Cabinet

Tuesday, 14 July 2020

Budget Update – Covid-19 Implications

Rushcliffe
Borough Council

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 9 June 2020 of the projected impact of Covid-19.

1.2. Since the previous report, the lockdown restrictions have been further relaxed including the reopening of non-essential retail, pubs and restaurants from 4 July. The risk of a second wave of the virus or a local outbreak and therefore a return to a full local lockdown cannot be ruled out. Furthermore, Government guidance remains 'fluid' all of which makes estimating the full financial impact of the pandemic going forward challenging.

1.3. This report provides revised updates to the estimated financial position, including 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 £1,25m (expected position) and up to a worst case scenario of £2.47m (this takes into account current Government funding of £1.23m). Further government funding has been announced and we await the detail with regards to this. Whilst this is expected to improve the projected current year financial position, the legacy impact of Covid-19 on future years budgets is to be determined and will correlate with the impact of both the anticipated recession nationally (and locally) and Government policy in terms of funding the public sector.

1.4. Whilst a phased release of lockdown has begun, the government has not yet fully lifted the restrictions on Leisure Centres which currently is a significant financial and operational risk for the Council. The delay in opening leisure centres will extend and increase the financial support required by Parkwood Leisure.

2. Recommendation

It is RECOMMENDED that Cabinet notes:

a) 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; and

b) the latest contractual position and the ongoing extension to the Contract Variation agreement with Parkwood Leisure (paragraph 4.2.6).

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.

4. Supporting Information

4.1. **Revenue**

4.1.1 The updated government guidance released on 23 June allows the reopening of the hospitality sector including pubs, restaurants, hairdressers and hotels from 4 July with non-essential shops having resumed trading from 15 June 2020. The Council has been actively supporting businesses in their preparation to ensure they are Covid-19 secure, however it is too soon to estimate how quickly the pre-Covid situation will return, if at all this year. The potential scenarios and estimated financial impact reported on 9 June have been updated to reflect the government's most recent advice (Appendix A).

4.1.2 The impact on fees and charges and commercial income has had a significant impact on the Council's funding over the lockdown period and is estimated at £2m for worst-case scenario. The Council has and will continue to incur additional costs estimated at £1.5m worst-case scenario, mostly supporting Parkwood Leisure. More recent costs incurred are in respect of managing parks and open spaces with additional security, enforcement resources and portable toilets.

4.1.3 The Council re-introduced car parking charges on 29 June 2020 and whilst it is too soon to measure the levels of usage, we are assuming 30% of the car parking budget will materialise over the year.

4.1.4 The range of scenarios as shown in Appendix A will be impacted by the speed of recovery from lockdown including the return to previous consumer behaviour and local decisions taken by the Council.

4.1.5 For *this financial year* the budget gap is expected to be at least £1,25m (expected position) and up to a worst case scenario of £2.47m (this takes into account current Government funding of £1.23m). Further government funding has been announced and we await the detail with regards to this and will report on this in future reports. The 3 pillars of funding announced on 2 July 2020 are:

- A further £500 million of funding to cover local authority spending pressures;
- co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income; and

- Phased repayment of Collection Fund deficits over the next 3 years.

Of particular concern is whether any of the above potential Government funding streams will sufficiently support financial challenges in relation to Council leisure provision.

4.2 **Leisure Services Contract**

4.2.1 Members will recall that the 12 May 2020 Cabinet report stated that *Cabinet receives a future report with recommendations on the future contractual arrangements and the variation with Parkwood/Lex Leisure*. This is an update regarding the recommendation.

4.2.2 Current government advice is that Leisure Centres cannot be made sufficiently Covid-19 secure and this will extend the period for which Parkwood Leisure requires financial support. The Council has been in dialogue with Parkwood Leisure to discuss the phased return to reopening and the expected position in Appendix A reflects this. However, in the light of extended social distancing measures in this sector the Council continues to assess the ongoing viability of each site individually.

4.2.3 Negotiations are ongoing with the various sports clubs at the facilities with a view to balancing the triumvirate of objectives - health and well-being of the community, maximising the use of the assets and the best economic outcome for the Council. The overall adverse impact on the Council's budget as a result of the leisure centres being closed and the legacy impact of Covid-19 is estimated to be around £1m for 2020/21. It is worth noting that we continue to remain in dialogue with Mitie (East Leake Leisure Centre's operator) to support their recovery.

