

Agenda Item No:

Report To: Cabinet

Date of Meeting: 28 May 2020

Report Title: **Financial Impact of Covid19 on the Council**

Report Author & Job Title: Lee Foreman
Senior Accountant

Portfolio Holder Cllr. Bell
Portfolio Holder for: Finance & IT



Summary:

This report provides an update of the forecast impact that Covid19 will have on the Council's financial position. Our base forecast allows for a 3 month lockdown phase, 3 months partially lifted restrictions phase, and further 3 month period for confidence to return.

The Council is forecasting direct additional expenditure of £589,232 for the initial response, detailed in **Appendix A**.

Service income is forecast to reduce by almost £4m detailed in **Appendix B**.

Council Tax and Business Rates forecast an overall reduction in net collection of £2m.

The initial estimate is that the Housing Revenue Account (HRA) could see rental income drop by £2.5m.

Some of these losses are partially offset by:

- Salary savings of £330,000 net of temporary staff to support the day job.
- Savings to borrowing costs of £450,000, due to changes to the 2020/21 strategy.
- Reduction in HRA programmed capital works of £1m.
- Government grant of £1.359m.

To support the anticipated pressure in the General fund, see the summary at **Appendix C** for detail; it is recommended that the following reserve contributions are earmarked to support the 2020/21 budget:

- General Fund Risk Reserve – £1m
- Project Fund - £3m
- Economic Resilience Reserve - £500,000

NB: In the event that Government cover these losses, the amount will be reallocated to their sources.

There is a real risk that this crisis undermines our previous financial strategy and the Council will need to develop a new one to maintain the viability of the Council going forward.

The Medium Term Financial Plan (MTFP) is currently being updated; assumptions and reserves will be reviewed during this process.
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Key Decision: Yes

Significantly Affected Wards: All

Recommendations: **The Cabinet is asked to:-**

I. Note the report and the emerging financial pressures arising from the Covid19 pandemic.

Recommend that

II. The following reserve allocations be earmarked to support the 2020/21 budget:-

- **General Fund Risk Reserve - £1m**
- **Project Fund - £3m**
- **Economic Resilience Reserve - £500,000**

III. All projects should be paused, and reassessed.

IV. Review Service Budgets to identify controls on expenditure and identify saving opportunities

V. All current reserve allocations should be reviewed to determine priorities and protect levels of reserves to support the MTFP.

VI. Develop corporate priorities for Recovery Delivery Plan.

Policy Overview: The Budget is a key element supporting the delivery of the Council's wider policy objectives.

Financial Implications: The expenditure incurred in dealing with the Covid19 directly, and the economic environment caused by restrictions on movement and trade, are expected to see the Council require reserve funding of £4.5m to balance the 2020/21 general fund budget.

Legal Implications N/A

Equalities Impact Assessment N/A

Exempt from Publication: N/A

Contact: Lee.Foreman@ashford.gov.uk – Tel: (01233) 330509

Financial Impact of Covid19 on the Council

Introduction and Background

1. This paper provides information on the expenditure incurred to support the Covid19 response, the forecasted impact upon the council's 2020/21 budget, details of support provided from Central Government, savings on expenditure and thoughts on how reserves can be deployed if Government support does not fully, or only partially supports Local Authorities through this crisis.
2. The Covid19 pandemic has caused a significant disruption to the income flows of the Council for the period April to May and it is forecast to continue for June. The Council is projecting that the lockdown remains most in force until the end of June, seeing some pickup in the following 3 months (July-September) as some restrictions are lifted allowing some areas of the economy restart. The base forecast is that it will take a further 3 months (October-December) for confidence to grow before income levels for return to anticipated levels.
3. Areas such as rental income will be subjected to a longer impact timeline not only due to the current crisis, but also due to the global economic outlook, which will continue to be felt for some time, in terms of restrictions on movement have been lifted. Whilst some restriction have been lifted, it is felt that uncertainty remains in the market.
4. It is anticipated that the long term economic impact of Covid19 on the Council's commercial interests, strategic investments, and future funding from Central Government, will need to be considered in the Council's MTFP. The Plan will be updated to identify what the future budget gaps could look like and how the Council will manage these pressures whilst leading the recovery effort for its community.

