Rushcliffe
Borough Council

Cabinet

12 May 2020

Budget Update – Covid-19 implications

Report of the Executive Manager – Finance and Corporate Services

Cabinet Portfolio Holder for Finance – Councillor Gordon Moore

1. Purpose of report

1.1. To provide an update on the budget position as a result of the Covid-19 Pandemic. Some of the issues raised relate to the Delegated Decisions already reported by the Chief Executive.

1.2. The report highlights the significant impact of Covid-19 on the Council's finances both immediately and the Council's Medium Term Financial Strategy (MTFS). For this financial year, the budget gap is expected to be at least £2.5m and current government funding of £1.23m amounts to 49.3% of the anticipated budget gap. In a worst case scenario, the budget gap could be as much as £4.5m and the Government support currently would meet 27.3% of the funding required if this scenario materialised.

1.3. The main issues highlighted include the costs of maintaining the leisure centres with no income streams, loss of income in relation to car parking and other areas such as planning; and a devaluation of some of the Council's investments.

1.4. There will not be a short-term fix to the issues Covid-19 has created hence the need for a review of the Council's MTFS so the budget remains sustainable and can continue to deliver Council objectives for the benefit of both businesses and the wider community.

2. Recommendation

It is RECOMMENDED that Cabinet:

a) Notes the financial impact of Covid-19 on the Council's MTFS and supports that a revised budget is taken to Full Council once there is more certainty regarding the impact of lockdown and in particular the likely use of Reserves and Balances to meet the projected budget gap;

b) Notes the position on both Council investments and the likelihood of a change in the Minimum Revenue Provision (MRP) calculation which will be reported to the Governance Group in the Annual Capital and Investment Report; and

c) Supports the Leader and Chief Executive in making representations to Government and other interest groups to unlock further funding for the benefit of Rushcliffe's community and its businesses.

3. Reasons for Recommendation

3.1. To ensure that the potential financial implications from a range of scenarios are considered and the Council is in a position to respond quickly to the changing environment emerging from the effects of Covid-19.

4. Supporting Information

4.1. Revenue

4.1.1 The Council approved its 2020/21 balanced budget at Council in March 2020. Due to the impact of Covid-19, and the subsequent 'lockdown', the Council has since incurred additional service costs and suffered significant losses of income, which has significantly changed the forecasted position. The length of the lockdown is currently uncertain and, therefore, there are a number of scenarios that could materialise; from the anticipated 3-month position at £1.8m to a worse case scenario of £4.55m for the full year. The potential scenarios and estimated financial impact are shown Appendix A.

4.1.2 The main pressure that the Council faces is the loss of fees and charges, and commercial income, estimated at over £2.8m for the full year. In some cases, the income has ceased in its entirety such as Car Parking income, which would result in a loss of £0.7m if the lockdown continued for the full year. Other significant potential losses are Development Control (£0.44m), Investment interest (£0.25m) and loss of rental income from commercial property (£0.28m) as tenants struggle to meet monthly rental commitments.

4.1.3 In addition to loss of income, the Council is incurring additional costs estimated at £1.77m for the full year. The majority of this (£1.4m) results from support to Parkwood Leisure to ensure the leisure centres are in a position to resume services once able to do so. Other costs have been incurred on additional accommodation for the homeless and agency costs for Waste Collection. The Council has received a share of £3.2 billion in central government support, a first tranche of £0.04m and, pleasingly a much larger second tranche of, £1.19m bringing the total to £1.23m. The Leader and Chief Executive will continue to lobby the Government to ensure further funding is secured.

4.1.4 Officers have reviewed the budgets in light of the lockdown and have identified a number of potential savings from services that the Council is unable to provide during this period. These savings, however, are small (£0.17m) in comparison to the potential additional pressures. Appendix B summarises the significant pressures and savings on each service area. Government generally is unsupportive of local authorities furloughing staff (and prefers them to be redeployed to support the community at this difficult time). The Council has limited furloughing to those areas where income has fallen such as Community Facilities.

4.1.5 The range of scenarios as shown in Appendix A will be impacted by the speed of recovery from lockdown and local decisions taken by the Council. For example, when will car parking charges be reinstated which, whilst generating income, are likely to have a direct impact on the recovery of the high street and the financial viability of businesses in the Borough. Fees and charges, and regulatory income, would be unlikely to return to the levels set in the budget as consumers and businesses will be cautious about returning to previous spending habits.

