

East Herts Council Report

Executive

Date of Meeting: 2 June 2020

Report by: Cllr Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

Report title: Financial Update

Ward(s) affected: All

Summary

Across the world countries are dealing with the outbreak of Covid 19 with varying degrees of success. It is clear that both the human and economic impacts will be severe. The full impacts will not be known for some time but by monitoring the financial impact and looking at both the short and medium term, the Council will be able to take informed decisions on resource allocation and plan more effectively for the future.

RECOMMENDATIONS FOR EXECUTIVE:

(a) That the potential impacts of Covid 19 on the budget for 2020/21 and the Medium Term Financial Plan be noted.

(b) That authority be given to Heads of Service to agree the deferment of any business related fees and charges where a business can demonstrate that payment would cause immediate financial hardship.

1.0 Proposal(s)

1.1 This report proposes that the Executive note the

potential impacts of Covid 19 on the Council's finances over the short and medium term.

- 1.2 It is also proposed that short term financial assistance is extended to businesses that incur business related fees or charges and are currently experiencing financial hardship.

2.0 Background

- 2.1 The measures put in place to try and combat Covid 19 have had a significant impact on the finances of all local authorities. County Councils have faced additional spending pressures, particularly in adult social care, whilst district councils have suffered from major income streams, such as car parking, drying up overnight.
- 2.2 At this time, with no certainty on when and how restrictions will be lifted and how long it will take for previous levels of activity to return, it is not possible to precisely set out the exact impacts of Covid 19. However, using the best information currently available it is possible to set out some of the key items and provide indicative figures.
- 2.3 The report will consider the budget for 2020/21, the Medium Term Financial Plan and the Council's cash position and level of reserves.

Issues for 2020/21 Budget

- 2.4 In common with other district councils, the revenue budget at East Herts is heavily reliant on income that we generate ourselves from fees and charges or other means. These amounts far outweigh grant support from central government. Most of this income has reduced significantly or in some cases disappeared completely. The table below provides a summary of the key income streams at the end of April.

Income Source	Budget 2020/21	Budget April	Actual April
Land Charges	£266,500	£22,700	£8,930
Licenses	£358,000	£27,958	£8,719
Planning Fees	£1,557,450	£125,430	£72,787
Domestic Paid Loads	£84,700	£7,486	-£28
Trade Refuse	£787,650	£190,022	£4,367
Clinical Waste	£52,150	0	£16
Kerbside Recyclables	£1,284,000	£70,083	0
Pay & Display	£3,616,800	£259,983	£900
Season Tickets	£33,350	£27,608	£17,813
Parking - SMS	£67,200	£2,683	0
Residents Parking	£157,500	£5,500	0
PCN	£736,000	£61,333	£22,847
Theatre	£1,241,890	£77,867	£5,926
Rent	£2,044,940	£76,242	£19,084
Total	£12,288,130	£954,895	£161,361

2.5 The shortfall against budget for income in April is approximately £800,000. If we assume restrictions start to ease in June, but that people take some time to return to their previous behaviours, an optimistic view would be to start the estimate of the overall effect at three times the loss for April or £2.4 million. If this was to extend to an equivalent of five months, the potential loss of income would increase to £4 million. So the

range of income losses is likely to fall between £2.4 million and £4 million.

- 2.6 There are additional concerns about some of the items in the table that could cause higher losses. It is likely that a proportion of the businesses that we provide a trade waste service for will go into administration. This will also have an impact on income that has been recognised in 2019/20 but for which the invoices remain outstanding.
- 2.7 The figures shown in the Budget 2020/21 column for Pay & Display and Rent include the additional amounts of £200,000 for each item that were included as growth targets. We need to consider when to start charging again for our car parks and at what point it would be appropriate to increase fees. Most other Hertfordshire districts either did not suspend their charges or have already re-introduced them.
- 2.8 The increase in rental income was based on the acquisition of additional properties by the Financial Sustainability Committee. Some opportunities were being assessed by the Committee before the restrictions were imposed but little progress has been possible on these recently.
- 2.9 Taking the base potential loss of income of between £2.4 million and £4 million from 2.5 above and allowing for additional losses in trade waste and an underachievement against the additional targets for pay and display and rent takes the projected loss of income figure to between £2.9 million and £4.5 million.
- 2.10 An item of income that is shown below the Net Cost of Services is the interest from our investments. The Council has investments of approximately £10 million each in two property funds. These property funds had been providing returns above 3%, which far exceeded the rates available on bank deposits. The principal sums invested are not at risk but it is likely that returns could

drop by 1%, which would represent a loss in income of £200,000 for 2020/21.

