

Report to Cabinet

24 September 2020

By the Cabinet Member for Finance and Assets



DECISION REQUIRED

Not Exempt

Update on the Council's financial position

Executive Summary

This report updates the projected scale of the financial impact from COVID-19 in 2020/21 and how the medium term financial planning scenarios and assumptions have changed since the previous report in July.

As predicted, income levels are slowly recovering but nevertheless a significant overspend of £5.6m is forecast in 2020/21, despite action to reduce expenditure where possible. Much lower levels of income are anticipated in the future. An unprecedented high level of uncertainty remains. The length and depth of the current recession is unknown. Factors of particular concern are the increase in unemployment as furlough ends in the hospitality and leisure sectors that dominate our local economy, the risk of another local or national lockdown, the nature and implications of the Brexit agreement due at the end of the calendar year and the Government's plans for the reform of business rates. In these circumstances it is fortunate that the Council has kept high levels of reserves and thus is able in the short term to have time to make considered decisions but given the totally unpredictable situation it is essential the Council keeps as much of its reserves as it can going forward.

This report gives a snapshot of where we think our finances are today and also projects over the medium term. Since July, officers have identified an estimated £1.5m of potential savings that, with further work, could be built into the 2021/22 budget that would narrow the previously estimated £3.5m annual budget gap to £2m in that year.

As the situation becomes clearer, there will be further updates, detailing the latest information on the scale of the deficit, setting out a more developed response and containing further plans to tackle the budget gaps, continuing the work towards setting a balanced 2021/22 budget in February 2021. To achieve a balanced budget in 2021/22, substantial action is required.

Recommendations

The Cabinet is asked to

- i) note the changes in the Council's financial position in 2020/21 and the Medium Term.

- ii) recommend Council approve a £50k capital budget for the refresh and refurbishment of the museum whilst it remains closed during 2020/21.
- iii) recommend Council approve a £125k capital budget increase to the £180k Henfield Library car park capital project, to address significant issues in the foundations.
- iv) enter into a four year £0.75m scheme to deliver supported accommodation for rough sleepers, providing full funding is approved by MHCLG.
- v) subject to iv) above, recommend Council approve a £69k capital budget and £25.5k revenue expenditure budget in 2020/21 and the associated matching income obtained from MHCLG.

Reasons for Recommendations

- i) The Council needs to acknowledge the highly unpredictable nature of the national and local situation occasioned by the COVID-19 pandemic and the huge impact this is having on its financial position both in the short and longer term. This has moved the council from what has been a long term healthy financial position to one with predicted large deficits unless action is taken.
- ii) Work is needed to modernise and refresh museum displays, introduce a digital cultural heritage offer, and improve the customer experience.
- iii) The more expensive dig out and rebuild of the car park in Henfield will address structural defects and make the asset last much longer and is therefore more economical in the long term.
- iv) & v) establishing supported accommodation will help support and reduce the number of rough sleepers in the district.

Background papers:

- Budget and MTFs report Cabinet 23 January 2020 (approved by Council on 12 February 2020).
- Financial update on the Council's financial position report Cabinet 23 July 2020
- Report on the Council's Finance and Performance (M4) Overview and Scrutiny Committee 21 September 2020

Wards affected: All

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Background Information

1 Introduction and background

- 1.1 An update on the Council's in-year and medium term financial position was reviewed by Cabinet on 23 July 2020. The impact of the COVID-19 virus associated recession continues to have a severe impact with lower levels of income and increasing expenditure at the Council. This will result in a significant overspend in 2020/21, currently estimated at £5.6m.
- 1.2 £1.63m of central government 'expenditure' grant has been received. Initial guidance on the income loss grant scheme has been published, with submissions being made quarterly in arrears. It is expected that it will not cover all losses. If insufficient money is received from the Government to cover the costs of the lockdown and recession the Council will need to use its general fund reserve to fund its losses in 2020/21. This is currently estimated at £2m.
- 1.3 At the moment the Council has enough reserves to cover the predicted losses but its financial position going forward will be more precarious than it was at 12 February 2020 when the s151 officer gave her view the Council's reserves were adequate for its needs.
- 1.4 Longer term, a severe recession and changing customer habits mean that lower levels of income and increased costs are anticipated in the future. A significant gap in the medium term financial strategy as high as £3.5m a year are predicted if actions are not taken.
- 1.5 To rebalance its position, the Council will need to reconsider carefully its service offer in both 2020/21 and the longer period. The ongoing unpredictable nature of the effects of the pandemic mean that it is essential to maintain reserve levels and they cannot be seen as an alternative to taking decisions to bring the budget back to balance.