4.1.6 There is likely to be a financial impact on the Council's Transformation Programme in this, and subsequent years, due to a potential delay in the delivery of schemes such as Bingham Hub and the Crematorium (see paragraph 4.2.2) and the viability of asset investment opportunities due to the deteriorating economic environment. The Council has taken the decision not to proceed with one planned acquisition of commercial property. Rental income of £0.07m per annum is included in the Transformation Programme and this will now not be realised.

4.2. Capital Programme

4.2.1 The 2019/20 Capital Programme is showing an underspend of £19m, primarily all of which is required to be carried forward. £7m of the carry forward request is for the Asset Investment Strategy and, of this, £4.5m is earmarked for acquisitions in 2020/21. Several schemes planned to commence in March on investment properties and operational buildings have been affected by Covid-19 impact causing slippage, some of which could be significant: Cotgrave Phase II and Industrial Units at Moorbridge.

4.2.2 Design work and surveys for Bingham Hub are still progressing well: £0.5m spent of £20m project, the intention remains to tender in mid-July assuming Cabinet approve the June report. We have acquired land for the Crematorium £1.3m spent of £6.5m project. The other large scheme in the 2020/21 programme is the creation of an additional artificial grass pitch at Gresham at a cost of around £1m. This scheme is subject to a grant application and will be fully funded by S106 monies and external grant. The works are not due to start until spring 2021.

4.2.3 The main impact of Covid-19 will be slippage of capital outlay meaning that cash will stay in RBC's bank account longer. The impact on interest will be minimal as the interest rates are so low. There is also material uncertainty surrounding the construction market and industry prices. The impact could be rising prices and contractor availability.

4.2.4 It is anticipated that £20m of capital receipts will be generated in 20/21. £8m of this is due in the first quarter of the year from the Overage Agreement for

Sharphill. A further £12m is due from the disposal of surplus operational and investment property. Any short-term delays to receipts of these sums will adversely affect any interest we can earn but, as stated before, rates are very low. There is material uncertainty with regard to the timing of our future receipts. Any significant delay or collapse of sale agreements will cause a funding pressure for delivery of the capital programme. This will give recourse to borrow, either externally or internally, sooner than planned.

4.3. Treasury Issues

Minimum Revenue Provision (MRP)

4.3.1 MRP is the means by which capital expenditure is financed by borrowing (including internal borrowing), paid for by Council Tax payers. Significant slippage in the capital expenditure could potentially mitigate the impact on our need to borrow and therefore temporarily lift any pressure to make additional MRP payments. However, this could be offset if there is a significant delay to the receipt of capital income sums due.

4.3.2 The Council currently make an MRP charge of £1m per annum to fast track repayment of the internal borrowing for the Arena. This is primarily made up of £250k to repay the Arena internal borrowing (according to our MRP Policy over the life of the asset - 40 years) plus a voluntary repayment sum of £750k p.a. to support the commitment made by Cabinet in 2014 to repay the borrowing early. The MRP charge is fully offset by a release from New Homes Bonus so that there is no in-year impact to the tax payer.

4.3.3 Cabinet report 13 May 2014 cites: 'It is intended that this borrowing will be repaid over ten years from New Homes Bonus receipt.' The Cabinet report did, however, provide an option for a future change to the early repayment and said: 'Should new homes bonus reduce in future then the Council would be able to extend the length of time over which this borrowing would be repaid, or to replace it with an external loan from the PWLB.'

4.3.4 This gives us the option of reducing the MRP to the policy figure which will significantly reduce the burden on the budget. The reduced MRP could still be offset by a release from the NHB reserve. Crucially this potentially releases New Homes Bonus to help meet the budget gap. Potential changes will be reported to the Governance Group as part of the Annual Capital and Investment Report with a view to these being incorporated in a revised budget.

Treasury Investments

4.3.5 The Council's Treasury Investments have been directly affected by the Covid-19 Pandemic in two areas: investment value and interest receipts.

4.3.6 The value of the Council's investments in multi-asset and diversified funds have reduced by £1.2m as at 31 March 2020 (Appendix C). This is as a direct result the pandemic on the economic outlook affecting price expectations. This reduction in value although significant, is expected to recover. However, how soon this occurs will depend on the speed at which the economy recovers. The movement in value of the asset must, in accordance with regulation, be charged to revenue in the year. This means that any surplus/deficit at outturn will include this loss, reducing the projected underspend that had been reported up to quarter 3. Although this loss does affect the revenue outturn position, movements are reversed through reserves to mitigate the impact to the taxpayer so the bottom-line revenue position is not affected.