4.2.4 Positively Edwalton Golf Course since it reopened from lockdown has seen an increase in demand. Usage is up 62% on the same time last year for golf and a 48% increase in driving range usage. How sustainable this recovery is remains to be seen as winter approaches and other leisure facilities re-open. The additional income is built into the current financial projections.

4.2.5 Given the challenges the whole leisure market faces and a lack of Council in-house expertise to manage the leisure centres, continuing with the existing contractor remains the best way forward. This ensures continuity of service provision when the leisure centres do open at a time when there is so much volatility as a result of Covid-19 in terms of customer confidence and minimising the risk of the virus spreading; and the impact for the leisure industry as a whole.

4.2.6 Going forward the variation agreement to the contract will be reviewed at 30 September and 31 December 2020 for each quarter. The expectation is that as revenue starts to return back when facilities reopen, ultimately this will reduce the support package from the Council until normality returns. Financial performance is monitored via an open book approach by the Contracts Team supported by Financial Services. The position on the Parkwood contract through the recovery period will continue to be monitored and will be reported via quarterly financial reports throughout the year to Corporate Overview Group and Cabinet.

4.3 Capital Programme

4.3.1 Bingham Hub is currently progressing as planned with the intention of going to tender and any progress thereafter will be dependent upon the results of this exercise and reported to Cabinet.

4.3.2 The Council are due to receive capital receipts of £12m from the disposal of surplus operational and investment property namely Abbey Road and Hollygate Lane. Cabinet 09 June 2020 considered a report on the disposal of the Abbey Road site and it was agreed to accept a revised offer for the site which remains a significant receipt in a difficult economic climate. Capital receipts of £8m in relation to Sharphill from 2019/20 remain outstanding.

4.3.3 Delays in capital receipts will minimally affect the interest earned on balances as interest rates are low. Significant delays or reductions to capital receipts such as the revised offer for Abbey road will affect the funding of the capital programme and may lead to either internal or external borrowing earlier than planned dependant on the progress of the capital programme and any slippage. Alternatively projects could be delayed or not proceed with if deemed economically unviable.

4.4 Treasury Issues

4.4.1 The Council reported previously to Cabinet that the value of the Council's investments in multi-asset and diversified funds had reduced by £1.2m as at 31 March 2020. Further information relating to April and May has been received and this shows an increase in the value of these assets of £0.5m representing 41.6% improvement. If this trend continues, the asset values could potentially recover to pre-Covid levels by the end of the year clearly though there remains much uncertainty going forward.

4.5 Business Rates and Council Tax

4.5.1 Three months payment data is now available to further inform estimates regarding collection rates for Business Rates and Council Tax. As at 1 July collection rates for Council Tax had reduced by 1.1% equating to approximately £1m of cash not received. Business Rates are currently largely unaffected (£86k behind) as a result of the significant amount of reliefs (circa £10.5m) 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.

4.5.2 Any reductions in income due to the collection fund 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 bear the biggest burden of the likely Council Tax collection fund deficit.

4.5.3 At the time of writing the Council has paid out £17.6m in BEIS grants equating to 90.59% to over 1,500 eligible businesses. Hardship Fund allocations totalling £225k in relation to Council Tax support have also been made.

4.5.4 The Council commenced the discretionary grant scheme on 1 June and at the time of writing had received 131 claims, decided on 48 and paid 8 totalling £81k. (8.3% of the total available funds of £0.972m). Applications for the grant have been much lower than anticipated and the lack of evidence or supporting information provided by the applicants have resulted in delays in the decision making process. The criteria are being reviewed to ensure the resources will be allocated to those in need

4.6 **Economy**

4.6.1 The hospitality sector is one of the worst affected industries of the pandemic and the reopening on 4 July 2020 will boost some much-needed spending in this industry. Reopening is not without challenges and the sector has had to conduct risk assessments and ensure they adhere to government guidelines for safe operation. One of the main obstacles is enabling a sufficient capacity while following the 2m or 1m plus distancing guidelines. An option to accommodate increased capacity is to create temporary pedestrianised areas and expand the use of outdoor space for customers. Nottinghamshire County Council has rejected a request by the Council to temporarily pedestrianise West Bridgford Town Centre.