2 Relevant Council policy

- 2.1 The Council has a record of providing high quality, value for money services and to continue to achieve this the Council will need to consider what action to ensure money is available for our key services.

3 Details

- 3.1 An update on the Council's in-year and medium term financial position was reviewed by Cabinet on 23 July 2020. The impact of the COVID-19 virus associated recession continues to have a severe impact with lower levels of income and increasing expenditure at the Council. This will result in a significant overspend in 2020/21, currently estimated at £5.6m, depending on the length and depth of the recession and assumptions around continued social distancing.
- 3.2 Income from parking, property and leisure services was severely reduced in the first quarter under lockdown, and other income from planning, building control and investment income also affected. Income is slowly recovering as the lockdown from COVID-19 lifts, but due to the induced recession and changing customer habits, it may never recover to former levels.
- 3.3 In addition to costs, fees and charges, the Council generates income through Council tax and receives income from central government. Council tax collection

rates have fallen as customers adjust to their economic situation in the pandemic and lower recovery rates are anticipated, partly also due to the fact that more people are likely to be supported by the local council tax support scheme.

- 3.4 The Council's share of the business rates and Council tax that hasn't been collected could amount to nearly £0.5m, based on current collection rates being £2.6m behind the budgeted amounts that we would have expected to collect pre COVID-19. Whilst the timing is such that this deficit will feed through into the following year as the actual position will only become known after 31 March 2021, it is shown below in the year that it relates to. There is an ongoing risk that this pattern also repeats itself in future years too.
- 3.5 At the same time as income is falling, expenditure has increased too, with demand increasing for Revenues and Benefits, Housing services and the cost of contractual payments for the running of leisure services until the point numbers return towards pre COVID-19 contract levels. All three areas are putting the Council's ability to hold expenditure at the budgeted £35.5m under significant pressure, unless cost savings can be found elsewhere.
- 3.6 The updated budget position including the forecast overspend and revised interim medium term financial strategy is set out in table 1. This assumes an overspend of £5.6m in 2020/21 and assumes an ongoing reduction in income and increase in expenditure of approximately £3.5m in 2021/22 onwards if no action is taken.

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Table 1: interim MTF5 Sept 2020				
Current / estimated net expenditure	11,201	15,550	14,300	14,600
<i>Overspend / estimated transformation savings</i>	5,600	(1,500)	<i>To be developed in 2021</i>	
Estimated net expenditure	16,801	14,050	14,300	14,600
Funding: Council Tax	(9,922)	(10,100)	(10,300)	(10,500)
Baseline Business Rates	(2,052)	(2,050)	(1,500)	(1,000)
Collection Fund (surplus)/deficit	(53)	-	-	-
Total Funding	(12,027)	(12,150)	(11,800)	(11,500)
One-off COVID-19 funding to date	(1,650)			
One-off income loss grant estimate	(2,500)			
Additional 0.75% salary costs	120			

Estimated redundancy costs	750			
Impact of reduced collection rate of NDR and Council-tax	500			
Net (Surplus) / Deficit	1,994	1,900	2,500	3,100

