


Agenda Item No:	8	
Committee:	Council	
Date:	06 August 2020	
Report Title:	General Fund Budget Update 2020/21	

1 Purpose / Summary

To provide members with an update to the 2020/21 budget in the light of the impact of COVID-19.

2 Key issues

- Council on 20 February 2020 approved a balanced budget for 2020/21 taking into account £157k of transformation savings identified but not yet implemented and with no use of the General reserve to balance the budget.
- Members will be aware of the Council's response to COVID-19 and reports have been considered by Overview and Scrutiny Panel on the actions taken by the council to date and also on the future implications and opportunities of the COVID-19 pandemic in relation to service delivery by Fenland District Council.
- This report concentrates on the financial impact of COVID-19 on the Council in the current financial year 2020/21 and the potential ongoing impact in 2021/22 and future years.
- There have been several government announcements of support packages to assist local government during the pandemic and these will assist in mitigating the significant spend pressures and income losses forecast for this year.
- There are too many uncertainties at the current time to accurately predict what the final impact will be on the Council finances this year. The figures contained in this report are current 'best estimates' and are consistent with the monthly financial monitoring returns submitted to MHCLG.
- Current forecasts for 2020/21 show a potential net impact of around £1.3m by the end of the year. Should income levels not begin to recover as anticipated later this year, this deficit could be significantly higher.
- Should there be no more government support then the final deficit will have to be funded from Council reserves.
- At this stage, due to the many uncertainties around the potential deficit for 2020/21, there is no requirement to formally approve an amount to be funded from reserves. The financial situation will continue to be closely monitored and updated during the budget-setting process for 2021/22 during autumn 2020.
- Despite the many challenges of COVID-19, the Council continues to focus on delivering quality services and to minimise the impact on front-line services.

3 Recommendations

- It is recommended that the contents of the report be noted.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Background Paper(s)	Medium Term Financial Strategy working papers. MHCLG COVID-19 local authority financial management information monitoring returns. Government announcements since February 2020.

1 INTRODUCTION

- 1.1 Council on 20 February 2020 approved a balanced budget for 2020/21. This included £157k of transformation savings which had been identified but not yet implemented. There was no expected use of the General reserve to fund the budget for 2020/21.
- 1.2 The impact of COVID-19 on the Council's delivery of services and finances have been and continue to be, significant and challenging. Members will be aware of the Council's response to COVID-19 and reports have been considered by Overview and Scrutiny Panel (on 8 June 2020 and 13 July 2020) on the actions taken by the council to date and also on the future implications and opportunities of the COVID-19 pandemic in relation to service delivery by Fenland District Council.
- 1.3 This report concentrates on the financial impact of COVID-19 on the Council in the current financial year 2020/21 and the potential ongoing impact in 2021/22 and future years. The financial implications for the Council are across a variety of spending pressures, income reductions and cash flow issues together with the impact on Council Tax and Business Rates collection and future income levels.
- 1.4 To assist the government with understanding the financial impact on local authorities, monthly financial monitoring returns have been submitted to MHCLG since April 2020. The next return is due on 31 July 2020.
- 1.5 There are too many uncertainties at the current time to accurately predict what the final impact will be on the Council finances this year. The figures contained in this report are current 'best estimates' and are consistent with the monthly financial monitoring returns submitted to MHCLG.
- 1.6 There have been several government announcements of support packages to assist local government during the pandemic and these will assist in mitigating the significant spend pressures and income losses forecast for this year. These are detailed later in the report.

2 Additional Spend and Income Reduction Pressures due to COVID-19

- 2.1 Delivery of all Council services has been impacted to varying degrees. The main service areas which are currently being impacted most significantly are as follows:
 - Homelessness and Rough Sleepers/Night Shelter residents – costs associated with providing temporary accommodation for all rough sleepers and residents of the night shelter which was forced to close. Additional pressure with more people presenting as homeless. The Council has to date received £8,250 grant from the £3.2m COVID-19 rough sleeper contingency fund;
 - Leisure Centre management – closure of all leisure centres since 21 March 2020 with phased re-opening planned for end of July 2020. Support for the management contractor has been agreed by Cabinet until the end of September. For the purposes of this report, further support until the end of the year has been assumed, albeit at a reducing level. This will however require further approval by Cabinet;
 - Domestic Refuse/Recycling service – cover for shielding staff and additional refuse round. Higher gate fees;
 - Finance & Corporate – ICT, homeworking arrangements, revenues and benefits administration, customer services, administration of Business Grants, communications, accommodation adaptations;
 - My Fenland Project – delayed implementation reducing savings achieved this year.

