

Report to Cabinet

26 November 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 gives a snapshot of where we think our finances are today as we enter a second national lockdown.

Levels of income were slowly recovering, but nevertheless a significant £6m reduction in income was forecast at Month 7 in 2020/21. Action to reduce expenditure where possible had reduced the estimated overspend to £5m. However, we anticipate that the second lockdown will add around £0.5m to the overspend for every four week period of lockdown.

Furthermore, 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 the furlough scheme changes, especially in the hospitality and leisure sectors that dominate our local economy, the risk of an extended or another local or national lockdown before the end of March, 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.

Over the next few weeks, officers will continue to work towards setting a balanced 2021/22 budget in February 2021. To achieve a balanced budget in 2021/22, substantial action is still 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 to Council the new pricing structure at Southwater County Park car park as set out in Appendix A

- iii) Recommended to Council the transfer of the budget and associated operational responsibilities for the Southwater Country Park car park to Parking Services for 2021/22.
- iv) Recommend to Council the approval of a £89k capital budget in 2020/21 for business waste bin weighing technology and equipment.

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) To standardise parking hours across the year and help manage demand for car parking at Southwater Country Park during busy periods.
- iii) To streamline internal reporting processes and have all parking related services within the Parking service budgets.
- iv) The bin weighing technology and equipment will help the business waste service more accurately and efficiently manage the service by identifying trends and overladen bins, ensuring the Council is not subsidising customer disposal costs.

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
- Financial update on the Council's financial position report 24 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 24 September 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, now estimated at £5.5m inclusive of a November 2020 only lockdown.
- 1.2 The Council has received central government 'expenditure' grant totalling £1.73m and has submitted a £1.1m claim against the income loss grant scheme at the end of September for the first four months of the year. The one-off grant funding is not expected to 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.
- 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 £3m a year is predicted if actions are not taken.
- 1.5 To rebalance its position, the Council has been reconsidering 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.
- 1.6 The Treasury has confirmed the Comprehensive Spending Review will only set departmental budgets for next year, due to the economic disruption caused by the pandemic and to prioritise the immediate response. This adds to the uncertainty as steadying a ship in turbulent waters also requires taking a longer-term view.

2 Relevant Council policy

- 2.1 The Council continues to provide the quality, value for money services that people need throughout the 2020s is a key objective of the Council's Corporate Plan. To achieve this the Council needs to take action now to ensure money is available for our key services.

3 Details

- 3.1 The impact of the COVID-19 virus associated recession continues to have a severe impact with lower levels of income and expenditure pressures at the Council. This will result in a significant overspend in 2020/21, currently estimated at £5.5m, 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 was also affected. Income was slowly recovering since the

national lockdown from COVID-19 ended, but due to the induced recession and changing customer habits, it may never recover to former levels. Income receipts are forecast to end £6m below budget in 2020/21. The Council has already taken action to mitigate some expenditure costs, bringing down the forecast overspend by £1m. However, we anticipate that the second lockdown will add around £0.5m to the overspend for every four week period of lockdown.

- 3.3 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 £5.5m in 2020/21 after action taken to reduce expenditure.

Table 1 update November 2020	2020/21 £'000	Commentary
Current net expenditure	11,201	
Covid-19 income overspend estimate	6,000	Current M7 estimate
Second 4 week lockdown	500	Estimate
Net Expenditure	17,701	
Funding: Council tax	(9,922)	
Baseline business rates	(2,052)	
Collection Fund (surplus)/deficit	(53)	
Total funding	(12,027)	
Net deficit	5,674	
Action taken to reduce spend	(1,000)	
Current projected deficit	4,674	£5.5m worse than original budget

- 3.4 Table 2 sets out the one-off funding that will help offset some of the overspend, together with additional costs in the year, the net effect of which brings down the deficit to £1.8m.

Table 2 update November 2020	2020/21 £'000	Commentary
Current projected deficit	4,674	
One-off Covid-19 funding to date	(1,750)	Received from MHCLG
One-off income loss grant claim	(1,100)	First third claimed in Sept 2020 (from MHCLG)
One-off income loss grant estimate	(1,400)	Estimate only – second and third periods in arrears (from MHCLG)
Additional 0.75% salary costs	120	2.75% pay agreement (2% budget)
Estimated redundancy costs	750	Depending on actions taken for future

Lower collection of NDR & Council tax	500	Our share – based on lower collection rates
Adjusted net deficit	1,794	Call on reserves in 2020/21

