



Cabinet

9 June 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 reported to Cabinet on 12 May 2020 of the projected impact of Covid-19.
- 1.2. The Council continues to receive further information in what is a very fluid environment resulting in revised updates to the estimated financial position. This includes information on council tax and business rates collection rates and the impact of the easing of the lockdown situation. For this financial year, the budget gap is expected to be at least £2.87m and current Government funding of £1.23m amounts to 42.9% of the anticipated budget gap. In a worst-case scenario, the budget gap could be as much as £3.8m and the Government support currently would meet 32% of the funding required if this scenario materialised.
- 1.3. The main issues continue to be the costs of maintaining the leisure centres with no income streams, loss of income in relation to car parking and loss of other fees and charges.

2. Recommendation

It is RECOMMENDED that Cabinet:

- a) Notes the revised financial impact of Covid-19 on the Council's MTFs and the inclusion of these estimates and use of reserves and balances in the revised budget due be taken to full Council.
- b) Supports a report on business support and economic recovery to be considered by the Growth and Development Scrutiny Group.

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 and that the Council considers the approach to assisting the recovery of the economy in Rushcliffe.

4. Supporting Information

4.1. Revenue

4.1.1 The Government have now published a plan to ease lockdown and assuming this plan is effected it would see most business and services begin to return to normal from 4 July. It would not be prudent to assume a complete return to the position prior to Covid-19 and therefore a range of potential scenarios and estimated financial impacts are shown in Appendix A.

4.1.2 The impact on fees and charges and commercial income remain a significant risk to the Council's funding (estimated at over £2m for worst case) in addition to the costs incurred supporting Parkwood Leisure (£2m worst case). If in the short term the lockdown is eased, it is unlikely that services will return to normal, realistically with a likely reduction in usage due to social distancing measures. The Council will at some point during the summer re-introduce car parking charges balancing both health and welfare and retail regeneration needs along with financial necessity and the desire to continue to maintain car parks to a good standard. We are assuming only 30% of the car parking income budget will materialise. It is also likely that Leisure Centres re-opening to their pre-covid-19 levels of demand will be at a much later stage, with restrictions linked to issues such as 'safe distancing' impacting on usage. This will extend the period for which Parkwood requires financial support, a further update will be provided in the July report. The expected position in Appendix A reflects these assumptions.

4.1.3 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.

4.2. Capital Programme

4.2.1 Bingham Hub is still progressing (a report to be considered at this meeting). The intention remains to tender and any progress thereafter will be dependent upon the results of this exercise and reported to Cabinet.

4.2.2 Capital receipts due in the first quarter of this year from the Overage Agreement for Sharphill have not been received. This delay will adversely affect any interest we can earn but interest rates are low and therefore the impact will be minimal.

4.2.3 The Council is due to receive capital receipts of around £12m from the disposal of surplus operational and investment property namely Abbey Road and Hollygate Lane. Negotiations continue positively and there is a separate report in relation to the Abbey Road disposal on this agenda, due to its nature is confidential.

4.2.4 Delays or reductions in capital receipts may lead to either internal or external borrowing earlier than planned or utilising other capital resources such as support from reserves.

4.3. Treasury Issues

4.3.1 The estimated reduction in interest on treasury investments were initially based upon a significant drop in available cash balances and reduction in interest rates. Government has since committed to ensuring Local Authorities are compensated for reductions in cash flow, which means that our available cash balances should be minimally affected by Covid-19 related issues. The interest rates on diversified funds have not dropped as low as expected and money market interest, although following the Bank of England base rate, is still holding above this. These factors have improved the estimated loss included in Appendix A.

4.4. Business Rates and Council Tax

4.4.1 Two months payment data is now available to further inform estimates regarding collection rates for Business Rates and Council Tax. As at 24 May, collection rates for Council Tax had reduced by 1% equating to approximately £880k of cash not received. Business Rates are currently largely unaffected as a result of the significant amount of reliefs (circa £9m) granted to the retail, leisure and hospitality sector. This will need to be closely monitored as the position may still change due to trading conditions.

4.4.2 Any reductions in income will cause a deficit in the collection fund that will need to be recovered in 2021/22 and 2022/23 therefore affecting future income streams and the MTFS. It is important to remember the County as the largest preceptor bears the biggest burden of the likely Council Tax collection fund deficit.

4.4.3 At the time of writing the Council has paid out £16.85m in BEIS grants equating to 86.58% to over 1400 eligible businesses. Hardship Fund allocations totalling £0.225m in relation to Council Tax support have also been made.

4.4.4 The Government have recently announced that Local Authorities are to administer a local discretionary business grant scheme, which aims to provide financial support to small businesses who were not eligible for the Small Business Grant Fund or the Retail, Leisure and Hospitality Fund. To receive the grant they must meet the local scheme criteria. The amount of BEIS funding for RBC is £0.972m. The local policy should be active by the beginning of June.