- 2.11 The final income item worth considering is the income from the Council's investment in Millstream. It is likely that the combined impact of curtailed/delayed property purchases and reduced rental income from existing tenants means that instead of the £160,000 income to the council budgeted for 2020/21, the income will be reduced by at least £50,000.
- 2.12 To partially off-set the losses in income there will be some cost savings, particularly the costs associated with putting on events at the theatre. Overall these savings are likely to be limited as the Council's costs are largely made up of staffing and fixed premises related expenditure. On balance, the savings are likely to be of the same magnitude as the loss of income on investments so the total predicted loss remains between £2.9 million and £4.5 million.
- 2.13 Some of the Council's key services have been outsourced so we need to consider the impact of Covid 19 on our contractors.
- 2.14 Everyone Active were provided with a short term loan of £150,000 to cover their payroll while the Government Furlough Scheme was being established. This loan has now been repaid. Smaller support loans of approximately £10,000 per month have been agreed to cover the costs of maintaining the leisure centres while they are shut. These loans will be repaid within six months of the leisure centres re-opening.
- 2.15 The waste service has already been amended, with the suspension of collections of garden waste, to keep domestic waste collections going. Urbaser have notified the council that they are incurring additional costs but these are still to be quantified and negotiated. At this point additional costs for contractors are assumed not to significantly change the predicted loss figure.

- 2.16 In the Financial Update distributed to Members on 7 April, information was provided on commercial tenants seeking help with their rent. We had received requests from nine tenants to defer rent or alter payment periods. For all nine of them we had agreed to defer either the current quarter's rent or the June – Sept quarter if they have already paid March – June. We have advised that we will keep the situation under review and agree a repayment plan once businesses can re-open and resume normal trading. All the tenants have been happy with arrangement so far although we are expecting further requests both from other businesses and these ones for further deferments if the lock down is prolonged. The annual income from these nine properties is £410,770.
- 2.17 The current position has improved slightly as one of the businesses mentioned above has actually continued paying their rent. This means there are eight tenants currently deferring rent and the annual income from these eight properties is £404,920. It is assumed that this rent will all ultimately be paid.
- 2.18 At this point, it is worth considering if the Executive want to defer any other business related fees. Small businesses may struggle to re-establish themselves when restrictions are eased and may be unable to immediately pay some fees and charges without suffering financial hardship.
- 2.19 A balance needs to be struck here between helping businesses and not causing any further damage to the Council's own finances. Therefore, a blanket deferment is not proposed but it may be appropriate for Heads of Service to be given discretion to agree deferments on a case by case basis where a business can demonstrate that it is viable in the long term but the lack of deferment would cause immediate financial hardship.
- 2.20 In summary, the Council's financial position for 2020/21

is likely to be between £2.9 million and £4.5 million worse than budgeted. However, the government have provided grant funding of approximately £1.5 million so the net increase in the use of reserves to support the budget for 2020/21 is likely to be between £1.4 million and £3 million.

Medium Term Financial Plan

- 2.21 Initially it is worth reminding ourselves where we got to in setting the Budget for 2020/21 and the Medium Term Financial Plan (MTFP) at Council on 29 January. The savings proposals and additional income generation plans had completely closed the budget gap for 2020/21 but there was still a budget gap for 2021/22 of £420,000.
- 2.22 The additional income generation plans for 2020/21 included £40,000 for improved recycling rates and £25,000 for additional trade waste customers. With the disruption to the waste service and the wider economy it is unlikely that either of these targets will be achieved in 2020/21, although it remains reasonable to assume they can still be achieved over the medium term.
- 2.23 One of the key elements in bringing the Council's spending in line with its income over the medium term is additional income from pay and display. The additional income target of £200,000 for 2020/21 has already been mentioned above. Similar targets exist for each of the four years of the MTFP, giving a cumulative target of increasing income by £800,000 by 2023/24.
- 2.24 Officers in operations are re-mapping the timelines for a decision on the parking strategy but it is unlikely that we will be in a position to provide additional income from parking in 2020/21. Traffic regulation orders require consultation which during a lockdown will not be possible in a meaningful way. Also, an immediate

increase in parking charges as we emerge from lockdown is likely to generate a hostile response from residents and businesses.

- 2.25 Additional annual income targets had also been set for financial sustainability and Millstream. Beyond the difficulties set out for 2020/21 above, these should still be achievable over the medium term. Due diligence was already undertaken by the Financial Sustainability Committee and this will be enhanced going forward to ensure that potential tenants are financially robust.
- 2.26 The market for both residential and commercial property has been slowed by the lockdown and it is possible that opportunities may arise for good value acquisitions in both areas.
- 2.27 The single largest item for generating additional income in 2021/22, is the £400,000 for the introduction of charging for green waste. There is still a lot of work to do on this and any extended disruption to the waste service may cause a delay in the implementation of this scheme. It seems more realistic now to assume this income will arise in 2022/23.
- 2.28 In addition to the Council's own spending and income, the MTFP also includes assumptions on council tax, retained business rates and new homes bonus. To provide a complete picture we also need to consider how these elements have changed due to recent events.
- 2.29 One of the additional funding streams made available by the government was a hardship fund to help working age claimants receiving a council tax reduction. This provided for a further reduction of £150 on the council tax account of all such cases. This was a welcome step but the concern going forwards is how the impact of Covid 19 on the economy may increase unemployment and push up the caseload of council tax support claimants.

