

Cabinet

25 June 2020

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Financial Update Covid-19

Final Decision-Maker	Cabinet
Portfolio Holder(s)	Cllr. Tom Dawlings, Finance and Governance
Lead Director	Lee Colyer, Director of Finance, Policy and Development
Head of Service	Jane Fineman, Head of Finance and Procurement
Lead Officer/Report Author	Lee Colyer, Director of Finance, Policy and Development
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

1. That Cabinet consider and note the report.

This report relates to the following Five Year Plan Key Objectives:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

The Council's budget involves the allocation of financial resources to deliver the Council's Key Objectives.

Timetable

Meeting	Date
Management Board	28 May 2020
Discussion with Portfolio Holder	1 June 2020
Overview and Scrutiny Committee	8 June 2020
Cabinet	25 June 2020

Financial Update Covid-19

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In addition to a public health emergency the Covid-19 pandemic has also created an economic emergency impacting on a great many national and local businesses and with the Council's finances also being severely impacted (along with those of other local authorities).
 - 1.2 This report provides an initial high-level summary: detailed information will be set out in public reports as part of the formal decision-making process.
 - 1.3 Events are moving at pace and information within reports can quickly be overtaken by events which will require a verbal update at the time of the meeting. Financial resources and officers are also being diverted as the Council is involved in dealing with the national emergency as part of its obligations as a Category One responder under the Civic Contingencies Act.
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2. INTRODUCTION AND BACKGROUND

- 2.1 On 18 March 2020 the Government published the draft Covid-19 Bill which, in effect closed much of the national economy with the exception of those businesses that could operate remotely and essential public services.
- 2.2 The Council came into this emergency in good financial health: the budget is balanced annually, it has no long-term debt, has unallocated reserves of £4 million and a track record of clean annual audit letters. However, such is the potentially devastating financial impact of Covid-19 on local authority finances, and such is our reliance on income, that even the best-prepared councils will struggle to manage with a prolonged period of financial disturbance (especially during a recession).
- 2.3 There are three main areas of financial concern namely;
 - a) Cash-flow
 - b) Budget; and
 - c) Solvency
- 2.4 The severity of the impact will depend on how long the current national restrictions on movement and business activity continue, the form and rate of recovery and the extent to which the Government makes good on its promises to 'do whatever it takes' and to provide support to local authorities as has been done with the health service.

a) Cash-flow

- 2.5 All businesses rely on cash-flow to ensure they have sufficient funds available to meet their expenditure. The treasury management function ensures that on a

daily basis there are sufficient funds available. The Council is the local billing authority collecting ten times what it received in Council Tax and twenty times what it receives in Business Rates and is collected regularly throughout the year and invested at maturity dates to match large expenditure items.

Update:

- 2.6 The Government has agreed to a three-month deferral of the £4.5 million a month that the Council would normally pay to the Treasury from local business rates regardless of the actual amount collected.
- 2.7 Kent County Council (KCC) has also agreed to consider deferring the monthly £6.3 million instalments on a case-by-case basis that would normally be paid from Council Tax that was due regardless of the amount actually collected.
- 2.8 The Government has now paid the Council £1,174,231 as part of the second tranche of the £1.6 billion support package for councils. This equates to around £10 per resident which is a significant improvement on the allocation of the first tranche of funding which was just 35 pence per resident.
- 2.9 The above has alleviated short-term cash-flow pressure for this Council and at the time of writing, details of a third tranche of financial support for local government is awaited.

b) Budgets

Unaudited Outturn 2019/20

- 2.10 The Council is expected to finish 2019/20 within budget. The surplus from the local share of business rates growth (Collection Fund) will be used to maintain a healthy General Fund in preparation for any second wave of Covid-19.

Budget Management 2020/21

- 2.11 At a high level it was initially estimated that Covid-19 would cost the Council £1 million a month from;
- a) Lost income
 - b) Additional service expenditure; and
 - c) Responding to the emergency
- 2.12 The actual financial data for April 2020 shown below is that direct income is £700,000 lower than budgeted at this stage.