Covid19 expenditure incurred in emergency response

5. The full severity and impact upon the council was recognised in mid-March 2020. In response to the crisis all but essential onsite staff were directed to remote working, the emergency response was fully implemented, and the Council's industrial site at Carlton Road was adapted into a food hub to enable essential food parcels to be delivered to the most vulnerable members of our community.
6. The direct costs of the emergency response totalled £239,232 (as at 15 May 2020) with an additional £65,000 (£25,000 from the 2019/20 current budget) earmarked to support local Community Groups through Grant funding.
7. Further expenditure is forecast to expand remote working platforms and a grant is being considered to support the Council key leisure facility operation through this challenging time.
8. Overall, the assumption is that the Council is forecasting to spend £589,232 as summarised at **Appendix A** to support the Covid19 response. These costs will be met from Government grant of £1.359m and the remaining grant will be a contribution to lost income.

9. The costs above do not factor in the considerable amount of core employee hours (overtime is included in the spend total) and facilities that have been dedicated to the response, seeing many of the Council's usual business on hold, which at some stage will need to be resumed.
10. Some services, such as Revenues and Benefits and Housing are seeing significant increases to workloads and the impact on some services might not be fully felt until lockdown ends.
11. There will be a need to continue the Covid19 response services as some members of the community must continue to self-isolate and many are experiencing challenges around hardship, domestic abuse, mental wellbeing and homelessness, the Council is developing the Corporate Priorities for Recovery Delivery Plan.
12. Looking forwards, from a business perspective the changes that have occurred in working practices need to be considered to see whether they should be continued into the future.

Government Support

13. The Government initially announced a £1.6bn support package for Local Authorities; £1.39bn was committed to social care, from the remaining funding an allocation of £50,680 was awarded to Ashford Borough Council.
14. On the 18 April 2020 the Government allocated a further £1.6bn for Local Authorities A population-based formula was used for allocation and Ashford received £1,308,321 increasing the Government support to Ashford Borough Council totalling £1,359,001.
15. While this amount is welcomed, there are indications from Government that this could be the last funding round. This amount will cover the direct costs arising from the Covid19 response, but will only offset a small proportion of the lost income (circa £6m). The Council therefore has a current shortfall of potentially £4.5m to cover in the 2020/21 budget.
16. Local Authorities have requested that Government trigger a 'Bellwin' type scheme that will come into force to protect Councils from exceptional levels of additional costs. The Bellwin model only compensates for costs incurred not income lost and is yet to be formally implemented by Government and currently there seems to be some difficulty in getting agreement to this between MHCLG and HMT.
17. The Council's MTFP projections and the 2021/22 budget build will need to be reviewed. Government have confirmed that the Fair Funding Review, Spending Review and the Business Rate Retention Schemes are likely to be delayed until 2021/22 for financial year 2022/23. This could be an advantage to the Council due to expected cuts forecast from the reviews taking place. However all other assumptions will need to be reviewed in light of the impact, this crisis has on the economy and the need to drive the recovery process.
18. The Council submitted data submissions to MHCLG (Ministry for Housing, Communities and Local Government) highlighting the financial impact that the Covid19 Pandemic is having on Local Authorities both directly and indirectly, and also captured anticipated losses to income. These returns are being

used to help departments across Central Government make informed decisions as to where the greatest pressures lie and the likely ongoing costs going forward, but is in no way an indication that support will be given in the future.

19. Government confirmed that business rate payments to them could be deferred, potentially for the next 3 months. This positive move will support the Council's cash flow whilst struggling with the loss of income receipts.

Impact on the 2019/20 Corporate Budget

20. It is forecast that £115,000 of fees and charges were at risk at the end of 2019/20, the Outturn report will be submitted at the June Cabinet detailing any losses.

Impact on the 2020/21 Corporate Budget

21. This section of the report focuses on likely impact Covid19 will have on the 2020/21 budget and is split into predominant income streams.

