

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	10 June 2020
Subject:	COVID-19 Financial Impact Analysis
Report of:	Head of Finance and Asset Management
Corporate Lead:	Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	One

Executive Summary:

The lockdown of the UK in response to the threat posed by COVID-19 has already had a significant impact on the finances of the Council. Further analysis estimates that the total cost to the Council in the current year could be in the region of £2.8million. Whilst the Government have so far provided support of just under £1million, a gap, estimated to be £1.8million, remains and will require financial support from the Council's one-offs in order to balance the budget.

The financial cost of COVID-19 is also likely to impact future years with both the tax base of Council tax and business rates undermined by the effect of COVID-19 on individuals and businesses. It is also unlikely that income levels will return to normal for some time. The Council already faced a large deficit in 2021/22, previously estimated at £1.7million, and this is likely to have increased in recent weeks. The government will need to quickly clarify its intentions on a range of financial issues effecting local government finance and also whether it will be offering further financial support to Councils in order to fully understand the size of deficit faced in the following financial year.

The Council has steadily increased its reserve base in recent years which leaves it in a good position to tackle the financial impact of the pandemic and to avoid a short term need to issue a Section 114 Notice. However, the financial challenge presented by the pandemic, coupled with the existing challenges arising from a long period of austerity and planned change to the funding of local authorities, should not be underestimated and will require strong financial management and discipline by all involved with the Council in order ensure its future sustainability.

Recommendation:

The Executive Committee is asked to:

- 1. NOTE the current financial impact estimate and acknowledge the financial challenge faced by the Council as a result of COVID-19.**
- 2. APPROVE the setting aside of the Business Rates Collection Fund Surplus to support the financial needs of the Council arising from COVID-19.**
- 3. APPROVE the principle of revising base estimates for the second half of the current year.**

Reasons for Recommendation:

The report updates Members on the significant financial impact of Coronavirus and asks the Committee to earmark monies to support the financial needs of the Council in the current year and future years.

Resource Implications:

As contained within the report.

Legal Implications:

None directly arising from this report other than to note that the Section 114 Notice mentioned in this report is a reference to Section 114(3) of the Local Government Finance Act 1988 which provides that: "The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (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".

Risk Management Implications:

There is a significant risk that government support in the current year or future years will not be sufficient to meet the additional costs. In these circumstances, the Council will be forced to use its reserves and other forms of one-off money to bridge the gap. Whilst it is anticipated that these reserves are likely to be sufficient to meet demands over the next two years, they may not be sufficient thereafter and without significant changes to the cost base of the Council, it is possible that a Section 114 Notice may be required.

Performance Management Follow-up:

The financial impact from Coronavirus is monitored and reported on a monthly basis, including formal reporting to the Ministry of Housing, Communities and Local Government.

Environmental Implications:

None associated with the report.

1.0 INTRODUCTION/BACKGROUND

- 1.1 The Council set its budget for 2020/21 on 18 February 2020. On 23 March 2020, the Prime Minister took the unprecedented step of locking down the UK in response to the threat of Coronavirus.
- 1.2 The substantial impact on our businesses and communities as a result of the lockdown has had a direct effect on the finances of the Council. This has come in various forms including the support we directly offer to those affected, maintaining our core service delivery and the loss of revenue from the majority of our income streams.
- 1.3 Whilst the lockdown began in the last week of March, the financial impact of this in 2019/20 is relatively minimal with little expenditure committed and a modest impact on income streams. The 2019/20 impact will be picked up through the closure of accounts and the production of the outturn reports. This report therefore focuses on the current year impact and also looks at what this may mean for future years.

2.0 FINANCIAL IMPACT 2020/21

2.1 Officers are monitoring the impact of Coronavirus on the current year budget on an ongoing basis. An initial forecast was made at the outset of the lockdown and is updated on a monthly basis as more information is gathered on the actual impact on income streams, national decisions are made and also local decisions such as the standing up of the Garden Waste service. In addition, a monthly data return is made to the Ministry of Housing, Communities and Local Government which allows the Ministry to assess the national impact and plan support measures.

2.2 Given the high degree of unknowns within the forecast, a central position is calculated and referenced but also a low and high impact to provide a spectrum of potential financial impacts. The central position was originally based on a scenario encompassing a lockdown for three months followed by a mixed pattern of recovery. This position remains as the central case but has been updated with more specific detail as the lockdown progresses. The low and high positions are simply 50% and 150% of the central case.

