



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**



# Cabinet

16 June 2020

**Report of:** Councillor Adam Stokes

Cabinet Member for Finance and Resources

## Financial Impact Report

This report summarises the latest position on the 2020/21 Budget framework as a result of the financial impact of the COVID-19 crisis

### Report Author

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Corporate Priority:	Decision type:	Wards:
<b>Administrative</b>	<b>Budget and Policy Framework</b>	<b>All Wards</b>

<b>Reviewed by:</b>	Alison Hall-Wright, Head of Finance	2 June 2020
<b>Approved by:</b>	Karen Bradford, Chief Executive	3 June 2020
<b>Signed off by:</b>	Councillor Adam Stokes, Cabinet Member for Finance and Resources	3 June 2020

### Recommendation (s) to the decision maker (s)

#### Cabinet is asked:

- 1) To review the current financial position for 2020/21 and comment on the actions being taken as detailed in the report;
- 2) To agree to continue to monitor the current 2020/21 financial position and recommend amendments to the budget framework at their meeting on 8 September 2020 for consideration by Council on 17 September 2020.
- 3) To suspend car parking charges until 1 August 2020 at all Council operated pay and display car parks.
- 4) To continue the remuneration bonus payment of £50 to drivers, operatives, team leaders, supervisors, vehicle fitters and support staff working within the street

**scene service (together with any staff seconded to the service during the COVID-19 response period) for the period up to and including 30 September 2020. The bonus payment received by part time and casual staff will be on a pro rata basis.**

- 5) To re-introduce the billing of rent to the SMEs (small, medium enterprises) that occupy Council premises from 1 July 2020 and delegate authority to the Interim Director of Finance, in consultation with the Cabinet Member for Finance and Resources, to suspend rents for individual tenant businesses that meet criteria in relation to hardship**

## **1 The Background to the Report**

- 1.1 This report is primarily focussed on reviewing the impact the COVID-19 pandemic is having on the 2020/21 financial although there was an impact on the previous financial year of £48k. This was due to the impact of the restrictions imposed from the middle of March and the 'stay at home' message on 23 March 2020 which immediately impacted on car parking (£39k) and market income (£9k). However as the provisional outturn of the 2019/20 financial year nears completion it is positively demonstrating that the adverse variance can be accommodated without any recourse to reserves.
- 1.2 With the exception of these headings the financial impact on the 2019/20 year has been minimal and can be contained within the budget framework.

### **2020/21 Financial Position**

- 1.3 The budget for 2020/21 was approved by Council on 2 March 2020. The budget did include a number of new investment initiatives, savings and transformation projects that totalled approximately £1m. Due to the current financial situation and the need for the Council to re-allocate its focus and resources on responding to the crisis, the ability to deliver the budgeted savings will be significantly affected in the current year. Therefore, it will be necessary later in the year for Council to approve an amended budget framework and Cabinet will be considering the proposed amendments at its September meeting. The amended budget framework will also reflect the reduction in fees and charges income, Government grants received and emerging costs that were not included in the original spending plans.
- 1.4 This section of the report sets out the financial impact following the introduction of stringent movement restrictions announced by the Prime Minister on 23 March 2020. This situation is likely to continue in the short to medium term as the lifting of the restrictions are eased over the medium term. Therefore, it is important that Members are kept fully updated over the coming period which is highly likely to culminate in a requirement to present an amended budget framework for Members consideration later in the year.
- 1.5 It is recognised that it is necessary to undertake regular assessment of the impact of the situation as there is no clear easing of the current restrictions. However, there are several key areas where the impact can be identified, and modelling can be undertaken to assess the financial consequence both immediate and longer term. The key income areas affected are:

<b>Service Area</b>	<b>Gross Income Annual Budget (£)</b>	<b>Actual Loss of Income for the period 1 April – 29 May (£)</b>	<b>Forecast Impact – 3 months (£)</b>	<b>Commentary</b>
Arts Centres	1,149,250	191,542	287,313	Assume closure for 3-month period
Building Control	657,900	62,770	98,685	Assumed 50% reduction over 3-month period. (This is the partnership impact and it is anticipated that the income losses will increase over the coming months)
Car Parking fees	1,293,000	214,484	323,250	No charges for 3 month period. To be reviewed on 30 June 2020
Planning and Land Charges	1,370,600	138,248	197,673	Assumed 50% reduction over 3-month period
Markets	252,700	36,218	50,000	Occupancy is averaging 10% of budgeted attendance. Occupancy is expected to increase from 1 June 2020
Licencing	282,500	20,081	25,000	Currently a 50% reduction in income compared with budget
Property Commercial Income	1,107,850	52,571	77,550	This represents one quarter deferred income

<b>Service Area</b>	<b>Gross Income Annual Budget (£)</b>	<b>Actual Loss of Income for the period 1 April – 29 May (£)</b>	<b>Forecast Impact – 3 months (£)</b>	<b>Commentary</b>
Trade Waste	366,500	26,511	41,231	Assumed 45% reduction over 3-month period
Treasury Investment Interest	236,000	15,000	23,600	0.5% interest received compared to 0.9% budgeted
<b>Totals</b>	<b>6,716,300</b>	<b>757,425</b>	<b>1,124,302</b>	

- 1.6 It can be seen from the table above that there are a number of areas that are now extremely volatile due to the current situation and the financial exposure from both a cash flow and budget perspective is now apparent. To date there has been £757k of lost income compared to the budgets over a two month period. For the first quarter of the financial year, this is predicted to be in the region of £1.1m. However, it is anticipated that some of the income losses listed above will be offset by reduced expenditure where there are associated variable costs. Work is underway to identify these costs and this analysis will be incorporated into the amended budget proposals.
- 1.7 Income modelling is being undertaken based on 3, 6, 9 and 12 month scenarios and the model is updated as changes in the current restrictive measures are announced that may have a positive impact. A summary is shown at Appendix A and shows that the financial exposure for the 3 month period is highly predicted to be in excess of £1m. The full year impact could rise to £3.8m based on an assumed improving picture for the remaining months (July – March 2021). This will be heavily dependent upon the easing of restrictive movements and the level of economic recovery.

### **Cash Flow Modelling**

- 1.8 Cash flow is a key area of focus in the current circumstances. Appendix B shows in greater detail the main cash flow areas from both income and expenditure. The method of cash flow modelling has been agreed countywide with all authorities working collaboratively to share approaches and good practice to ensure a consistent methodology is adopted.
- 1.9 The model shows the actual activity for April and May when compared to the forecast and the predicted forecast for the remaining months. The main area of concern is the impact that the current economic situation is having on cash income levels as this affects the Council's ability to meet its contractual obligations in terms of staffing, precept payments and suppliers. The summary of the 2 months presents a positive picture as collection rates continue to be at a relatively high level and the Government intervention of deferring Business Rates pool payments for a 3 month period (April – June) has been of great assistance. In addition the Government has begun to make Section 31 grant payments to

offset the income losses resulting from the extended Business Rate relief package announced in the Spring Budget. So in overall terms the cash flow has performed strongly in April and May. The cash flow model has been stress tested and mitigating actions undertaken are:

- Investments balances have been placed on call accounts and Money Market Funds that enable quick and easy access to funds.
- The Government has deferred the Business Rates pooling payments for the 3 month period (April – June) meaning the Council can make the equivalent payments from July onwards in the financial year.
- Creditor payments have significantly reduced as a result of the Capital programmes being deferred and so average creditor payments of £5.2m per month are forecast to reduce to £3m in the next few months or until the capital programmes are re-commenced.

1.10 Based on the current profiling the cash flow does not anticipate any difficulties in the short term (based on the actual activity to date) and the modelling assumptions for the next 3 month period. However, income activity with respect to Council Tax and Business Rates will remain a key focus. Whilst the recovery policy has been suspended for the current time, Council staff will continue to actively engage with residents and businesses to ensure that payments continue to be made where possible. More detail is provided in the next section of the report.