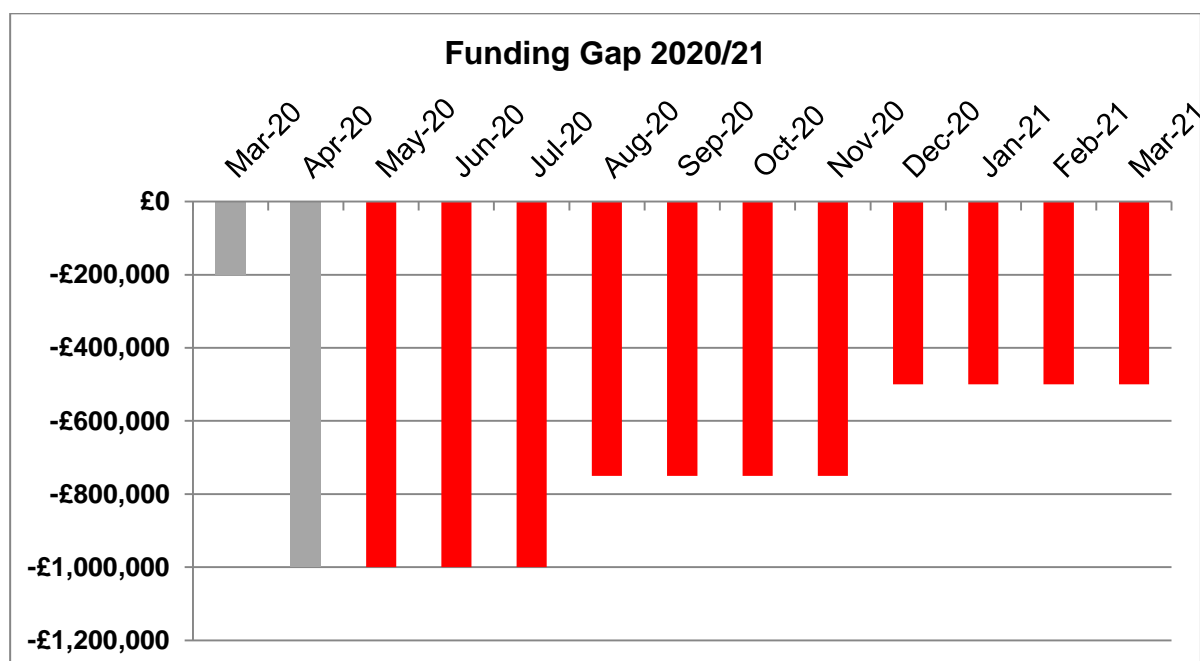
	Approved £	YTD Budget £	Actual April 2020 £	Variance £
Off Street Parking	(5,610,490)	(457,930)	(148,314)	309,616
On Street Parking	(1,654,500)	(134,656)	(40,409)	94,247
Assembly Hall	(2,444,480)	(220,004)	19,862	239,866
Grants	(355,920)	(96,410)	(93,264)	3,146

Rents	(1,989,250)	(332,811)	(331,199)	1,612
Crematorium Income	(2,062,890)	(152,450)	(176,305)	(23,855)
Revenue Contribution	(2,479,310)	(51,220)	(78,132)	(26,912)
Planning Income	(1,551,250)	(128,840)	(88,961)	39,879
Land Charges	(293,460)	(24,450)	(8,415)	16,036
Other Income	(3,023,840)	(612,900)	(563,248)	49,652
Sum:	(21,465,390)	(2,211,671)	(1,508,383)	703,288
Estimated lower collection of Council Tax and Rents				200,000
Additional Cost from Community Hub and Homelessness				100,000
Monthly Budget Deficit				£1million

2.13 The estimated impact is still forecast to be around £1 million a month. The government is in the process of easing the lockdown guidance and allowing the economy to get up and running again. It is not possible to accurately forecast; the rate of recovery, public demand for Council services and how the collection of income will change. A working assumption has been made that the £1 million a month impact will occur from April to July and then the recovery will see this impact reduced to £750,000 for August to November and then for this to improve to a £500,000 budget deficit for December to March 2021.

2.14 The country is expected to be in a recession so it is prudent not to assume a full recovery within this financial year to pre Covid-19 levels of income and expenditure. Clearly, the longer the financial disturbance continues the more profound the impact will be on the economy and the way of life for the Borough's residents.

2.15 The forecast financial impact from Covid-19 is shown below with the months of March and April 2020 greyed out as this cost was met by the £1.2 million of government funding provided in tranches 1 and 2 of the financial support to councils.



- 2.16 Assuming that the Government does not provide any further direct funding to cover the impact of Covid-19 then the Council could potentially face an £8 million in-year budget deficit.
- 2.17 The Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG), Robert Jenrick MP has said that; *“We will give councils whatever is necessary to support councils financially during the crisis”* and that *“I promised Local Government would have the resources they need”*. The Prime Minister also said in Parliament that the *“second tranche of local authority funding would not be the last.”*
- 2.18 Without further government support the Council would need to access its General Fund balance. It will be necessary for the Council to undertake a revised budget in September 2020 and to review its reserve balances.

c) Solvency

- 2.19 The Council is and will continue to be a going concern. Where a Council is at risk of not being able to fund its statutory obligations then the s151 Officer is required to issue a s114 notice which effectively brings the Council to a standstill until the financial situation is resolved.
- 2.20 The Council must remain solvent to delivery statutory services which may cause tensions with other competing requests for funding.
- 2.21 If the Covid-19 emergency continues throughout the summer then some parts of Local Government will start to issue s114 notices. This would be a disaster for residents in any part of the country especially at a time when the public are most reliant on local services and councils are crucial to helping with the recovery stage and delivering growth.
- 2.22 The Government is keen to avoid s114 notices and will either need to provide more funding to councils or take over some services.