4.3.7 The Bank of England has reduced its base rate from 0.75% to 0.10% in response to the economic situation. This has consequences for the interest rates that the Council is able to achieve from its treasury investments.

4.3.8 In addition to the reduction in interest rates, the Council also has reduced cash balances owing to the reduction in fees and charges and commercial income (referred to at paragraph 4.1.1) and the uncertainty surrounding Business Rates and Council Tax collection rates (see paragraph 4.6.2). This means that the Council is holding its remaining balances in the lower-earning Money Market Funds to enable liquidity of cash and, therefore, limits the interest that can be earned. From April to June, the impact is estimated at £63k.

4.3.9 A principal loan repayment of £54k due at 31 March 2020 from Nottinghamshire County Cricket Club has been deferred as a direct impact of Covid-19. This deferral has been agreed in response to a request from the cricket club given the significant losses in income it is also facing. This demonstrates the Council's commitment to both leisure and business. This will either be repaid at the end of the existing term of this loan facility or earlier if possible.

4.3.10 The aforementioned Treasury issues will be reported to the Governance Group as part of the Annual Capital and Investment Report and the outcome reported in a revised budget for Full Council.

4.4. Business Rates and Council Tax

4.4.1 The Ministry for Housing Communities and Local Government (MHCLG) implemented new criteria for Business Rates reliefs in response to the economic situation effectively widening the scope of the retail relief issued for the retail, hospitality and leisure sectors for 2020/21. As a direct result there was an immediate reduction in number and value of businesses that are liable and, consequently, a reduction in payments due to the Council of approximately £9m. The majority of business ratepayers pay by monthly instalments and so this reduction in cashflow will be spread over the year. MHCLG have made a commitment to compensate Billing Authorities although it is not yet clear if this will be in corresponding monthly instalments or a one-off payment. The latter would be favourable as this would give the Council the benefit of the additional cash up-front.

4.4.2 It is too soon to quantify the impact on collection rates for both Business Rates and Council Tax, however it is anticipated that there will be a reduction in payments as businesses and residents struggle with the effects of the lockdown on household and business income. In accordance with statute, the Council and all preceptors will still be paid their precepts as notified in January thus potentially creating a cash flow deficit if collection of payments is insufficient to cover the agreed precept payments.

4.4.3 There is likely to be a negative impact on the Business Rates and Council Tax budget in 2021/22 and 2022/23 as the fund looks to recover any shortfall with a likely Collection Fund Deficit impacting on future budgets.

4.4.4 It would be remiss not to mention the excellent work of officers at the Council to ensure Business Grants have been paid in a timely manner to ensure businesses get much needed financial resources so they can continue to exist. At the time of writing 1239 businesses have been paid (76% of 1625 businesses) totalling £14.055m of an expected total due to pay of £19.145m.

4.4.5 MHCLG has confirmed that the Fair Funding Review (FFR) and reform of the business rates system will be delayed for a further year. The changes were planned for 2021-22 but the impact of Covid-19 made it clear that the Government would not be in a position to implement any of these changes.

4.4.6 In all likelihood, neither the FFR nor business rate reform is possible until we know more about the effect that the coronavirus outbreak will have on council tax and business rates. It is impossible to reset the business rates baselines or equalise council tax until both taxation streams have settled down again and this is not really likely to happen until 2022/23 – which might lead to a further delay in the implementation of any changes.

4.5 Conclusion

4.5.1 A combination of increased service pressures, reduced income and uncertain cashflow is expected to put the Council in financial difficulty if central government grants are not forthcoming. The length of time, and latent impact, of the lockdown measures in reality is likely to leave the Council with at least a £2.5m budget gap. The £1.23m received from Central Government is welcome but there will still remain a funding gap in the short and medium term. The longer-term impact for the MTFS will need to be assessed and revisiting the viability of projects such as the Bingham Hub will be considered. Importantly, going forward, the Council has a vital role to assist in the economic regeneration of the Borough helping it recover from this unprecedented situation.

4.5.2 Options the Council will have to consider going forward are: revisiting its Transformation Programme (looking at further budget efficiencies), utilising Reserves (particularly the Organisation Stabilisation and Climate Change Reserves), the General Fund Balance; and changes in MRP which potentially unlocks New Homes Bonus to support the budget.

4.5.3 The timing and value of capital receipts is now uncertain, as is the progress on the capital programme owing to potential difficulty in commissioning work along with potential variations in costs, which may inhibit scheme progress. The timing of borrowing is likely to be sooner rather than later.

