income, the total impact for this financial year is as follows:

	April 2020	May 2020	Full Year 2020-21
	£000	£000	£000
Expenditure pressures	49	50	753
Income reductions	885	810	7,474
Government support	-57	-1,720	-1,777
Total impact	877	-860	-6,450

Table 3: Overall projected impact 2020/21

- 3.10. 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.

4. Government support for local government

- 4.1. The position set out above is replicated for local authorities across the country. In response, central government has so far allocated two tranches of funding to local authorities, amounting to £3.2bn in total. Maidstone Borough Council received £57,411 from the first tranche announced on 19 March and a further £1,719,767 on 18 April.
- 4.2. To aid cash flow, the Government made up front payments of £3.4 billion of grants, including pre-COVID-19 business rates relief compensation. For Maidstone, this amounted to early receipt of £2.1m grants which would otherwise have been received over the course of the year. On 16 April, the Government announced that councils would also be allowed to defer £2.6 billion of business rates central share payments due to the Government over the next three months.
- 4.3. On 10 June, the Prime Minister announced that £63 million will be made available for councils to offer food and basic necessities to those in need. The Government has also confirmed that it is looking at separate new burdens funding for the administration of reliefs for businesses, with details to be announced.
- 4.4. At this stage it is hoped that further funding will be made available to support financial recovery in the local government sector and enable social and economic recovery to be facilitated by councils as we move into the next phase. However, it is unlikely that any additional funding will be sufficient to cover the expected losses set out within this report.

5. Use of Reserves

- 5.1. 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.
- 5.2. In the event, the level of reserves currently held is well in excess of the £2million minimum. As detailed elsewhere in this report, the provisional balance on the general fund at 31 March 2020 was £8.8m, with a further £7.8m held within earmarked reserves. Earmarked reserves are set aside for a range of different purposes including the Local Plan Review, schemes funded from the Business Rates Retention Pilot/Pool, and Homelessness initiatives.
- 5.3. 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 £6.5 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 would be used up.

6. Cash Flow

- 6.1. The Council's cash position is subject to 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. Nevertheless, we are seeking to minimise our risk by maintaining cash investment in as liquid a form as possible. Cash balances as at 11 June amounted to £19.2 million. It should be noted that on 22 June, payments totalling 11.1m are due to preceptors in respect of business rates and council tax. Cash balances are expected to be adequate over the short term on the basis of the projected additional expenditure and income shortfalls outlined above.

7. Capital Programme

- 7.1. 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.
- 7.2. 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 was temporarily put on hold at the start of lockdown but has now resumed. It is hoped that both developments will be complete by the end of 2020.
 - **Kent Medical Campus** – work currently under way; ERDF funding remains available to support this scheme.

- **Lockmeadow** – the contribution to refurbishment of the cinema and the landlord works (£4m in total) will be spent between July and October this year.
- **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** – currently on hold.

8. Next Steps

- 8.1. The next financial monitoring return is due to be submitted to MHCLG on Friday 19th June and the messages reported will be shared with members.
- 8.2. A temporary freeze on all non-essential recruitment activity has been introduced by the corporate leadership team in order to minimise the anticipated impacts on revenue budgets for 2020/21.
- 8.3. Given the unprecedented nature of recent events, and the short term uncertainty surrounding the timetable for recovery, it has been judged that an exercise to recast the 2020/21 budget is unlikely to represent effective use of officer time, although efforts will be made to minimise the anticipated budget overspend for this year as far as possible.
- 8.4. Locally, work on recovery planning is progressing. As chair of Kent Finance Officers Association, Mark Green, Director of Finance and Business improvement is chairing the finance recovery cell at county level. This group will cover short, medium, and longer term recovery of finances, including loss of income, and cost recovery.
- 8.5. Initial modelling work for the five year strategic revenue projection has commenced. However, a great deal of uncertainty remains regarding if and how much further government support may be available. The future of business rates retention and local government funding reforms present further variability, as well as the ongoing impact of social distancing measures on the Council's income streams and the wider economy. It is therefore crucial that medium term plans are developed to be flexible and dynamic. Plans will also need to reflect refocussed priorities and investment required to stimulate local economic recovery.
- 8.6. Medium term financial planning for the period from 2021/22 onwards will consider all sources of funding available to the council, and how best to deploy these to ensure that the council remains financially resilient and well placed to support recovery.