Update

- 2.23 The local government sector continues to lobby for further financial support and flexibilities on behalf of local residents, businesses and visitors to ensure that councils can deliver the range and quality of services required to support the local recovery from the Covid-19 emergency.

Business Grant Funding

- 2.24 The Council’s Finance Officers have been redeployed to the promotion, processing and payment of business grants for local businesses. This has successfully ensured that nearly 90 per cent of eligible local businesses received the financial support they need during this national emergency. The number of businesses helped and the value of grants paid across Kent is shown below;

Local Authority	Funds Received	Eligible Businesses	Businesses Paid	Amount Paid to Businesses	Percentage of funds paid out
Sevenoaks District Council	£22,718,000	2,098	1,727	£21,215,000	93%
Maidstone Borough Council	£27,608,000	2,222	1,942	£24,985,000	90%
Tunbridge Wells Borough Council	£27,034,000	1,990	1,804	£24,055,000	89%
Tonbridge & Malling Borough Council	£18,674,000	1,647	1,293	£16,620,000	89%
Dartford Borough Council	£13,820,000	1,135	922	£11,545,000	84%
Folkestone and Hythe District Council	£28,808,000	2,198	2,061	£23,805,000	83%
Ashford Borough Council	£30,262,000	2,298	2,069	£24,755,000	82%
Gravesham Borough Council	£16,162,000	1,099	1,070	£12,965,000	80%
Swale Borough Council	£32,646,000	2,632	2,139	£25,110,000	77%
Medway Council	£39,712,000	2,960	2,447	£30,140,000	76%
Dover District Council	£27,634,000	2,033	1,801	£20,785,000	75%
Thanet District Council	£40,108,000	3,058	2,620	£28,780,000	72%
Canterbury City Council	£48,240,000	2,767	2,428	£30,370,000	63%

Additional Grants for Businesses

- 2.25 An additional £1.3 million discretionary grant funding scheme, primarily for businesses; in shared offices, market traders, bed and breakfast establishments that pay Council Tax, charities and other organisations not eligible for the initial grant scheme has also been set up. This scheme is aimed at smaller and micro businesses who have not received other government grants from any central government Covid-19 related scheme. Further details can be found on the Council's website.

Local Government Funding Reform

- 2.26 The Government has stated its commitment to proceeding with a Fair Funding Review, a reset of the Business Rates baseline and a move to 75 per cent Business Rates Retention.
- 2.27 The review and implementation date has now been postponed by the Government due to the Covid-19 emergency. The method of funding local government will continue for at least another year which will enable the Council to retain a share in any growth in business rates on the existing baseline. The Council is also expected to receive zero Revenue Support Grant and no legacy payments from the New Homes Bonus scheme following retrospective changes announced at the end of 2019.

3. AVAILABLE OPTIONS

- 3.1 The report is for noting. The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives to manage the impact of the national emergency on the Council's finances but ultimately the Council must produce a budget which meets its statutory responsibilities.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 This report provides an initial summary of the impact of the Covid-19 pandemic on the Council's finances.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Council has had to act swiftly and work at pace during the response phase of the national emergency. The formal governance and decision-making process has been impacted and temporary arrangements have been agreed with the political group leaders.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Regular briefings and updates continue to be provided throughout the temporary governance arrangements with a formal report to revise the 2020/21 budget scheduled for the Cabinet meeting on 10 September 2020.
- 6.2 Covid-19 will have a fundamental impact on the role and capacity of local government. The Council will need to review its Five-Year Plan, priorities and Medium-Term Financial Strategy for approval in February 2021.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off (name of officer and date)
Legal including Human Rights Act	<i>The Council has a legal duty to set a balanced budget and continue to monitor the budget during the course of the year and take remedial action if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. This will also include the impacts of Section 115(6) of the Act which prohibits any new agreement which would incur expenditure from being entered into following the release of a S114 report and consideration of the implications by the Council. Having received a S114 report, members are obliged to take all reasonable practical measures to bring the budget back into balance. Key considerations for the</i>	Legal fee earner

	<i>Council include the need for an adequate contingency provision, the S151 officer's guidance on the financial prudence of options before members and ensuring that there are reasonable grounds for making decisions.</i>	
Finance and other resources	This report is for noting.	Head of Finance and Procurement
Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with the Human Resources policies.	Head of HR
Risk management	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding streams and the Covid-19 pandemic which is being monitored by Cabinet and the Audit and Governance Committee.	Head of Audit Partnership
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five Year Plan.	Sustainability Manager
Community safety	The budget has regard to the community safety priorities within the Five Year Plan.	Community Safety Manager
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five Year Plan.	Health and Safety Advisor
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five Year Plan.	Healthy Lifestyles Co-ordinator
Equalities	Changes to service delivery may impact on equalities; however heads of service will ensure that an equality assessment is in place where this has been identified.	West Kent Equalities Officer

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

None

9. BACKGROUND PAPERS

None