- 2.30 Any increase in council tax support cases has the effect of reducing the taxbase. The MTFP includes assumed increases in the taxbase of 2.3% per annum, based on historical trends. A combination of reduced construction activity and an increase in council tax support cases could see no growth in the taxbase for 2021/22. If that happens, income from council tax will be approximately £250,000 lower than the figure in the MTFP.
- 2.31 There have been no official announcements yet on the easing of restrictions on increases in council tax. The maximum annual increase currently allowed without a referendum is £5. It seems highly likely that the government will prefer local authorities to fund themselves via increases in the council tax than through central grants financed by increases in income tax or corporation tax. In order to achieve the council tax income in the MTFP for 2021/22, assuming no increase in taxbase, an increase of £9.11 would be needed from £174.09 to £183.20. This would be an increase of 5.23% and is within the range of flexibility that we might reasonably expect in the future.
- 2.32 For an extended period local government has been awaiting the outcomes of the Fair Funding Review and the implementation of changes to the system of business rates retention. These changes have been further delayed along with the business rates revaluation that was due in 2021. The MTFP had assumed the benefits we currently enjoy of historical growth would be lost in any updating of the system of business rates retention. Hence the reduction of £330,000 included for this funding in 2021/22. Any extension of the current methodology should push this reduction back.
- 2.33 New Homes Bonus has been reduced in stages over recent years. It was expected to disappear completely with the Fair Funding Review providing some other form

of incentive on housing delivery. The amount of New Homes Bonus is determined by the annual growth in residential properties in the district and this will have slowed considerably with the reduced levels of construction. Given both the delay in the Fair Funding Review and the lower value of New Homes Bonus, it seems likely that this funding may continue into 2021/22 but that its significance will be reduced.

- 2.34 In summary, at this time it is not possible to give credible overall estimates of the impact on the MTFP. There are too many key variables in play and some of these will off-set each other. It is clear though that new ideas to reduce net expenditure will be needed to replace or supplement existing plans.

Cash & Reserves Position

- 2.35 The Council currently has approximately £30 million of cash available and is unlikely to run out of money in the short term. However, a significant amount of this cash will be required for precept payments and for the ongoing capital projects.
- 2.36 The cash flow may deteriorate over time if we see a reduction in council tax collection and this is key as we still have to pay the County Council their share regardless of whether we have been able to collect it. At the end of April the collection rate was only down 0.3% on the previous year, in cash terms around £345,000. This is better than expected but there are a much larger number of cases than usual that have made no payments yet.
- 2.37 The Budget and MTFP approved by Council on 29 January included a paper setting out projected levels on reserves over the medium term. This paper projected that as at 31 March 2021 there would be general

reserves available of £4.514 million.

- 2.38 The annual accounts for 2019/20 are still being compiled and early indications are that the use of reserves in that year could be £0.25 million higher than estimated in January. The section above on the Budget for 2020/21 set out that the use of reserves for 2020/21 could be £3 million higher than previously estimated. If we deduct £3.25 million from the predicted balance of £4.514 million we get a revised estimate for general reserves as at 31 March 2021 of £1.264 million.

Overall Summary

- 2.39 It is clear that the Council will suffer short to medium term difficulties as a result of Covid 19. However, the Council has adequate levels of cash and reserves which will allow a considered and pragmatic approach to overcome these challenges.
- 2.40 There is no immediate need for spending or service reductions, although additional initiatives to those in the MTFP will be needed to reduce net spending. The position on both the 2020/21 budget and the MTFP will be kept under review and further updates provided as more information becomes available.

3.0 Reason(s)

- 3.1 For the Executive to take reasoned and informed decisions they need to be aware of the council's financial position.

4.0 Options

- 4.1 The main content of the report is presented for noting and so has no options associated with it. The second

recommendation covers the possible deferment of business related fees and charges and there are different options available on this. At one extreme, amounts could be waived rather than deferred and at the other extreme no help could be offered at all. A middle path of allowing Heads of Service discretion to defer charges in proven cases of financial hardship is recommended.

5.0 Risks

- 5.1 The level of financial risk presented by Covid 19 is one that can currently be managed by the Council. If the lockdown continues for longer than is currently expected or there is a second peak of infections the risk could increase significantly.

6.0 Implications/Consultations

- 6.1 No formal consultation has been undertaken on the content of this report.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

As set out in the body of the report.

Health and Safety

Health and safety will have to be carefully considered and government guidelines followed as the council transitions service provision back to normal.

Human Resources

A small number of staff have been furloughed but the majority have been able to work from home or have been re-deployed to other duties.

Human Rights

No

Legal

If the Council was in financial difficulties it would be necessary to consider restrictions on spending, this is not currently the case.

Specific Wards

No

7.0 Background papers, appendices and other relevant material

7.1 None

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