

East Herts Council Report

Executive

Date of Meeting: 1 September 2020

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

Report title: Financial Update

Ward(s) affected: All

Summary

A Financial Update report was made to the Executive on 2 June 2020 and this report provides an update on developments since June.

The full impacts of the pandemic 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 a review of the Capital Programme and the updating of business cases for major projects be undertaken as part of the 2021/22 budget setting process.**

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 a review be undertaken of the Capital Programme and that the business cases for major projects are updated to include any impacts from the pandemic.

2.0 Background

- 2.1 It has been three months since the previous financial update report and there have been some significant developments during this period. To assist the Executive in managing the Council in the most efficient and effective manner it is important that financial information is regularly updated.
- 2.2 There is still no certainty on when and how restrictions will be fully lifted and how long it will take for previous levels of activity to return. Recently we have seen outbreaks causing areas to be subjected to local lockdowns and a second spike over the winter is a real possibility. This means 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 impacts of the pandemic on both the budget for 2020/21 and the Medium Term Financial Plan. It will also provide some commentary on the Capital Programme and the need for updated business cases for major projects.

Issues for 2020/21 Budget

- 2.4 The 2 June financial update predicted additional use of reserves in 2020/21 of between £1.4 million and £3 million. Since then the Council has been notified of an additional £200,000 of grant funding that takes the total unbudgeted grant received to £1,702,811.
- 2.5 The Government has also announced a compensation scheme for lost fees and charges income. Detailed guidance has not yet been provided, but the following features of the scheme have been announced –
- To reflect income fluctuations that could happen in any year, the scheme does not cover the first 5% of any loss.
 - Losses will be measured against the budgeted figures for 2020/21.
 - Income items that are not fees and charges, for example rents, are excluded.
 - Compensation will be paid for 75% of the loss above the first 5% of non-qualifying loss.
 - The scheme only covers the 2020/21 financial year.
- 2.6 The previous financial update set out the Council's various income streams, the budgets for the whole year and a comparison of the budget at the end of April against the actual income received. Total budgeted income for the year was £12.3 million, adjusting this for items likely to be excluded by the scheme reduces the annual budgeted figure to £7 million. After allowing for the first 5% of the loss, the monthly compensation due should be approximately £400,000.

2.7 The table below sets out the updated projection for the additional use of reserves in 2020/21. The original prediction was based on loss of income in a range between three and five months and an additional month has now been added to give a range of four to six months. Then the additional grant and the compensation for losses on fees and charges are deducted to get to the new predicted range of outcomes.

	Optimistic £	Less optimistic £
Previously predicted	1,400,000	3,000,000
Additional month of lost income	800,000	800,000
Additional grant funding	-200,000	-200,000
Fees & Charges compensation – amounts for 4 & 6 months	-1,600,000	-2,400,000
Revised projection	400,000	1,200,000

2.8 The projected additional use of reserves in 2020/21 has reduced from a range of £1.4 million to £3 million to a range of £0.4 million to £1.2 million. Even though the pandemic will impact for longer, this has been more than off-set by the compensation scheme for losses to fees and charges. This has reduced the level of concern for the financial position for the current year.

Medium Term Financial Plan

- 2.9 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 were still budget gaps of £420,000 for 2021/22, £551,000 for 2022/23 and £610,000 for 2023/24. So before the pandemic we already had identified a need for net savings of nearly £1.6 million over the next three years.
- 2.10 The income generation plans in the MTFP relied on three key areas. Additional income of £200,000 per annum was targeted for Financial Sustainability investments and £100,000 per annum for Millstream. Whilst these targets will not be achieved for 2020/21, it is still possible that they could be achieved over the medium term and so no adjustment has been made to these assumptions.
- 2.11 The other significant area of income generation was car parking, which had an additional income target of £200,000 per annum. Charging in the Council's car parks was reintroduced late in June. Evidence so far is that some users have returned to short stay parking but there has been very little long stay parking, often associated with commuting. On this basis, increases in fees and charges will be needed on an annual basis to return parking income, over the medium term, to previous levels. It is clear that the additional amounts of income allowed for will not be achieved and should be removed from the MTFP.
- 2.12 Since the previous update, it has become clear that additional costs need to be allowed for the waste service. The costs of adding new properties in the district to the contract add £150,000 in each year of the MTFP.

2.13 In 2023/24, the final year of the MTFP, it is likely that the Council will be required to add a separate food waste collection to the service. It is anticipated that the annual costs of this service would be in the order of £1 million per annum.