- 2.2 With regard to rough sleepers, The Next Steps Accommodation Programme (NSAP) was launched by the government on 18 July 2020. This programme makes available financial resources needed to support local authorities to ensure that as few individuals as possible return to the streets following time spent in emergency accommodation.
- 2.3 A total of £266m is available for 2020/21, comprising £105m (revenue only) to be used for immediate support for local authorities for shorter-term/interim accommodation and £161m (£130m capital funding and £31m revenue funding) to deliver 3,300 units of longer-term, move-on accommodation.
- 2.4 The MHCLG adviser teams will work hand in hand with local authorities to develop NSAP proposals aided where appropriate by experts on capital development schemes from Homes England's Affordable Housing Growth Team. Proposals for funding from this programme must be submitted by the end of Thursday 20 August 2020.
- 2.5 Funding from this programme has the potential to mitigate some of the additional expenditure pressure relating to rough sleepers.

Income reduction pressures

- 2.6 Many of the Council's income streams have been impacted by COVID-19. The most significant areas are as follows:
- Leisure Centre Management – deferral of monthly management fee approved for 6 months. For the purposes of this report, a further 6 month management fee deferral until the end of this year has been assumed. As detailed in the Cabinet report of 29 June 2020 on the proposed Freedom Leisure support package, this continued deferral of management fees until April 2021 is considered the best case expectation. This will however require further approval by Cabinet.
 - Planning Fees – reduction in activity
 - Council Tax and NNDR recovery – enforcement action ceased and magistrates courts not sitting resulting in loss of income from ARP bailiff service and court costs
 - Search Fees – reduction in housing activity
 - Trade Waste – loss of income due to reduced business activity
 - Economic Estates – no conference income to date this year
 - Marine Services – reduced shipping activity
 - Business Rates Pool – reduced pool benefit (see section 7)

Cash flow

- 2.7 With the additional costs, reduction in income and less Council Tax and Business Rates being collected (see Sections 6 and 7 below), these have had a detrimental impact on the Council's cash flow. This has been partly mitigated by the range of support packages implemented by the government to assist local authorities.
- 2.8 At the current time, there are no immediate concerns over the Council's cash flow over the remainder of the year. The main impact has been a significant reduction in investment interest income as result of a reduction in short-term investment interest rates (from already historic low rates), combined with less cash being available for investment. The forecast for 2020/21 is a £115,000 reduction in income from investments.
- 2.9 In addition, there will be a delay in accessing Property Funds whilst the impact of COVID-19 is fully understood, with a corresponding reduction in budgeted income this year of around £75,000.

2.10 Based on the last MHCLG COVID-19 financial monitoring information return submitted on 19 June 2020 and updated with the latest budget monitoring information as at the end of June 2020, the following is a summary of the estimated financial impact on the above spending pressures and income reductions. These will form the basis of the next MHCLG return due on 31 July 2020:

Estimated additional spend pressures and income reductions due to COVID-19

		April-June 2020-21	Full Year 2020-21
		£000	£000
Spend pressure			
Homelessness/Rough Sleepers	Temporary accommodation and Support costs	223	910
Leisure Management Contract	Agreed support to date - to end of September	165	320
Leisure Management Contract	Potential support to end of year - to be agreed	0	150
Domestic Refuse/Recycling	Additional staffing and vehicle costs to ensure continuation of service	28	120
Finance and Corporate Services	ICT, homeworking arrangements, revenue and benefits additional administration, customer services, administration of business grants, communications, accommodation adaptations	109	264
Other services	Public health, food safety	0	20
My Fenland Project	Delayed implementation - reduced savings in year	0	100
Total estimated Spending Pressure		525	1,884
Income reductions			
Sales, fees and charges losses			
Leisure Management Contract	Agreed deferral of management fee to end of September	113	225
Leisure Management Contract	Potential deferral of fee until end of year - to be agreed	0	228
Planning Fees	Reduction in activity	68	223
Council Tax and NNDR recovery	No enforcement fees or court costs	103	411
Search Fees	Reduced housing market activity	15	50
Domestic Refuse/Recycling	Lower fees from provision of bins	3	14
Trade Waste	Reduction in business activity - lower income off-set by lower disposal charges	22	93
Vehicle Workshop	Lower fees from taxi testing	3	6
Economic Estates	Lower occupancy of units	10	22
Economic Estates	Reduction in conference income	25	75
Marine Services	Reduction in shipping levels	33	72
Other Services	Reduction in cemetery fees, markets and fairs, licensing etc	14	44
Sales, fees and charges losses - subtotal		409	1,463
Other income losses			
Investment interest	Lower interest rates and reduced cash flow	29	115
Property Fund interest	Delayed access to funds	0	75
Business Rates Pool	Reduced share of pool benefit due to lower NNDR growth income	0	93
Other income losses - subtotal		29	283
Total estimated income losses		438	1,746
Total estimated spend pressures and income losses		963	3,630