- 3.7 The Council has received a total of £1.65m from government in response to the pandemic. This is funding towards additional 'expenditure' that the Council has incurred.
- 3.8 Government has released the guidance covering 'lost income' from sales, fees and charges. The scheme involves a 5% deductible rate for each income line being claimed, whereby councils pay the first 5% of the lost income, and Government compensating councils for 75p in every pound of loss thereafter. The funding will be claimed quarterly in arrears, reduced by any savings in those income areas, meaning only net (rather than gross) income losses can be claimed. In addition, the scheme does not cover any commercial or investment income losses. Based on this, the early estimate at this point is that the Council may be able to claim around £2.5m of income loss grant from the scheme in the year, subject to the detail in the spreadsheet returns and actual incomes being as forecast. The spreadsheet and quarterly returns will of course provide more certainty on how much this Council can claim as the year unfolds. The update brought back in November will include actuals from the half year mark.
- 3.9 An initial list of potential savings is being assembled and worked on that could be implemented in time for the 2021/22 budget. Officers are reviewing their services and looking at changing the way the services are delivered, stopping some elements of the service and by being more efficient. Some of these changes are because we can no longer do this work under COVID-19 and recession, which has happened at the Capitol theatre with live performance, and also for example at the museum where social distancing is not easily workable. Both Capitol and museum have already commenced consultations with staff to reduce headcount in these areas. Other areas of service could be reduced using digital change and efficiencies by doing things differently, such as merging administration functions together and putting more accessible services online, rather than in hard copy. The estimated savings from this initial list comes to around £1.5m. Further work on the detail will be required before these can be delivered through action by 2021/22.
- 3.10 Around two-thirds of the Council's costs are employment costs. Whilst minimising the amount of job losses through redeployment and not replacing vacancies, any reduction in headcount will come with redundancy costs and pension liability costs, where an employee is over 55 years old, known as pension strain. The number of potential redundancies could be as high as 40 posts. An estimate of redundancy costs has been included in the financial update, although this is difficult to calculate at this stage as the true cost will depend on which staff are affected.
- 3.11 The national pay award for 2020/21 was finalised in August as a one-off agreement of 2.75%. A 2% salary increase was budgeted in 2020/21. The additional 0.75%

rise equates to approximately £120k of additional budgetary pressures. In the economic circumstances, and especially lower levels of inflation, continued salary increases at this level are unaffordable and so the medium term assumption of salary increases at around 2% remains unchanged.

- 3.12 The overall position of funding for the Council in 2020/21 after Government grants is currently forecast to be a £2m shortfall. This could be funded by drawing on reserves to smooth out the period of change. However, reliance on reserves is unsustainable in the medium term. Other actions that could be taken to close the gap will be prepared and reviewed before the next financial update in November 2020. Due to the high level of uncertainty with many of the assumptions, taking decisions based on more information will help focus the next steps, although it is clear that this will include some difficult decisions.
- 3.13 As noted elsewhere on the agenda, the predicted cost of addressing the reduction of carbon in the district would be significant over the next decade and beyond. This financial update already makes it clear that the Council faces significant financial challenges from 2021/22 onwards. Adoption of a 2030 target and action plan to achieve it will considerably impact the Council's financial position in the medium and long term. The carbon reduction plan would commit the Council to an additional high level of financing that will need to be viewed against decisions made in the revenue and capital budgets and to set a balanced budget, as is required by law, and which maintain sufficient reserve levels.
- 3.14 Housing Services have submitted a bid to the Ministry of Housing Communities and Local Government (MHCLG) to deliver supported accommodation for rough sleepers in partnership with a support provider with expertise in supporting the client group. The project has been proposed to last four years and requires swift implementation to fit the funding criteria and have the accommodation occupied before the end of the 2020/21 financial year. The bid submission was for capital and revenue costs of £0.75m over a four year period.
- 3.15 The proposal will be cost neutral to the Council with costs being met by MHCLG. If the council is not successful with the bid to the appropriate level then the proposal will not be progressed. The report contains a recommendation to enter into the four year £0.75m scheme, providing funding is approved by MHCLG. The initial expenditure costs affecting 2020/21 are calculated to be £69k capital costs and £25.5k revenue costs, with the obtained funding offsetting these costs. Future year costs and MHCLG income will be built into the relevant year budgets as part of the budget setting process.
- 3.16 The temporary closure of the museum due to COVID-19 and the ongoing challenge of introducing safety measures in a 600-year-old building which doesn't lend itself to social distancing, has provided an opportunity for the Council to look at ways of refreshing and modernising its offer to the public whilst the building is closed. The refresh will tell new stories of Horsham with rationalised and carefully curated collections and will use digital technology to complement the offer. Work is needed to modernise and refresh displays, introduce a digital cultural heritage offer, and improve the customer experience. For this, a £50k capital budget is proposed so that the museum can reach and inspire many more people when it reopens. The additional capital budget request forms part of the recommendations of this report. The total capital programme for 2020/21 would increase to £8.55m.
- 3.17 A £180k capital budget for the redevelopment of the Henfield Library car park was approved in the 2020/21 capital programme. However, following a detailed survey

and quotes, significant issues with the foundations of the car park have been identified. Option one would cost £105k to resurface the top deck and relining, likely to last only two to three years before the surface starts to break up again. Option two would cost £305k to completely dig out and rebuild the car park, with relining, likely to last 30 to 40 years. The second option is more expensive in the short term, but most economical in the long term. A recommendation requests an additional £125k budget in the capital programme to enable the works at the Henfield car park to completely address the structural defects of the long term. The capital programme for 2020/21 would increase to £8.68m.