2.14 Other costs that should now be included in the MTFP are £82,000 to support work on the Harlow Gilston Garden Town and £50,000 for additional resource on information governance. These are included in the table below -

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget gap previously identified	420	551	610
Remove increase in parking income – 400 in 21/22 includes amount for 2020/21	400	200	200
Waste – cost of new properties	150	150	150
Waste – separate food collection			1,000
HGGT	82		
Information Governance	50		
Updated budget gap	1,102	901	1,960

2.15 This update still has the additional income of £400,000 in 2021/22 for introducing charging for green waste. There is still a lot of work to do on this and any further disruption to the service will obstruct implementation of this scheme. It is evident that introducing this scheme by 1 April 2021 will be a challenge.

- 2.16 In summary, the combined budget gap has increased from £1.6 million to nearly £4 million. This means net savings of £1 million will need to be achieved in 2021/22 and 2022/23 and £2 million of net savings will be needed in 2023/24. This is a significant increase in the savings target and the reductions needed to net expenditure are unlikely to be achieved without some difficult decisions.

Capital Programme

- 2.17 Since disposing of the housing stock in 2002 the Council has had ample capital resources and has not had to ration capital or limit schemes being added in to the capital programme.
- 2.18 The ambition of the Council and the availability of capital led to a four-year Capital Programme of more than £122 million being agreed as part of the budget on 29 January. This included nearly £30 million for the Arts Centre at Old River Lane, more than £20 million for the Grange Paddocks Leisure Centre, another £20 million for Hertford Theatre, nearly £16 million for the Multi-storey car park at Northgate End and another £10 million for the Hartham Leisure Centre.
- 2.19 It should be remembered that the original intention was not to deliver all of these schemes at the same time but judicial reviews and archaeological finds have caused considerable delays and produced the bumper crop of capital schemes.
- 2.20 Given the greater savings needed over the MTFP, it is important to consider the impact of the Capital Programme on the revenue account. Either later this financial year, or more probably in 2021/22, the Council will have used up its own capital resource and will be borrowing to finance capital activity.

- 2.21 Once the Council starts to borrow it will need to allow in the revenue account for the cost of both Minimum Revenue Provision (MRP) and the interest on the borrowing. MRP is a statutory requirement aimed at ensuring sufficient resource is put aside to repay debt. The amount of MRP is linked to the useful life of the asset financed by the borrowing. If we assume on average that assets will have a 40 year life span it would be appropriate to charge MRP of 2.5% per annum and use PWLB 40 year borrowing at 2.65% per annum.
- 2.22 Given that both MRP and interest will be cumulative as the £122 million of the capital programme is spent, this could mean additional charges to the revenue account by 2023/24 of £5 million. It is important to state here that a capital scheme could have positive revenue consequences but in future for this to be the case it will need to generate a return in excess of 5.5%.
- 2.23 Because of the delays mentioned earlier, some of the figures in business cases need to be updated for the effects of inflation. The impact of the pandemic also needs to be allowed for as this may have reduced capacity and consequently income and may have caused costs to rise. It is also worth considering potential Brexit impacts as we get closer to the end of the year. The consultants working on Grange Paddocks have recently highlighted that the imposition of World Trade Organisation tariffs from January 2021 could increase the costs at Grange Paddocks by £200,000.
- 2.24 Given the significant elements of change and uncertainty set out above, it is appropriate to update the business cases for the major capital schemes and consider the overall size of the Capital Programme. Members may well decide to continue with the programme in its current form but it is crucial that decisions on the programme are based on up to date information.

Overall Summary

- 2.25 Additional grant and compensation for lost fees and charges mean that the Council is likely to suffer only limited financial damage in the current year. The previous prediction for the need to use additional reserves in 2020/21 of between £1.4 million and £3 million has now been revised down to between £0.4 million and £1.2 million.
- 2.26 The need to remove the planned additional car parking revenue from the MTFP, together with other new costs coming forward has substantially increased the budget gap. At the time of the budget the MTFP had a cumulative budget gap of £1.6 million; this has now increased to nearly £4 million. Substantial new initiatives are needed to reduce costs or increase income over the next three years.
- 2.27 Capital can no longer be treated as a free good and appropriate allowance needs to be made in the MTFP for the consequences of the Capital Programme. In reviewing the Capital Programme for the 2021/22 budget, the business cases for major schemes should be updated and the overall size of the programme should be considered.

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 as an update for noting and so has no options associated with it.

5.0 Risks

- 5.1 There is a risk that without significant new initiatives to reduce net costs the Council will be using up a high proportion of reserves over the medium term.
- 5.2 There is also a risk that inappropriate decisions could be made on the Capital Programme if up to date information is not produced to base those decisions on.

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 imminent 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

Contact Member

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