### **Council Tax and Business Rates**

1.11 These funds are key income sources to the Council and as such are being carefully monitored to measure the impact of the current situation on collection rates.

- The Council expected to collect £17.120m of Council Tax income during April and May but received actual income of £16.403m, although 1,814 accounts have requested a deferral on their instalments which will have impacted on the collection performance. For Business Rates, the collectible amount for April and May was £6.131m and collected £5.450m.

1.12 Business Rates – the Council is currently part of the Lincolnshire Business Rates Pool which has run successfully since 2013/14. Based on seven successful years and similar forecasts for 2020/21, the Lincolnshire authorities agreed to run the Pool for 2020/21. Based on the business rates estimates prepared for the year, the Pool was expected to increase the retained financial resources locally by £7.3m (of which £900k was forecast for South Kesteven). Obviously the current crisis will have an impact on the forecast local surplus and modelling has been undertaken by external financial support on behalf of all Pool members (Lincolnshire authorities). It is worth noting that at this stage it is extremely difficult to predict the impact on the Pool due to a high number of unknowns and the state of the local, regional and national economy once restrictions are eased. The analysis undertaken has been to show reductions in business rates income for individual authorities and at what point the Pool begins to make a loss. The analysis has been done on a uniformed basis assuming a consistent reduction in revenues across the Pool area although work has commenced to analyse individual authority impact by analysing the business rates base by sector type. The initial findings are:

- A 5% reduction in forecast business rates reduces the surplus from £7.3m to £4.9m
- A 15% reduction in forecast business rates reduces the surplus from £7.3m to zero

- A 20% reduction in forecast business rates reduces the surplus from £7.3m to a loss of £3.5m

Modelling will be undertaken at the end of quarter 1 (end of June) to assess the initial impact and to provide an updated forecast for the remainder of the year.

- 1.13 The tax base for South Kesteven has also been analysed to assess the level of exposure to economic recovery. The Valuation Office has a business category list of 362 types and these have been broken down into low, medium and high risk relative to the sector (ie retail and hospitality is currently classified as higher risk). This analysis reveals the following for South Kesteven and confirms that the business sector spread is below the regional average:

Heading	Percentage of tax base in each risk category		
	Higher	Medium	Lower
South Kesteven	22%	28%	50%
City of Lincoln	35%	28%	37%
Lincolnshire	24%	31%	44%

- During April and May direct debits have continued and the following is a summary of the amounts collected and rejected:

Fund	Amount Called (£)	Number of accounts	Rejected (£)	Rejection Rate	Benchmarked Rejection Rate
Council Tax	13,395,489	92,198	103,836	0.78%	<1%
Business Rates	2,629,111	1,557	89,375	3.4%	2%
Rents	1,016,774	5,905	41,348	4%	5%

- 1.14 The rejection rates are being reviewed and compared across Lincolnshire to ensure there is a shared understanding of rejection levels and to help identify any adverse trends that may occur. However for the immediate two month period following the pandemic, rejection rates are broadly in line with our local authority neighbours. For Businesses, a number took the decision to cancel their direct debits in order to support their business cash flow or because they considered themselves to be eligible for reliefs that were being announced by Government.

- 1.15 One other area that is currently being reviewed is the Council's Collection Fund which is a separate account held by the Council to record all payments received in relation to Council and Business Rates. The Fund also records the precepts made to all precepting authorities specifically Lincolnshire County Council and the Police and Crime Commissioner. The risk being carried is that the estimated cash payments made to the precepting authorities were set in January 2020 in accordance with statutory requirements. Should the collection rates during this year reduce as a result of the current crisis, the Council's cash flow would be adversely affected. Therefore the Council could face a situation where it is paying precept

payments that are greater than the income that it has received from businesses and residents. This risk is incorporated into the risk register which details the appropriate mitigating actions.