2.3 The detailed forecast is contained at Appendix A and highlights a central forecast cost of just under £2.8million based on our updated position for mid-May. The highlights of the report are as follows:

- Relatively low additional expenditure in the early part of the lockdown.
- This is focussed on community support, preserving the waste service, meeting increased demand within Revenues and Benefits and the development of remote working solutions.
- Costs also incurred by borrowing additional amounts to safeguard cashflow.
- Further costs are expected to be incurred in relation to rough sleepers and the continuation of service support but in particular in relation to the recommendation to set aside £500,000 to support the recovery phase of the pandemic.
- Significant reductions in the majority of income streams including:
 - Planning, licensing, land charges income reduced by 70% against expected levels in first 6 weeks.
 - Temporary suspensions to bulky and garden waste services.
 - Reduction in interest earned as a result of base rate reduction, impact on share and property prices and an assumed negative impact on total balances held for treasury purposes throughout the year.
 - Immediate suspension of charges within our car parks.
 - Suspension of rent and submission of cost claim from the leisure centre contractor.
 - Agreement to defer 50% rent on one commercial property tenant.
 - Agreements reached with local tenants including the caravan club and market.

2.4 The analysis also highlights the potential for loss within the retained business rates system. The position at the end of April is actually quite positive, even allowing for an increase in bad debts, as nearly £10million of debt is now effectively covered by additional reliefs and there is a reduction in historical provisions required. However, cash flow within this income stream has been hit hard with many businesses deferring their April and May payments. This could indicate problems further into the financial year and it is likely that not all businesses will survive, despite the government support. Given this,

we are maintaining likely losses even though the first month's analysis is positive.

2.5 It should be noted that, although there has been a reduction in expected payments through Council tax and an increase in those applying for local Council tax support, the impact of this will not be felt until next year. The Collection Fund will pay the precepts required in the current year, including Tewkesbury's, but will accumulate losses that will form a deficit for the following year. In normal years, there is a small collection fund surplus which is fed into the following year's budget, but this is expected to become a significant deficit for next year.

2.6 The additional costs incurred, the reduced income forecast and the recommendation to set aside £500,000 to fund recovery equate to a £2.785million cost projection in the current year.

2.7 To date, the government has provided financial support of £3.2billion to local government in the form of two equal instalments on a national basis. For Tewkesbury, the support received is as follows:

Instalment 1	£32,515
Instalment 2	£951,232
Total support	£983,747

2.8 It is unclear whether there will be further government support issued. Assuming there is no further support would mean that the direct cost to the Council within the current year would be £1.8million.

2.9 The outturn position for 2019/20 is currently being calculated but early indications suggest that there will be sufficient monies available to cover the in-year costs and the reserves requested including the possible formation of new reserves such as a climate change reserve. This position will obviously need to be concluded and confirmed within the next few weeks.

2.10 Tewkesbury is also set to benefit from a substantial release of accumulated provisions against historic business rate appeals. We have set aside sums each year to provide cover for successful business rate appeals going back to 2010, most notably for Virgin Media. The Council received notification in the final quarter of 2019/20 that all outstanding appeals by Virgin Media had now been withdrawn which has allowed us to recalculate our provision need. As a result, a surplus of £8.88million has been calculated, of which, £3.56million is due to Tewkesbury Borough Council within the current financial year. It is recommended through this report that the entire sum of £3.56million is set aside to finance the ongoing impact of COVID-19 including support to balance the budget in the coming years.

2.11 The timing of this release of provisions could not be better and provides the Council with additional funding to meet the increased cost from COVID-19 in-year and to support future year budgets. It is disappointing that the funds will need to be used for this purpose and there is a lost opportunity to invest within our community but it does mean that our overall financial position at the current time is less precarious than other Councils. It also means that existing reserves, many of which support the delivery of the Council's aims, can remain intact for the time being and will not be required to support the Council's underlying financial position in the short term.

