

8 September 2020		ITEM: 6
Corporate Overview and Scrutiny Committee		
Financial Update		
Wards and communities affected: All	Key Decision: Non-Key	
Report of: Sean Clark, Corporate Director of Finance, Governance and Property		
Accountable Assistant Director: Jonathan Wilson, Assistant Director Finance		
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property		
This report is public		

Executive Summary

This report sets out an update on the impact from the Covid-19 Pandemic on the Council's General Fund and Housing Revenue Account (HRA) budgets. This builds on the previous report to the committee and sets out the impact on the projected budget position.

Members should note that the reported position continues to be updated as the ongoing impacts continue to be assessed over the short, medium and longer term.

The report also updates on the impact on the 2021/22 budget, as well as the wider impact on the MTFS which has now been quantified and requires action to bring this back into balance over the next three years. As previously noted, the Council has significant reserves available to support the response to the impact in the current financial year providing additional security against financial pressures.

Recommendations:

- 1.1 That the committee comments on the assumptions and financial implications set out in the report.**
- 2. Introduction and Background**
 - 2.1 This report provides an update on the financial impact of the Covid-19 pandemic and sets out how the financial pressures link to the delivery of key services and support to our communities. As with other councils, our estimated costs presently exceed the confirmed funding from the Government to date.

2.2 The information is based on current knowledge and will fluctuate on a regular basis depending on our assessment of new and emerging risks and opportunities.

3. Government Support to Local Government, Businesses and Community

3.1 The Government have announced a number of initiatives and support to be delivered through Local Government. These were set out in the previous report to the Committee.

3.2 Since then the following additional support has been made available:

- A further £0.5bn for support to local government to meet Covid19 financial pressures;
- The Department of Health and Social Care announced £300m of funding to provide support to local authorities in England towards expenditure lawfully incurred or to be incurred in relation to the mitigation against and management of local outbreaks of COVID-19;
- The Emergency Active Travel Fund was announced with £225m to local authorities to deliver a range of measures in local areas across England which will help make cycling and walking safer and facilitate more trips via active modes. The money is being released in two phases. The first tranche of £45m has been released, the second tranche of £180m will be released later in the financial year;
- The Reopening High Streets Safely fund is providing £50m from the European Regional Development Fund (ERDF), to support local authorities in England to put in place additional measures to establish a safe trading environment for businesses and customers, in particular across high streets;
- The Department for Education and the Department for Transport announced £40m funding for transport authorities to provide new dedicated school and college transport in the autumn term. This will provide an alternative to public transport, supporting the government's policy for children and young people to return to full time education in September whilst allowing for social distancing measures;
- DEFRA announced an Emergency Assistance Grant with £63m of funding will be distributed to local authorities in England to help those who are struggling to afford food and other essentials due to coronavirus;
- The Department for Culture, Media & Sport published details of the funding currently available from its £1.57bn Culture Recovery Fund. There are a number of different strands of the fund, most of which may be accessible by local authorities; and

- MHCLG announced that it will be providing £105m of funding across England to support rough sleepers and those at risk of homelessness into tenancies of their own. This is made up of £85m of new funding from HM Treasury and £20m redirected from existing homelessness and rough sleeping budgets.
- 3.3 MHCLG has also now issued the detail for the income losses support scheme. This will compensate councils for income losses for up to circa 70% where the income stream qualifies for support. This will be reviewed in detail and, once quantified, expected compensation will be included in the projected financial position.
- 3.4 Councils continue to submit monthly returns to the MHCLG setting out the financial impact on councils. This is to both monitor how any grant funding is being spent and to understand the impact on budgets across the country. This continues to assist MHCLG in their understanding of the financial impacts arising from the pandemic.

Further Financial Allocations Awarded to Thurrock Council

- 3.5 Since the report to the previous committee the following further financial allocations have been made to the Council:
- 3.6 Direct Revenue Funding to manage the effects of Covid19:
- The Council initially received £4.374m from the first tranche of support and £4.836m from the second – a total of £9.210m. This has been increased in a third tranche by £1.547m to a total of £10.757m. This continues to be allocated to the overall pressures experienced.
- 3.7 Ring-fenced financial allocations to the Council:
- Further allocations have been made as set out below. These amounts are ring-fenced for the specific purposes identified and are:
- Test and Trace Service Support Grant – The council has been allocated £1,050,883. This has initially supported the setup of the local test and trace system which links into the wider national process;
 - Emergency Active Travel – The council's revenue allocation has been set at £43,200 with a further capital funding allocation of £244,800. This continues to support local schemes to develop active travel such as proposed new cycleway;
 - Reopening the High Street Fund – The council's allocation has been set at £155,810. This continues to support measures to manage the potential impact of Covid-19 in high street settings in the borough;
 - Emergency Assistance Grant – The council's allocation from DEFRA has been set at £193,819 and is being used to support the most vulnerable in the borough;