- 3.5 On 22 October 2020, Government announced a further distribution of £1bn funds to local authorities and the Council was awarded the minimum amount of £100k. This takes our central government ‘expenditure’ grant total to £1.75m towards additional ‘expenditure’ that the Council has incurred.
- 3.6 The Council also submitted a £1.1m claim against the 75p in the pound income loss grant scheme at the end of September for the first four months of the year. The totals in the first two months of the second period are running at lower levels due to income coming back on stream and action taken to reduce costs in these budget areas, which is netted off the claimable amount. The totals of all the one-off grants are not expected to 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 £1.8m.
- 3.7 £182k Arts Council funding has been received to help support the Capitol Theatre which is already included in the £5.5m forecast in Table 1. In addition, Government has announced a £100m ring-fenced scheme for support for leisure centres. The detail on how this funding will be distributed has not yet been released, but the Council will closely monitor the opportunity to reduce the forecast £1.7m overspend in this area. Again, it is very unlikely that the leisure grant will cover the total, and the further closure of leisure facilities in November 2020 will not help with the recovery.
- 3.8 Looking ahead, budget holders are now in the internal ‘challenge’ process of drafting their 2021/22 budgets. Officers are reviewing the way in which work is undertaken, with a view to reducing expenditure through digital change and efficiencies, such as merging administration functions together and putting more accessible services online for customer self-service, rather than in hard copy. Officers are also looking at stopping some elements of the service because we can no longer do this work under COVID-19 restrictions and due to the 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. Some areas are likely to increase expenditure through demand for services including revenues and benefits and housing and community services. A comprehensive list of savings and growth will be presented as part of the 2021/22 budget papers in January 2021.
- 3.9 Table 3 provides a working estimate of the medium term financial plan and assumes an ongoing reduction in income and increase in expenditure of approximately £3m in 2021/22 onwards if no action is taken.

Table 3: interim MTFS November 2020	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
Estimated net expenditure (£11.2m + £3m)	14,200	13,600	14,100	14,600
<i>Estimated savings</i>	<i>(1,500)</i>	<i>To be developed in 2021</i>		

Future lockdown impact	1,000	500	0	0
Est net exp after savings	13,700	14,100	14,100	14,600
Funding: Council Tax	(9,985)	(10,080)	(10,200)	(10,380)
Baseline Business Rates	(2,050)	(1,750)	(1,500)	(1,250)
Collection Fund (surplus)/deficit	300	200	100	0
Total Funding	(11,735)	(11,630)	(11,600)	(11,630)
Net (Surplus) / Deficit	1,965	2,470	2,500	2,970

Changes in advance of 2021/22

- 3.10 Some changes we will put forward as part of the Medium Term Financial Strategy have a long lead in period and, therefore, Cabinet and Council need to decide now whether to go ahead with these to ensure they can be in place for 1 April 2021. These concern parking at Southwater Country Park and Business Waste.
- 3.11 To help manage demand for car parking at Southwater Country Park during busy periods, Appendix A sets out the proposed car parking charges at Southwater Country Park which would operate from 1 April 2021. A recommendation is made as part of this paper to standardise parking hours across the year which will help manage both car parking at the park, dwell time in the park in peak periods and make a small contribution to offset the wider anticipated fall in parking income across the district.
- 3.12 In the business waste industry bin weighing technology and equipment is currently used throughout as a way of managing the service more accurately and efficiently by identifying trends and overladen bins. The Council does not have this technology and a pilot suggests our Business Waste Service is not always covering its disposal cost. A £89k capital budget for 2020/21 is proposed so that the business waste service can install the technology and equipment prior to going live on 1 April 2021. The payback on the technology and equipment is expected to be within six months and it will help ensure that the Council is not subsidising any customer disposal costs. A new fee structure will be brought back for consideration in January 2021 once further trials and testing have been completed. The additional capital budget request forms part of the recommendations of this report to get started on this work.

4 Next steps

- 4.1 The budget setting process including challenge and actions will be completed in December and January. This will formulate the 2021/22 budget.
- 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 any further economic and financial developments including the detail 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 2 November 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 The proposed changes to the charging at Southwater Country Park and the investment in the weighing technology for Business Waste will improve the Council's financial position in 2021/22.
- 7.2 A final Medium Term Financial Strategy for 2021/22 to 2024/25 will be prepared as part of the annual budget setting process and brought to Council in February 2021. These figures will be informed by the provisional settlement for 2021/22 which is anticipated in December 2020 and greater knowledge of the impact of the current lockdown on the Council's finances.
- 7.3 Any financial implications of future carbon reduction are not included in this report as the options and costs are being worked up. 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. More clarity on this is expected in 2021.

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.

Appendix A – Proposed car parking charges at Southwater Country Park in 2021

Period	Dates	Days	Duration	Existing Charge	New charge
Summer	1 April to 31 October	Monday – Sunday	0-1 Hours	50p	£1.00
			Up to 2 hours	£1.50	£2.00
			Up to 3 hours	£1.50	£2.00
			Up to 4 hours	£3.00	£4.00
			All Day	£3.00	£6.00
Winter	1 April to 31 October	Saturday & Sunday	0-1 Hours	50p	£1.00
			Up to 2 hours	£1.50	£2.00
			Up to 3 hours	£1.50	£2.00
			Up to 4 hours	£3.00	£4.00
			All Day	£3.00	£6.00
Winter	1 November to 31 March	Monday – Friday	All Day	FOC	£1.00