4 Next steps

- 4.1 Detailed actions will be worked up over the Autumn and an updated medium term financial plan will be brought back in November taking into account any further economic and financial developments.
- 4.2 On 28 January 2021, the 2021/22 Budget will be taken to Cabinet to recommend approval at the 10 February 2021 full Council meeting where the Council Tax for 2021/22 will be set. The MTFs will also be again updated at this time to take account of our settlement, if known at that date.

5 Views of the Policy Development Advisory Group and outcome of consultations

- 5.1 The Finance and Assets Policy Development Advisory Group discussed the immediate and longer term impact of reduced income on the medium term financial strategy on 14 September 2020 and the consideration of various options including whether it continues to provide some services and which it discontinues in order to balance its budget.
- 5.2 The Chief Executive, the Chief Financial Officer, the Directors, the Head of Finance and other Heads of Services have been extensively involved in preparing the immediate budget forecast and have already commenced plans, taking action to address the medium term financial gap. They are fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

6 Other courses of action considered but rejected

- 6.1 Not taking actions would put at risk the ability of the Council to deliver balanced budgets through to 2023/24. This would quickly erode the level of reserves and is unsustainable in the medium term. Therefore, not taking any action has been rejected.
- 6.2 Cutting services significantly now, is an approach taken by some Councils. However this risks closing valued services unnecessarily if the recession is not as long and deep as we fear.

7 Resource consequences

- 7.1 Specific actions to address the financial gaps are not detailed in this report. Over the next few weeks, detailed plans will be worked up and brought back in a later medium term financial strategy that feeds into the November 2020 and February 2021 annual budget setting process.

- 7.2 Some work on the digital transformation may be brought forward to release earlier savings, and increase some areas of headcount slightly over the next two years to enable the capacity to implement new systems at the same time as running the old ones. The headcount would fall back again once this has ended.
- 7.3 When reducing expenditure through efficiencies and reducing services, staffing numbers generally reduce. The precise figure of any future reductions over the medium term will be firmed up as detailed plans for the individual elements are finalised, but is indicatively estimated at around 40 posts. In accordance with the Organisational Change Policy the Council will take steps to avoid compulsory redundancies as far as possible through a combination of vacancy control, redeployment and, in appropriate cases, voluntary redundancy.
- 7.4 Any financial implications of carbon reduction are not included in this report. Adoption of the 2030 carbon neutral target and action plan to achieve it will considerably worsen the Council's financial position in the medium and long term.

8 Legal consequences

- 8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'.
- 8.2 This report sets out the Council's current and expected financial position. The Director of Corporate Resources has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 8.3 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised so as to secure economy, efficiency and effectiveness.

9 Risk assessment

- 9.1 The Council's reliance on central government funding and balancing the medium term financial plan is captured on the corporate risk register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis. Although the Government has put decisions on changes to business rates on hold until April 2022.
- 9.2 Many figures provided in this report are estimated at this stage. There is a risk that a second COVID-19 wave or longer or deeper recession could mean losses are nearer the upper end of the range of losses suggested or even higher.
- 9.3 There is a moderate risk when paid services such as parking, planning, building control, and the cultural and leisure offer resume customer habits will have changed and income will not return to previous levels, meaning the original financial position will not be recoverable. Services such as the Capitol and leisure centres are staying in touch with customers to try to prevent this.

10 Other considerations

- 10.1 There are no consequences of any action proposed in respect of Crime & Disorder or Human Rights. Some of the new income proposals intended to help fill the gap may have positive or negative equalities or sustainability impacts. Individual impact

assessments of these will be completed alongside the business case of each proposal.