4.6.2 The Council has not yet incurred any expenditure in relation to the £106k of European funding to support the safe reopening of the high streets although there may be some costs associated with temporary traffic measures. It is anticipated all the funding will be fully utilised by the end of the financial year.

4.6.3 The Bank of England base rate remains at 0.1% and is not expected to increase in the next 18 months with a further cut possible. Not surprisingly growth is low and Q1 saw the largest quarterly fall in household spending.

4.7 **Loans to Parishes**

4.7.1 The Council has written to all town and parish councils to offer financial support in the form of interest free loans (until 31 March 2021) and 2.5% thereafter. This loan will be made available to councils that cannot cover temporary in year losses with their reserves and who have not previously received any business support grants.

4.8 Conclusion

4.8.1 Whilst the easing of lockdown should relieve some pressure on the Council's budget, additional expenditure is likely to continue particularly in support of the Leisure Centres which currently remains closed and will likely face reduced usage for some time due to social distancing measures. It is yet unknown how quickly income levels from facilities such as car parks will improve, and this will be closely monitored. Income streams are likely to remain lower than budgeted for some time before returning to anticipated levels.

4.8.2 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 likely scenario for the Council would be a £2.48m 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. There will be a revised budget presented to Full Council in September and the longer-term impact for the MTFS will need to be assessed and the viability of projects such as the Bingham Hub will be revisited.

4.8.3 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.

4.8.4 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.

4.8.5 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 and the position will continue to change as we set a new budget for 2021/22 and beyond (in March 2021).

5 Alternative options considered and reasons for rejection

Options to meet the budget gap will be presented to Full Council in September when a revised budget is produced and consider the options such as those stated at 4.8.3.

6 Risks and Uncertainties

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

6.8 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 legacy issues arising after lockdown and what arises from the 2021/22 financial settlement.

6.9 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.

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

9 Recommendations

It is RECOMMENDED that Cabinet notes:

(a) 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; and

(b) the latest contractual position and the ongoing extension to the Contract Variation agreement with Parkwood Leisure (paragraph 4.2.6).

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 Report to Cabinet 12 May – Budget Update Report to Cabinet 9 June – Budget Update
List of appendices:	Appendix A – Budget Impact of Covid19 – Sensitivity Analysis Appendix B – 4 Month Impact of Covid19 on the Revenue Budget

Appendix A

Budget Impact of Covid-19 – Sensitivity Analysis

		Revised Budget		
Service Area	**20/21 budget (£)**	**Best Case (£)**	**Expected Case (£)**	**Worst Case (£)**
Communities	2,907,200	3,131,317	3,445,486	3,698,110
Finance	3,442,800	3,524,110	3,544,110	3,584,710
Neighbourhoods	6,520,700	7,998,247	8,223,897	8,960,524
Transformation	2,000	189,190	213,537	417,170
Corporate Savings		-70,690	-70,690	-70,690
Net Service Expenditure	12,872,700	14,772,173	15,356,339	16,589,824
Variance		**1,899,473**	**2,483,639**	**3,717,124**

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

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

Appendix B

4 Month Impact (Best Case) of Covid-19 on the Revenue Budget

	4 Months					
	Income Loss (£)	**Notes**	**Additional Expenditure (£)**	**Notes**	**Savings (£)**	**Notes**
Communities	267,067	Planning, Land Charges, Building control. Loss of income from facility hire	23,330	Security, Fencing, 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	67,935	Cameras for virtual meetings, rebilling and overtime on Revs and Bens	-6,625	Photocopiers/ Member training/hospitality, mayors vehicle
Neighbourhoods	379,539	Car Parking Income, Taxi Licensing, Liquor Licensing	1,098,008	Parkwood additional costs, agency on waste collection, housing accommodati on	0	

Transformation	193,840	Property rental income due to 3 month rent holidays and loss of projected income.	6,150	HR health and safety costs and webinars	-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	**860,445**		**1,195,423**		**-156,395**	
NET Total	1,899,473					