3 Government support for COVID-19 pressures

3.1 To date, the government has provided £1,291,030 of direct grant support to this Council, primarily aimed at addressing the expenditure pressures being incurred. This support has been announced in three tranches to date as follows:

- First Tranche announced on 20 March 2020 of £1.6bn for local government with this Council allocated £65,197. The majority of this first tranche was aimed at getting emergency support into Adult Social Care.
- Second Tranche announced on 28 April 2020 of a further £1.6bn aimed at addressing both expenditure pressures and income shortfalls and distributed on a per capita basis. This Council's allocation was £1,023,768.
- Third Tranche announced on 2 July 2020 of a further £500m to cover local authority spending pressures. With the benefit of data from the MHCLG monitoring returns, the government has created a new formula to distribute this additional funding. This formula reflects the factors which the data returns have indicated correlate most closely with front-line expenditure – population, deprivation and the way that service costs vary across the country. This, the government say ensures funding is targeted to where it's most needed. This Council's allocation was £202,065.

3.2 The government also announced on 2 July 2020, as part of the support package various other measures to mitigate the impact of COVID-19 on local authorities. These are as follows:

- A co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the government covering 75% of losses beyond 5% of planned income;
- Phased repayment of Collection Fund deficits over the next 3 years;
- A commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review.

3.3 With regard to the income loss scheme, MHCLG are implementing a principle based approach in acknowledgement that individual councils will be best placed to determine what losses they should be claiming for. The 3 principles of the scheme are as follows:

1. Transactional income from customer and client receipts (excluding commercial revenues and rental amounts and investment income) which is generated from the delivery of services which was budgeted for in 2020/21;
2. As a result of COVID-19 and consequent reductions in economic activity, these income sources have been unavoidably lost and won't be recovered in this financial year;
3. Compensation should be based on net losses, where a local authority has been able to reduce expenditure, or has received other compensation, only the residual loss would be compensated for.

3.4 Based on the estimated Sales, Fees and Charges losses of £1.463m detailed in the table at 2.3 above, the amount of compensation to be received would be calculated as follows:

	£000
Total 2020/21 budgeted income for service areas identified:	4,191
5% of planned income (not compensated for)	210
Estimated Sales, Fees and Charges losses	1,463
Less 5% not compensated for	<u>-210</u>
Estimated losses eligible for compensation	1,253
75% income loss compensation	940

4 Other variances in 2020/21

4.1 In addition to the net impact of COVID-19 pressures, there are several other budget variations which will impact on the final position at year-end. These are detailed below:

		Full Year
Other budget variances 2020/21		£000
Employee costs	Pay award offered at 2.75% compared with 2% budgeted for	85
Employee costs	Budgeted vacancy factor not being achieved	200
Housing Benefits	Net impact of subsidy, overpayments and bad debts provision	100
Corporate Management	Increase in External Audit fees (£15k p.a. backdated to 2019/20)	30
Domestic Refuse/Recycling	Higher gate fees from contract off-set by higher recycling credits	46
Internal Audit	Joint arrangements with KL&WN and lower contract staff costs	-48
Legal Services	Joint working arrangements with Peterborough City Council	-41
Garden Waste	Higher subscription fees	-29
Recreation Grounds	Lower Grounds Maintenance Contract costs	-24
Housing Standards	Higher enforcement fees	-52
Community Events	Reduced number of events in year	-38
Finance Charges	Reduction in Minimum Revenue Provision	-176
Government Grants	New Burdens funding for administering Business Grants schemes	-130
Total Other Budget variances 2020/21		-77