- Rough Sleeping - MHCLG has not yet indicated how much of the funding will be provided to individual local authorities;
- The Culture Recovery Fund – the Council is assessing the different strands of the scheme to identify the potential support available in the borough; and
- Bikeability training fund - £560 has been reclaimed through this training fund to date.

3.8 Business Rates Relief and Progress:

The previous report to the Committee set out the position in respect of business rates reliefs and grants. The updated position is set out below:

- For the current tax year the Government has extended Business rate relief to all businesses within the Retail, Hospitality and Leisure sector irrespective of rateable value. As at 26 August 2020, a total of £51.3m in Business Rates relief has been awarded to over 900 qualifying businesses within Thurrock;
- A cash grant scheme covering all businesses that are in receipt of one of the reliefs above - £10,000 to each business with a rateable value of less than £15,000 and £25,000 for those with a rateable value between £15,000 and £51,000. As at the 26 August 2020, over 1,700 grants have been paid out to qualifying businesses for a total value of £21.9m;
- The Government has announced that the cash grant scheme will close at the end of August 2020 and further communications have been issued to encourage any businesses who believe they may qualify, and have not yet done so, to provide their details before the deadline; and
- The discretionary grants scheme aimed at small businesses who did not qualify for the cash grant scheme closed for applications on 28 June 2020. Whilst some applications are still in progress pending receipt of additional information, £930k has been paid out to date to over 130 qualifying businesses.

4 General Fund Budget Pressures 2020/21

- 4.1 A summary of the General Fund budget pressures that have currently been experienced and are forecast was presented to the previous meeting of the committee. These impacts continue to be monitored and while lockdown has been released there continues to be wider economic impacts arising from the pandemic.
- 4.2 The projected position at the end of quarter 1 is a total Covid-19 impact of £12.964m. Funding has been received totalling £10.757m and hence a net impact projected is £2.207m. There remains some further significant financial impacts in respect of the ongoing stability of the adult social care market, homelessness and schools transport. There will be further mitigation in terms of support for income losses from MHCLG which remains under assessment.

- 4.3 The detail of the additional costs arising were set out in the previous report and this has been updated in the quarter 3 position which will be presented to Cabinet later this month.
- 4.4 The projected position does not include the impacts for the remainder of the financial year nor does it include the impact on Council Tax and Business Rates which is set out below.
- 4.5 To help manage the overall position, there is currently a freeze on non-essential spend including both capital and revenue projects. The council expects to deliver the financial position in the current year through a combination of cost containment, funding from central government, use of the previous reported surpluses and the allocation of reserves as required. The council continues to liaise with colleagues at MHCLG and the wider sector to share issues arising and suggest sustainable solutions.

5 Council Tax and Business Rates

- 5.1 Early indications suggest council tax income levels may be significantly impacted by the wider economic position. This remains under review and it is expected the impact has been deferred by wider central government initiatives such as the furlough scheme.
- 5.2 Business rates income is protected in the current year by both the funding of reliefs for affected sectors from MHCLG and a safety net mechanism but there remains a level of risk related to the economic uncertainty for the business sector as a whole.
- 5.3 The impact from both council tax and business rates do not impact on the current year financial position (due to the way the system operates). Normally any losses arising would need to be funded in the following financial year but MHCLG have committed to spreading any deficits over the following 3 years although final confirmation on the workings of the system are still to be confirmed.
- 5.4 The wider concern is the base levels of council tax and business rates will be reduced in 2021/22 which will significantly reduce the overall level of locally raised revenue available to the Council.

6 Impact on MTFS

- 6.1 The overall impact of Covid-19 on the MTFS continues to be determined by:
- The final level of the additional costs and income losses that crystallise in 2020/21;
 - The level of MHCLG financial support to address pressures faced by the sector;

- The ongoing financial pressures resulting from both the pandemic itself and the associated decisions made in response to the pandemic (particularly in Adult Social Care); and
- The impact on council tax and business rates in both the current and next financial years.