### Additional Financial Considerations

1.16 Inevitably there has been a need to incur additional expenditure in response and these are being captured in order to ensure grant monies received are used to offset and also to assist in information sharing across the local authority family and Government returns. The following is a summary of the main areas:

Heading	Detail	Financial Impact
Formation of the Community Hub	Redeployment of staff from non essential areas into the Community Hub	Cost neutral to date
Furlough of staff	12 officers from the Building Control partnership furloughed from 28 April	Overall saving £19.5k per month and Authority saving of £5k per month*
Key Expenditure	Purchase of PPE equipment for specific essential workers, software changes to support new grant schemes, administration costs	£48k incurred to date
Changes to salaries	Increase in remuneration to operatives and increase in overtime rates	Forecast at £35k per month depending upon number of operatives and hours worked
Bed and Breakfast	Increase in demand and response to Directive to provide housing for all homelessness cases	£15k for one month based on 346 additional nights
Leisure Provider claim	Leisure provider has submitted a claim for financial losses.	At the present time the claim is being reviewed. Details of the claim are exempt and shown at appendix D
Adaptation of HRA properties	Modifications to specific properties in order to accommodate more bedsits	15 conversions at an estimated cost of £37k

\* an update on furloughing of staff will be provided at the meeting

### Funding

1.17 To date the Council has received two Government funding tranches totalling £1,480,912:

Amount Allocated	Proportionate share to South Kesteven	Basis of Allocation
£1.6bn	£64,622	Mixture of Adult Social Care Relative Needs

		Formula (87%) and Settlement Funding Assessment (13%)
£1.6bn	£1,416,290	Allocation based on a per capita basis, and a 65:35 split between county and district authorities

This funding is designed to meet the costs of dealing with the current crisis, offsetting some of the budget shortfalls being experienced and help support short term cash flow. However it is recognised that further funding will be required as the wider implications and longer term impact of the crisis becomes clearer. At the present time there is no indication that further funding will be available although there continues to be an ongoing dialogue with the Government utilising established Council networks.

### Capital Schemes

1.18 The capital programmes for both General Fund and the Housing Revenue Account have been re-profiled to take consideration of the current climate with the majority of schemes delayed until later in the financial year. It is not known whether the budgets will be accurate given the predicted volatility in the procurement market once the economic recovery starts. Therefore the programmes and the associated funding will require reviewing later in the year. The funding of the programmes are largely internally sourced and so in the short term, cash balances are higher than originally envisaged although offset by a low interest rate (0.52%). Going forward consideration will be given to the financial modelling and phasing of the large scale projects including St Martins Park Stamford, the leisure investment programme, Historic Action Zone, Future High Street initiative and the Housing Revenue Account new home building programme. These projects are significant financial commitments from both a capital (and to a lesser extent) revenue perspective and the Future High Streets and the leisure investment programme are currently not included in the medium financial plans of the Council. Careful consideration will need to be given to ensure the affordability of these projects within the context of the post COVID-19 recovery plans.

### Government Schemes

1.19 During April and May there were a number of schemes announced by Government which have been administered by the Council with the support of InvestSK.

- Extended Retail Relief Scheme. The Government has extended the eligibility criteria for the 100% business rates retail relief to include other sectors specifically the leisure and hospitality sectors. This is for 2020/21 only and 686 additional businesses in the District have benefited from this extension and £17.4m of relief has been awarded.
- Funding has been made available to help small, rural, retail, leisure and hospitality businesses with their ongoing business costs in recognition of the disruption caused by COVID-19. The grants are split into two categories:
  - Small Business Grant Fund - £10k
  - Retail, Hospitality and Leisure Grant Fund - £10k and £25k (depending on rateable value)

To date £27m has been passed to 2,254 eligible businesses (87% of those classified as eligible).

The Government has recently announced an extension to the grant scheme and has allocated a further £1.6m to enable the Council to develop a discretionary scheme to support those businesses that fall outside the criteria for the original grant scheme. The scheme went live on 1 June 2020 and was supported by a targeted media campaign to ensure that businesses that are potentially eligible for support are provided with the opportunity to apply.