5 Net Impact of COVID-19 pressures and other variances on 2020/21 budget

5.1 Taking into account the estimated spend pressures, income losses, government support and other variances, the current projected net impact on 2020/21 is as follows:

	£000
Estimated spend pressures	1,884
Estimated income losses	1,746
Total estimated pressures	3,630
Government grant support to date	1,291
Estimated income loss compensation	940
Total estimated government support	2,231
Estimated impact of COVID-19 pressures	1,399
Total estimated other variances	-77
Net impact on 2020/21	1,322

5.2 This is a best estimate at the current time. There are however, simply too many uncertainties to accurately predict what the final net impact will be in 2020/21. The financial situation will continue to be closely monitored and updated during the budget-setting process for 2021/22 during autumn 2020.

5.3 If no further government support is forthcoming, whatever the final deficit will be at the year-end will have to be funded from the Council's reserves.

6 Council Tax

- 6.1 The impact on Council Tax collection this year mainly relates to a reduction in cash received as customers seek alternative payment arrangements and an increase in the number of working age Council Tax Support (CTS) claimants with a corresponding increase in the amount of Council Tax Support awarded.
- 6.2 A reduction in cash received and an increase in the amount of CTS awarded has no direct impact on the revenue account in 2020/21, apart from variations in cash flow which may impact on the amount of investment interest received. At the end of June 2020, the Council Tax collection rate was 0.85% behind target, representing £862k less cash received.
- 6.3 A reduction in cash received during this year will result in an increase in arrears which will increase the bad debts provision required and consequently increase the deficit in the Council Tax Collection Fund at the year-end. The Council continues to collect arrears in future years.
- 6.4 An increase in CTS claims and amount awarded will also result in increasing the deficit on the Collection Fund at the year-end as the net Council Tax due in the year reduces but the amount paid to each of the preceptors remains the same as budgeted.
- 6.5 The number of CTS claims and amounts awarded at the end of June 2020 compared with March 2020 are detailed in the table below:

	CTS cases and amount awarded : March – June 2020			
Date	Impact on Council Tax-base	CTS awarded	Working age claims	Pensioner claims
31/3/20	-3,743	£7.385m	4,244	3,472
30/6/20	-3,960	£7.801m	4,702	3,431
Change March to June 2020	-217 -5.80%	+£0.416m +5.63%	+458 +10.79%	- 41 -1.18%

- 6.6 We are expecting the number of working age claims to increase further later this year as the government's 'furlough' scheme comes to an end together with a predicted increase in unemployment. The extent of this expected increase is extremely uncertain at this time but could be significant.

COVID-19 Council Tax Hardship Fund

- 6.7 To assist working age CTS claimants, the government announced the £500m COVID-19 Hardship Fund at the Budget on 11 March 2020. This Council's allocation is £907,222. This funding is to provide all recipients of working age local council tax support during the financial year 2020-21 with a further reduction in their annual council tax bill of up to £150, using their discretionary powers to reduce the liability of council tax payers outside of their formal CTS scheme design.
- 6.8 It is currently estimated that all of this Council's allocation will be used to reduce working age CTS recipient's council tax bill during this year, both current recipients and expected future claimants.

Collection Fund Deficit

- 6.9 In normal circumstances any deficit on the Collection Fund at year-end would be recovered from the major preceptors (County Council, Police, Fire and Fenland) the following year, in 2021/22 and is a charge to the revenue account. Any deficit at year-end is charged to each of the major preceptors in proportion to their Council Tax requirement. This Council's share of any deficit at the end of 2020/21 will be 15.66%.
- 6.10 However, as part of the government support package announced on 2 July 2020, it is proposed that the deficit on the collection fund at year-end be spread over the following 3 years (2021/22 – 2023/24) to ease immediate pressures on budgets. For example, if this Council's share of the deficit at year-end was £300,000, then this could be spread over the next 3 years at £100,000 per year instead of the whole amount being recovered in 2021/22.