Impact on Corporate Fees and Charges and Investment Income

22. Early indications are that the impact of COVID-19 could result in a reduction of around £4m in fees and charges to the Council in 2020/21.
23. A table showing the impact on significant income budgets for the Council is shown at **Appendix B**; this does not factor in smaller income pressures, which will only add to the overall pressure.
24. There are four significant areas generating this pressure, Commercial Property, Garden Waste, Parking and Enforcement, and Planning Income, covered in more detail below:

Commercial Property Income

25. The loss of commercial income is considered against current occupancy levels of commercial properties, and the likelihood of filling those units given the economic decline and financial impact on businesses.
26. Early indications show a pressure on commercial property income of just over £1m. This figure not only reflects lost rental income but also the increased costs in service charge and business rates, which will now be borne by the Council for empty units.
27. International House is showing a possible loss of just under £129,000 although this is only 10% of the £1.29m budget, and represents the risk to the smaller tenants in the building.
28. Park Mall has many small independent traders that will find it difficult to survive in these conditions. Park Mall is forecasting a reduction of £324,000 against budget.

Garden Waste Service

29. A pressure of £150,000 has been assumed for the garden waste service, as there is a possibility of a suspension in service.
30. Currently the contractor has managed service delivery well during this difficult time and is in regular dialogue with Council Officers. Whilst there has not

been a need to suspend Garden Waste collections at present, this position is finely balanced.

Parking and Enforcement Income

31. Parking income is a significant income streams to the Council with budgeted income of just under £2.4m for 2020/21. Given the current restrictions on movement, it is anticipated that car parking income will see a significant decline in April, May and June and then a very slow recovery over the next 6 months. Overall, it is anticipated that car parking income could be down by £1.2m in 2020/21.
32. With less parking enforcement income is also reduced and the Council is forecasting a reduction of £222,000.

Planning Income

33. It is difficult to model the impact on planning applications at this time but there will be an impact related to personal wealth because of Covid19.
34. Our baseline assumption and early indications show that a 50% reduction in planning fee income for 2020/21, and that this will add pressure to the budget of just under £653,000.

Investment income

35. The Council had a £31.852m long-term strategic investment portfolio as at the 31 December 2019. Following the impact of Covid19, the value of the holdings was £27.586m as at 31 March 2020 representing a reduction in capital value of £4.266m. These are however 'Long Term' placements and it is anticipated that over a protracted period they will recover, the only way to crystallise these losses (incur the losses) would be to sell the investment which would be against the Council's strategy and against the advice of our advisors at this time.
36. The real issue is income returns which were due to generate the Council £1.25m in 2020/21, however due to the economic contraction we are anticipating a 50% reduction in income from equity funds, 25% reduction in multi-asset funds and 20% from our corporate property fund. Overall, this will create a pressure of £363,000 on the 2020/21 budget.

Reduction in Council Tax, Business Rates and HRA Rental income (table at Appendix A)

Income from taxes

37. Net of all of the deferrals and reliefs that government has announced and funded, the Council is anticipating a 10% reduction in Business Rate and Council Tax income as people struggle to pay and debt is accrued/written-off. This is in-line with other districts.
38. At this level, the Council's share of the losses would be £1m for Council Tax and £1.08m for Business Rates.

HRA (Housing revenue Account) rental income

39. As with the rates a default rate of 10% of the net amount collectable has been assumed for the MHCLG report, these figures are currently being further

analysed to take into account rents paid by benefits, but a straight-line 10% would see a shortfall in rental income of £2.54m for the HRA.

40. Further work is being done to develop a more sophisticated forecast on this area and early signs indicate that the pressure is not as significant as first projects.

Additional Expenditure not considered in this forecast

41. This section of the report considers areas where the Council may incur additional expenditure as a result of COVID-19, that have not yet been considered elsewhere
42. Public Health Burials – The Council has a responsibility to make provision for burials for individuals who have no means to pay for their burial.
43. Support for service providers – the Council has a number of service providers that are fundamental in the delivery of Council Services, most notably Biffa the Council's refuse and recycling, and the leisure operator providers for the Stour Centre, Julie Rose Stadium and Conningbrook Country Park and Tenterden Leisure Centre.
44. Additional pressure will be felt from these operators, which could undermine and jeopardise the ability of operators to deliver on contracts and pre Covid19 service levels. For example, Biffa's contractual indexation uplift could be significantly reduced following the drop in oil prices, which accounts for part of the uplift.