- 2.12** The Council's sound financial management in recent years has resulted in an increase in the amount of reserves held and is further boosted by the £3.56million released business rates provision. This overall position gives the s151 Officer confidence that the authority will not require a Section 114 Notice to be issued in the near term. A Section 114 Notice would effectively confirm the Council as being bankrupt, at which point all non-essential expenditure would be frozen until an emergency budget and recovery plan could be established. In recent weeks, a number of Councils have publicly indicated that they are on the verge of having to issue a Section 114 Notice.
- 2.13** Whilst our position in the near term is stable, the financial challenge presented by the pandemic, coupled with the existing challenges arising from a long period of austerity and planned change to the funding of local authorities, should not be underestimated and will require strong financial management and discipline by all involved with the Council in order ensure its future sustainability.
- 2.14** Given the significant changes to projected income and expenditure within the current year, it is also recommended that a revised budget is set for the second half of the year. This will allow for lower income estimates in particular to be set in service areas which will mean less variance reporting as we proceed through the year. The budget will be balanced by the inflow of monies from the business rates surplus. The work to re-cast the budget can be undertaken in the period between closing the accounts and starting work on the 2021/22 budget.

3.0 FINANCIAL IMPACT BEYOND 2020/21

- 3.1** As previously highlighted, a reduction in the amount of Council tax collected in the current year is felt in arrears. There will be no effect this year, but it will manifest itself in the form of a deficit on the collection fund which will form part of the budget for 2021/22. The initial analysis of Council tax payments suggest it is holding up remarkably well with only a 2.5% reduction on expected levels of payment. It is expected that this position will deteriorate as the year progresses and for every 5% of lost income a deficit of £220,000 could be generated for this Council.
- 3.2** In addition to non-payment, the ability of the Council to generate income from Council tax is partly determined by the size of the tax base. This is dependent on the number of properties in the Borough but also the amount of discounts and reliefs given. We have already seen a 25% increase in the number of working age people claiming Council Tax relief and we expect that number to increase. Translating that additional 25% into monetary terms suggests a further loss in Council tax revenue of approximately £40,000.
- 3.3** The impact on businesses in the Borough is expected to be significant. Whilst an additional £9.8million has been given in business rates reliefs and an expected £17million will be given out in support grants, it is likely that many businesses will not survive the impact of the lockdown and a slow recovery. It is difficult to quantify the impact on our business rate base at this early stage and this will need to be continually monitored throughout the year to understand the underlying impact rather than just the high level impact on cash flows.
- 3.4** Income streams have been significantly reduced in the first part of the current year and whilst recovery is expected in the second half of the year, to what extent is currently unknown. It is likely that a number of income streams will remain suppressed for some time and may never recover to previous levels given the impact on businesses and employment and also changes to peoples habits. This could impact on a range of income streams including minor planning applications, licensing, garden waste and car parking to name a few.

3.5 Local Government finance was due to be facing a number of changes for April 2021 including the outcomes to the Fair Funding review and a move to 75% business rates retention. The government has recently announced that both issues will be delayed for a further year meaning the current schemes and funding mechanisms will remain in place for 2021/22. Given the direction of travel of the proposals for these issues, the delay could be good news for Tewkesbury in helping balance its budget proposals for 2021/22.

3.6 As yet, no announcements have been made with regard to both the Spending Review (SR) and the future of the New Homes Bonus (NHB). Our current working expectation is that a one-year SR period will be announced with inflationary uplifts of settlement funding and that NHB will be extended for a further year. The extension of NHB in particular, if confirmed, would be welcome news.

3.7 Work will shortly commence on updating our Medium Term Financial Strategy based on the information we currently have and our working assumptions. It is hoped that the government, in due course, will confirm the temporary one year position but will also offer further direct financial support and relaxation of some rules to aid Councils in 2021/22. A wider discussion on the future of local government finance should be encouraged recognising the impact of Coronavirus on a large number of income sources and the suitability of some income sources to fund local government services.

4.0 OTHER OPTIONS CONSIDERED

4.1 None.

5.0 CONSULTATION

5.1 None.

6.0 RELEVANT COUNCIL POLICIES/STRATEGIES

6.1 Medium Term Financial Strategy.

7.0 RELEVANT GOVERNMENT POLICIES

7.1 None.

8.0 RESOURCE IMPLICATIONS (Human/Property)

8.1 None directly arising from this report. Potential for future implications.

9.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

9.1 None.

10.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

10.1 None.

11.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

11.1 None.

Background Papers: None.

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Appendices: A – Financial Impact Analysis.