4.5.4 The Council has managed its resources well and, as a consequence, has, in the past, held a healthy level of reserves. This enables it to, at least in the short term, deal with this pan-economic crisis, but the financial resilience of the Council going forward is now severely tested and will require a revised MTFS to deliver its corporate objectives.

5. Alternative options considered and reasons for rejection

5.1. Options to meet the budget gap will be presented to Full Council, on production of a revised budget, when there is more certainty regarding the timing of lockdown and its continuing phases.

6. Risks and Uncertainties

6.1. Risk that a balanced budget position is not achieved if mitigating action is not agreed by Full Council when a revised budget is presented.

6.2. Risk that the Council may have to issue a Section 114 notice if the Council is unable to replenish lost income or make additional savings and a balanced budget is not achievable.

6.3. Further delays to the Business Rates System and Fair Funding Reviews adds even more uncertainty to the Council's MTFS going forward.

7. Implications

7.1. Financial Implications

Financial Implications are covered in the body of the report

7.2. Legal Implications

The Council is required to have a balanced budget. The additional pressures on expenditure and on lost income puts at risk the 2020/21 balanced budget position and puts the Council at risk of issuing a S114 notice. As a prudent authority, a review of the MTFS is appropriate at this time.

7.3. Equalities Implications

There are no direct equalities implications.

7.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no direct crime and disorder implications.

8. Link to Corporate Priorities

Quality of Life	The budget resources the Corporate Strategy and, therefore, resources all corporate objectives.
Efficient Services	
Sustainable Growth	
The Environment	

9. Recommendations

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(c) Supports the Leader and Chief Executive in making representations to Government and other interest groups to unlock further funding for the benefit of Rushcliffe's community and its businesses.

For more information contact:	Peter Linfield Executive Manager Finance and Corporate 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Report to Full Council - March 5 2020: 2020/21 Budget and Financial Strategy
List of appendices:	**Appendix A** – Budget Impact of Covid19 – Sensitivity Analysis **Appendix B** – 3 Month Impact of Covid19 on the Revenue Budget **Appendix C** – Impact on Council Investments

Appendix A

Budget Impact of Covid-19 – Sensitivity Analysis

	2020/21 Budget	Revised Budget			
Service Area		**3 Months**	**6 Months**	**9 Months**	**Full Year**
Communities	2,907,200	3,128,195	3,459,750	3,686,025	3,913,740
Finance	3,442,800	3,509,175	3,568,800	3,631,800	3,694,800
Neighbourhoods	6,520,700	7,564,535	8,351,760	9,138,985	9,740,910
Transformation	2000	134,450	222,500	297,750	378,000
Corporate Savings		-74,690	-149,380	-224,070	-298,760
Net Service Expenditure	12,872,700	14,261,665	15,453,430	16,530,490	17,428,690
Variance		**1,388,965**	**2,580,730**	**3,657,790**	**4,555,990**

Appendix B

3 Month Impact of Covid-19 on the Revenue Budget

	3 Months					
	Income Loss	Notes	Additional Expenditure	Notes	Savings	Notes
Communities	301,275	Planning, Land Charges, Building control. Loss of income from facility hire	0		-80,280	Positive future/Young reduced payments, some savings on arts and events not going ahead
Finance	63,000	Investment income down due to interest rates and reduced balances	10,000	Rebilling and overtime on Revs and Bens	-6,625	Photocopiers/ Member training/hospitality, mayors vehicle
Neighbourhoods	600,835	Car Parking Income, Licensing, bulky waste collections, pest control	443,000	Parkwood additional costs, agency on waste collection, housing accommodation	0	
Transformation	145,250	Reduced commercial property rental income	0		-12,800	Corporate Training (assumed none for 3 months)

	3 Months					
	Income Loss	**Notes**	**Additional Expenditure**	**Notes**	**Savings**	**Notes**
Utilities					-4,640	Assumed 5% across closed facilities
Car all/Public Trans/Conferences					-13,050	Assumed none for 3 months on those not expected to be travelling
Furloughing of staff					-57,000	Based on 9 weeks saving
TOTAL	**1,110,360**		**453,000**		**-174,395**	
NET Total	**1,388,965**					

Appendix C

Impact on Council Investments

Fund	Value Invested	Historical	2019/20
	£000	Increase/(Decrease)	Increase/(Decrease)
CCLA Property	2,000	147	-77
CCLA Diversified	2,000	-5	-215
Royal London	1,000	3	-11
Kames	4,000	0	-642
Investec	4,000	0	-293
TOTAL	**13,000**	**145**	**-1,238**