Savings on Expenditure

45. Work has started on savings resulting from Covid19 with salary costs being the first area. This is the largest expense to the Council and with current pause to recruitment, savings against budget will be realised.
46. The budgeted monthly salary bill for the Council is circa £1.6m and the April salary payment was £1.48m representing a monthly saving of £145,000. With the current partial lockdown in place the pause on recruitment expected to continue for May and June this could realise a total saving of £450,000 against budgets.
47. This saving could increase depending on when recruitment starts again, it is therefore possible that this saving could be extended to a six month period representing a potential saving of £900,000. Services have been asked to review vacancies, those not yet required, work to be conducted elsewhere and no longer required.
48. As a result of not being able to recruit, some services are needing to use agency staff/consultants where necessary to 'support the day job'. This support is largely focused in the Planning Service where recruitment issues and the use of consultants has been necessary in the last few years. These engagements will, and should be reviewed as planning application numbers fall because of Covid19 enabling staffing levels to be reassessed.
49. An estimate of £120,000 has been forecast for agency/consultant related expenditure, which will need funding from the salary underspend.

50. The information above is tabled below:-

	April Budget	April 20 Actual	Variance	1st Quarter
GF	1,413,709	1,267,422	146,287	453,861
HRA	213,126	214,329	(1,204)	(3,611)
	1,626,835	1,481,752	145,083	450,250
Agency/consultants for day job				120,000
Net Employee Saving				330,250

51. Borrowing costs for Council debt has benefited from reductions in the Bank of England Base Rate.

52. To support the Council's financial position, the borrowing strategy will use short-term borrowing only for 2020/21 (subject to ongoing review and opportunities). This strategy change and the active management of a short dated (1-3 months) portfolio will save circa £450,000 in interest payable.

53. Other expenditure budgets considered include public transport; £50,000 was spent on public transport for 2019/20 and assuming a similar trend, this could see savings of £15,000 to £25,000 in 2020/21.

54. The HRA has a programmed capital works budget of £4.435m for 2020/21, due to restriction this programme will slip likely realising in year saving to the HRA in excess of £1m. Work to more accurately quantify this figure will be conducted and reported accordingly.

55. In terms of corporate budget monitoring, it is recommended given the current economic climate that the first corporate budget monitoring position be brought forward 31 May 2020.

56. This report will more accurately assess the impact of Covid19 based on actual data and trends for the first two months of the year, and give the Council a clear steer on the actions necessary, and what reserve allocations that will be needed to balance the 2020/21 budget.

Reserve and potential funding

57. This section looks at available reserves and how they could be utilised to offset the forecast pressure emerging.

58. These pressures undermine the Council's current financial strategy therefore, there is a need to develop a new plan moving forward to maintain the viability of the Council in the long term.

59. To fund this overall pressure the following allocations from reserves should be earmarked for 2020/21:

- a. General Fund Risk Reserve - £1m**
- b. Project Fund - £3m**
- c. Economic Resilience Reserve – £0.5m**

60. Corporate projects currently approved will be paused, allowing time for the projects to be fully reassessed and understand where they fit in terms of both financial affordability and economic benefit in a post Covid19 economy.

61. The proposed General Fund Reserve allocation from risk reserves will maintain the policy for General Fund Reserves, being the 15% of the Net Budget Requirement for the current year.
62. This approach will ensure that the economic resilience reserve has a balance of £1.3m, which will provide the Council some room to manage impacts from a revised MTFP over the medium term.

Portfolio Holder's Views

63. Whilst the Council's response to the Covid19 pandemic has been outstanding, this report is a sobering read and highlights the real financial pressures this Council faces. These pressures are not only for 2020/21, but also need to be considered over the medium term as the consequences of the pandemic are realised.