Impact on Council Tax in 2021/22 and Medium Term

- 6.11 Higher levels of arrears and consequently bad debts provision could continue into 2021/22 and over the medium term. This will reduce the Council Tax-base for those years and consequently the amount of Council Tax raised if Council Tax levels remain unchanged.
- 6.12 Higher CTS claims and amounts awarded could also remain into 2021/22 and the medium term. This will also reduce the Council Tax-base if the CTS scheme remains unchanged.
- 6.13 The extent to which the Council Tax-base is impacted by the above is currently very uncertain. The Council Tax Collection Fund will continue to be closely monitored and updated during this year and the impact on future years continually assessed.

7 Business Rates

- 7.1 The impact on non-collection of Business Rates during this year on the Collection Fund at year-end is similar to that detailed in 6.3 above. The amount of Business Rates to be collected this year is around £8.5m less than estimated as a result of the expanded retail relief scheme. This Council's share of the loss of business rates (40%) as a result of this relief is reimbursed by the government. However, due to the way Business Rates are accounted for, this additional grant money will result in a 'surplus' on the revenue account in 2020/21 and a 'deficit' on the collection fund of the same amount which is recovered in the following year, 2021/22. Thus, over the 2 years there will be no net gain or loss relating solely to the expanded retail relief scheme.
- 7.2 Excluding the expanded retail relief scheme, there will be a deficit on the Collection Fund at year-end as a result of higher bad debts provision, lower rates due as a result of amendments to rateable values (this year there will be significant reductions due to changes in the rateable values of purpose-built GP surgeries and with ATM's being taken out of the rates system) and higher appeals provision. The extent of this deficit at year-end and this Council's share of it (40%), is difficult to estimate until later this year as the extent of the above becomes more certain.
- 7.3 To assist with cash flow relating to business rates in 2020/21, the government has announced the following:
- a deferral for 3 months of payment of their share of business rates income due (as determined by the NNDR 1 return, completed in January 2020). This has moved £3.3m of payments due to government in April-June to later in the year.
 - S31 grant due for the year for reimbursement of business rates relief (excluding the expanded retail relief), £1.5m, has been paid in full rather than in monthly instalments. Local authorities are also receiving monthly grant payments to reimburse them for the cost of the Expanded Retail, Hospitality and Leisure relief scheme.

Business Rates Pool

- 7.4 Members will be aware that for 2020/21 this Council is part of a Business Rates Pooling arrangement (with County Council, Fire, Peterborough, East Cambs. and South Cambs.), whereby any levy payment due from these authorities on business rates growth in the year is paid into a 'pool' rather than to the government. The 'pooled' amount is then redistributed to members of the pool in accordance with the pooling agreement.
- 7.5 As part of the approved budget for 2020/21, an amount of £370,000 was included as this Council's share of the pool. It is anticipated that the level of business rates growth this year will be lower than estimated as part of the original budget proposals. Consequently, we are currently anticipating a 25% reduction, £92,500 in the share of pool receipts.

Impact on Business Rates in 2021/22 and Medium Term

- 7.6 The proposal regarding spreading Collection Fund deficits at year-end over the following 3 years also applies to Business Rates. The extent of this deficit at year-end and this Council's share of it (40%) is difficult to estimate at the current time. The Business Rates Collection Fund will continue to be closely monitored and updated during this year and the impact on future years continually assessed.
- 7.7 Reductions in rateable values as detailed in 7.2 will have a direct impact on future years Business Rates income unless there is a corresponding growth in business activity in the district.
- 7.8 The government has announced that the Fair Funding Review, reform of the Business Rates Retention system and the Business Rates revaluation, all of which were expected to be implemented from April 2021 have been delayed until April 2022 at the earliest. The next Business Rates revaluation will be carried out in April 2023 to allow for the effects of COVID-19 to work through the system.
- 7.9 The Government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021-22 local government finance settlement.
- 7.10 This means there continues to be considerable uncertainty over the impact of these on the Council's Medium Term Financial Strategy. This will be updated in the autumn as part of the budget-setting process for 2021/22 with the latest information available at that time.

8 Impact on 2021/22 and MTFS

- 8.1 The extent to which the current pressures will have an ongoing impact on 2020/21 and over the MTFS is extremely uncertain at the current time. How much of the expenditure pressures will continue into the future may become clearer later this year. How soon income levels will recover to their previously estimated levels is extremely difficult to predict. Consequently, at this stage no attempt has been made to predict the impact on 2021/22 and the MTFS.
- 8.2 It is though almost certain that, as detailed in this report, there will be an ongoing and significant impact on Council Tax and Business Rates collection and future income from these sources.