- Council Tax Hardship Fund – The Council has been allocated £924k to provide financial support to working age claimants who are eligible for Council Tax support. This will be implemented in the coming weeks and for the 2020/21 Council Tax bills and will be available for new claimants for the remainder of the financial year. It is anticipated that there will be a tenfold increase in claimants for the remainder of the year. For context there has been an increase of 68% in contacts to the Benefits team from residents seeking information and support and these have been responded to accordingly.

### **Finance Risk Register**

- 1.20 A Risk Register has been prepared and is shown at Appendix C setting out the financial risk categories and the actions that are in place to mitigate those risks. The register is dynamic and responsive and will be updated and amended during this period to ensure appropriate actions are put in place when the need arises.

### **Amended Budget 2020/21**

- 1.21 It will be necessary to seek approval for an amended budget later this year in order to make the necessary changes to both income and expenditure reflecting the changes detailed in this report. The amended budget proposals will be presented to a joint Budget Overview and Scrutiny Committee meeting the provisional date of which is 26 August and then presented to Cabinet on 8 September ahead of Council on 17 September.

### **Summary**

- 1.22 The report sets out the main headings of the financial impact of the current situation. It is a changing picture and the Council responses will be modified and adapted as the national easing of restrictions becomes clearer.

## **2 Consultation and Feedback Received, Including Overview and Scrutiny**

- 2.1 A version of this report was presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on 26 May 2020. The Committee requested that regular reports be presented at each Overview and Scrutiny Committee meeting to ensure members were kept fully updated on the changing situation. There were no direct recommendations to Cabinet arising from this meeting.

## **3 Available Options Considered**

- 3.1 No other options were considered, a financial update was requested by Councillors.

## **4 Preferred Option**

- 4.1 As set out in the recommendations.

## **5 Reasons for the Recommendation (s)**

- 5.1 As set out in the report.

## **6 Next Steps – Communication and Implementation of the Decision**

- 6.1 Feedback from Scrutiny Councillors will be fed back to Cabinet in readiness for the amended budget proposals for 2020/21. An amended budget framework will be presented to Cabinet prior to Council in September 2020.

## **7 Financial Implications**

- 7.1 This report sets out the financial implications of the current position and informs members of the current volatility with both income losses and cash flow projections.

**Financial Implications reviewed by: Richard Wyles, Interim Director of Finance**

## **8 Legal and Governance Implications**

- 8.1 As part of good governance, it is important members are kept updated in respect of the financial position of the Council expenditure during the course of the year. This is particularly important during the current crisis.

**Legal Implications reviewed by: Shahin Ismail, Director of Law and Governance**

## **9 Equality and Safeguarding Implications**

- 9.1 Not applicable.

## **10 Risk and Mitigation**

- 10.1 The associated financial risks and mitigations in place are detailed throughout the narrative in the report and form the basis of the modelling that is in place. This is an explicit element of the cash flow modelling. A risk register is shown at Appendix C and will be updated as required.

## **11 Community Safety Implications**

Not applicable.

## **12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?**

- 12.1 The report has a neutral carbon impact.

## **13 Other Implications (where significant)**

- 13.1 The identified implications are referenced in the report.

## **14 Background Papers**

- 14.1 Council Budget Report:

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=261&MId=3827&Ver=4>

Finance, Economic Development and Corporate Services Overview and Scrutiny Committee Report:

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=664&MId=3897&Ver=4>

## 15 Appendices

- 15.1 Appendix A – Potential of Financial Impact on Budgets
- 15.2 Appendix B – Cashflow Modelling
- 15.3 Appendix C – Finance Risk Register
- 15.4 Appendix D – Exempt item (commercial details relating to the Leisure Provider)

<b>Report Timeline:</b>	Date of Publication on Forward Plan (if required)	Not applicable
	Previously Considered by:	Not applicable
	Final Decision date	Not applicable