Contact and Email

Lee Foreman - Lee.Foreman@ashford.gov.uk

Emergency response expenditure

Expenditure Category	Forecast Expenditure 2020/21
Housing - homelessness services	100,000
COVID-19 Response Expenditure (Shielding, PPE etc.)	139,232
Grants to Community Groups	65,000
Cultural & related - Sports, leisure and community facilities	200,000
Finance & corporate - ICT & remote working	85,000
Total emergency response expenditure	589,232

Table of anticipated losses to Fees and charges as a result of the COVID-19 Pandemic

Description	2020/21 Budget £'000	2020/21 Forecast £'000	2020/21 Anticipated Loss £'000	Comments
Aspire Commercial Work	(120)	(120)	0	Under contract with Parish Councils
Aspire KCC Grass Cutting	(90)	(90)	0	KCC Highways Work
Pitchside Courtside Facility Hire	(60)	(30)	(30)	Reduction in Facility usage
Commercial Property Income	(5,265)	(4,228)	(1,036)	Reduction across the board, significant impact on Carlton Road Depot
Bulky Waste Collections	(60)	(15)	(45)	Half Booking to support wider refuse contract
Garden Waste Bin Service	(595)	(446)	(149)	Suspension of Garden Waste service for 3 months
Cemeteries Income	(111)	(111)	0	No impact on the ability to reach the 2020/21 forecast budget
Land Charges Income	(237)	(237)	0	No impact as ring fenced account with surplus balances
Planning Fee Income	(1,323)	(670)	(653)	Expect around 50% reduction over the year
Building Control Income	(480)	(480)	0	Not expecting impact as remote working capability
Parking Season Tickets	(323)	(275)	(48)	Reduction in need due to job losses, economic uncertainty
Parking fees	(2,397)	(1,198)	(1,198)	No income for 3 months, then tapering over next 6
Parking Fines	(443)	(222)	(222)	No income for 3 months, then tapering over next 6
Rolvenden Rocket	(26)	(7)	(20)	Community Bus Scheme - Reduction in use due to social isolation
Residents Scratch Card Permit	(17)	(9)	(9)	Less movement between friends and need to Parking
Licensing	(257)	(204)	(53)	Reduction in demand
Monitoring Centre	(129)	(129)	0	Fixed Contracts, no impact anticipated
Advertising In Ashford for You	(14)	(11)	(4)	Reduction, as events not being advertised
ABC Lettings Management Fee	(128)	(122)	(6)	Still Managing the Properties
HMO Licensing Fee	(18)	(18)	0	Licence fee income should not be effected
General Fund Housing Rents and Charges	(552)	(552)	0	Demand for accommodation should not be impacted
Shared Payroll service income	(48)	(48)	0	Recharge of payroll to another LA
Legal Fees Recovered	(129)	(77)	(52)	Link to reduction in planning as key source of income
External Printing Work	(9)	(5)	(5)	Reduction in external printing
Hire Of Committee Rooms	(6)	(1)	(5)	Elections contribute who are main client and Elections Cancelled
Temporary Accommodation	475	575	(100)	Additional TA costs due to financial hardship and threat of eviction.
Reduction in investment interest due	(3,063)	(2,700)	(363)	Reductions due to impact of COVID19 Financial Markets (does not include Capital movement)
	(15,425)	(11,428)	(3,997)	

Description	2020/21 Budget £'000	2020/21 Forecast £'000	2020/21 Anticipated Loss £'000	Comments
Council Tax	(7,556)	(6,551)	(1,005)	10% loss in collection
Business Rates	(4,146)	(3,066)	(1,080)	10% loss in collection
HRA Rental Income	(25,369)	(22,832)	(2,537)	10% reduction in rent collection
	(37,071)	(32,449)	(4,622)	

High Level Summary of Covid19 Movements

General Fund	2020/21
	£'000
Direct expenditure in response to Covid19	589
Lost income from fees and charges	3,997
Lost income from Council Tax and Business Rates	2,000
Agency staff/Consultants to undertake 'the day job'	120
Savings on interest payable	(450)
Savings on salary budgets	(450)
Impact on General fund budget	5,806
Government funding received	(1,359)
Pressure on ABC General Fund Reserves	4,447
Housing Revenue Account	2020/21
	£'000
Reduction in rent collected	2,500
Reduction in capital programmed maintenance	(1,000)
Pressure on HRA reserves	1,500