6.2 A budget gap of circa £15m for 2021/22 was announced in July as a result of a combination of expected reductions to local revenues, increased expenditure resulting from Covid-19, inflationary pressures, a pause to the investment strategy and expected reductions in local fees and charges. This continues to be developed and the latest version will be presented to Cabinet later this month.

6.3 The funding and savings proposals are being developed to address these gaps and the final proposals will be reported in October 2020 leading into the budget setting process for 2021/22.

7 Housing Revenue Account

7.1 The impact on the Housing Revenue Account has been limited to an increase in the debt risk associated with the rental income stream. The wider concern remains that this risk increases as the wider economic impacts of the pandemic develop. There is continued oversight of the level of benefits claims in light of unemployment rises and this remains expected to feed through into increased debt concerns for local residents. The financial impact remains under review.

8 Capital Programme

8.1 The impact of Covid-19 on the capital programme continues to be managed. Existing projects continue to be managed to mitigate claims for contract extensions and social distancing on site. New projects continue to develop largely in line with existing timescales.

8.2 The overall capital programme remains under review as part of the overall MTFS assessment. This will consider the prioritisation and affordability of all upcoming projects to ensure they are deliverable within the new budgetary constraints.

9 Issues, Options and Analysis of Options

9.1 This report sets out the current projected financial impact of Covid-19 on the delivery of the 2020/21 budget and the wider expected impact on the MTFS. The impact on services remains under consideration to assess the full impact and to enable the reassessment of priorities to address the expected shortfalls in funding.

9.2 The MTFS assessment indicates difficult decisions will be required to set a balanced budget in 2021/22. A key concern remains the wider economic impact on council tax and business rates income levels.

10 Reasons for Recommendation

- 10.1 The council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out the potential impacts on the delivery of the balanced budget for 2020/21 and the MTFS over the next four years.

11 Consultation (including Overview and Scrutiny, if applicable)

- 11.1 The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members, including Overview and Scrutiny Committees. Community Consultation will take place where required.

12 Impact on corporate policies, priorities, performance and community impact

- 12.1 The initial impact of Covid-19 has impacted on the wider delivery of frontline services and the financial impact remains under consideration to assess how the council delivers both its statutory services and priority areas.
- 12.2 The budgeted surplus for 2020/21 will provide further financial resilience to support the Council response to the pandemic.

13 Implications

13.1 Financial

Implications verified by: **Sean Clark**

Corporate Director of Finance, Governance and Property

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors' Board and management teams in order to maintain effective controls on expenditure. In the context of the financial impact of Covid-19 austerity measures are being communicated across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

The budget report issued in February 2020 set a balanced budget based on the assumptions in place at the time. The Covid-19 pandemic has created a significant shock to the economy and resulted in significant unplanned expenditure and income losses as set out in the report.

The full impact of this is not yet known but the ability of the Council to deliver a balanced budget in 2020/21 remains uncertain. The most significant uncertainty is on the impact of the pandemic on council tax and business rates income going forwards. This combined with the additional costs and local income losses will be significant. The ability to deliver the budget will then depend on the final proposed level of mitigation from central government.

The impact is now clearly more significant in 2021/22 as the wider economic picture becomes clearer and any collection fund losses from the current year need to be funded.

The longer term outlook will be influenced by the ongoing review of financing in the sector. This has been deferred to 2021/22 at the earliest so there remains significant uncertainty underpinning the Medium Term Financial Strategy. The Council continues to liaise with Government to develop a mutual understanding of the issues to enable appropriate actions to be taken by both.

13.2 Legal

Implications verified by: **Ian Hunt**
Head of Legal & Governance - Monitoring Officer

There are no specific legal implications set out in the report.

13.3 Diversity and Equality

Implications verified by: **Natalie Smith**
Community Development and Equalities Manager

The Equality Act 2010 places a public duty on authorities to consider the impact of proposals on people with protected characteristics so that positive or negative impacts can be understood and enhanced or mitigated as appropriate. Services will be required to consider the impact on any proposals to reduce service levels through a community equality impact assessment which should seek to involve those directly affected.

13.4 Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)

The wider concerns are set out in the report. The major concern is that core services cannot be delivered at the expected level as a consequence of responding to the pandemic.

13.5 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers
- MHCLG funding announcements
- Wider sector responses

14 Appendices to the report

None

Report Author:

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