4.5 Economy

4.5.1 The impact of Covid-19 is far reaching with some businesses unlikely to survive the downturn. Growth is low and it is difficult to anticipate the speed of recovery, the general expectation being it will not be 'V' shaped, potentially taking years to recover. Further consideration is needed on the Council's wider approach to assisting the recovery of the economy in Rushcliffe. It is therefore suggested that a report on business support and economic recovery is to be considered by the Growth and Development Scrutiny Group.

4.5.2 The Council will be receiving a share of additional funding (European grant) to support the safe reopening of high streets and commercial areas. The amount allocated to RBC is £106k. This grant will be utilised in delivering additional measures to establish a safe trading environment and assist the local economy. Future reports will confirm progress of spend against this funding stream.

4.6 **Conclusion**

4.6.1 The lockdown and recovery situation continues to add pressure to the Council's budget. Additional expenditure is likely to continue to be incurred for the short term and although the easing of lockdown has commenced, the Council will need to continue to provide support to those areas most at risk. The nature of some of the services provided and the objectives of the Council to support the recovery of the economy means that income streams are likely to remain low for some time before returning to budgeted levels.

4.6.2 It remains to be seen if there will be further Government support to help bridge the budget gap. If this support is not forthcoming then the worst-case scenario for the Council would be a £3.8m budget gap just for the current year. The £1.23m received from Central Government will go some way to support the shortfall; however, there would 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.

4.6.3 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 Minimum Revenue Provision (discussed in the May report); which potentially unlocks New Homes Bonus to support the budget.

4.6.4 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.

4.6.5 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. A report is planned for Full Council in September.

5. Alternative options considered and reasons for rejection

Options to meet the budget gap will be presented to Full Council when a revised budget is produced 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. Currently this is not a high risk, but this could change dependent on the ongoing impact of lockdown.
- 6.3. Further delays to the Business Rates System and Fair Funding Reviews (now delayed until at least 2021) add even more uncertainty to the Council's MTFS going forward.
- 6.4. The Government continues to provide different Covid-19 funding streams, for example High Street Funding (see paragraph 4.5.2). The Council will continue to monitor these and ensure it maximises such funding where it applies to district councils.

7. Implications

Financial Implications

Financial Implications are covered in the body of the report.

7.1. 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.

7.2. Equalities Implications

There are no direct equalities implications.

7.3. 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 Plan and therefore resources all corporate objectives.
Efficient Services	
Sustainable Growth	
The Environment	

9. Recommendations

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) Supports a report on business support and economic recovery to be considered by the Growth and Development Scrutiny Group.

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Background papers available for Inspection:	Report to Full Council - March 5 2020: 2020/21 Budget and Financial Strategy Report to Cabinet 12 th May – Budget Update
List of appendices:	Appendix A – Budget Impact of Covid19 – Sensitivity Analysis Appendix B – 4 Month Impact of Covid19 on the Revenue Budget

Budget Impact of Covid-19 – Sensitivity Analysis

Service Area	20/21 budget (£)	Revised Budget		
		Best Case (£)	Expected Case (£)	Worst Case (£)
Communities	2,907,200	3,131,317	3,236,383	3,637,110
Finance	3,442,800	3,516,175	3,536,175	3,576,175
Neighbourhoods	6,520,700	8,421,236	8,795,476	9,243,513
Transformation	2,000	164,867	246,867	328,867
Corporate Savings		-70,690	-70,690	-70,690
Net Service Expenditure	12,872,700	15,162,905	15,744,211	16,714,974
Variance		2,290,205	2,871,511	3,842,274

Best Case - Complete return to normal after 4 months

Expected Case -Return to normal for most services with phased return for Car Parks, Leisure, Events (assume after 8 months)

Worst Case - situation remains as it is currently for 12 months

4 Month Impact of Covid-19 on the Revenue Budget

4 Months						
	Income Loss (£)	Notes	Additional Expenditure (£)	Notes	Savings (£)	Notes
Communities	289,067	Planning, Land Charges, Building control. Loss of income from facility hire	1,330	Sanitiser	-66,280	Positive Futures/Young, some savings on arts and events not going ahead
Finance	20,000	Investment income down due to interest rates and reduced balances	60,000	Cameras for virtual meetings, rebilling and overtime on Revs and Bens	-6,625	Photocopiers/ Member training/hospitality, mayors vehicle
Neighbourhoods	414,795	Car Parking Income, Taxi Licensing, Liquor Licensing	1,485,408	Parkwood additional costs, agency on waste collection, housing accommodation	0	

Transformation	160,667	Property rental income due to 3 month rent holidays and loss of projected income.	15,000	Health and Safety Covid related costs	-12,800	Corporate Training (assumed none for 3 months)
Utilities					-4,640	Assumed 5% across closed facilities
Travel/ Seminars					-13,050	Assumed none for 3 months on those not expected to be travelling
Furloughing of staff					-53,000	Based on savings to the end of June
TOTAL	884,528		1,561,738		-156,395	
NET Total	2,290,205					