

10 November 2020		ITEM: 8
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, Housing Revenue Account (HRA), Collection Fund and capital budgets. This builds on the previous reports to the committee and sets out the impact on the projected budget position.

The report also updates on the proposed actions to balance the 2021/22 budget as well as the wider impact on the Medium Term Financial Strategy (MTFS) and the further actions required to bring this back into balance over the next 3 years. As previously noted the Council has a reasonable level of reserves available to support the response and related impact in the current financial year and to contribute to addressing the funding gap in 2021/22.

1. 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. Common with the sector as a whole the Council continues to estimate costs in a volatile environment in the context of wider actions taken by both central and local government.

2.2 Further funding has been provided to address Covid-19 impacts in the current year and this, combined with the use of the Members' surplus and reserves, will ensure the budget is delivered in 2020/21.

- 2.3 The key concern remains the wider funding gap over the next 3 years of £34m in the base budget and, specifically, pressures of £19.8m that arise in 2021/22. To date there has been no proposals from central government to increase the base level of funding either through locally raised taxes or through an increase in grant funding.
- 2.4 The information in this report is based on a current assessment of the position but continues to fluctuate based on emerging risks and opportunities.

3 Government Support to Local Government, Businesses and Community

- 3.1 The Government has announced a number of initiatives and support to be delivered through Local Government. These have been set out in previous reports to the Committee.
- 3.2 Since then the following additional support has been made available:
- A further £1bn for support to local government to meet Covid19 financial pressures. This included £0.1bn of specific support for leisure centres that are not operated by local authorities;
 - Covid Enforcement Funding - £0.5bn was made available to authorities based on the tier system announced on 12 October 2020. MHCLG confirmed tier 3 areas would get £8 per head of additional funding for test, trace and contain activity. This reduces to £3 per head in tier 2 areas and £1 per head in tier 1 areas;
 - On 25 September, as part of the Winter Economy Plan, the Chancellor announced £60m of funding for enforcement and compliance including Covid marshals. £30m of this has been provided to local authorities and the balance has been provided to the police. This followed the latest regulations which require councils to enforce the requirements for businesses in respect of Test and Trace;
 - The Adult Social Care Infection Control Fund was first introduced in May 2020 and was initially worth £600 million. It supports adult social care providers to reduce the rate of COVID-19 transmission within and between care settings, in particular by helping to reduce the need for staff movements between sites. The Adult Social Care Infection Control Fund has now been extended until March 2021, with an extra £546 million of funding;
 - Schools Transport - Local transport authorities were provided with £44 million of funding in September to boost transport capacity for dedicated school and college services for the first half of the Autumn term. Further funding of £27.445m has been provided for the second half of the term. This funding is designed to provide additional transport capacity for journeys to school and college;
 - Cultural Recovery Fund - This fund of up to £500m is to provide financial support for cultural organisations that were financially stable before Covid-19 but are now facing significant financial risks; and

- On 12 October, MHCLG announced £10m Cold Weather Fund payments for councils to help support rough sleepers and an additional £2m is available for faith and community groups who work with rough sleepers. No announcement has been made about the distribution of this funding.
- 3.3 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.

Business Support

- The Job Support Scheme was announced on 12 October 2020 and then revised on 22 October 2020 and provides support for the reduction in employee hours caused by the pandemic. The scheme now requires the employer contribution to the unworked hours to be 5%, and reduces the minimum hours required from employees to 20% - equal to one day per week.
- The Job Support Scheme Closed for businesses legally required to close remains unchanged. Each employee who cannot work due to these restrictions will receive two thirds of their normal pay, paid by their employer and fully funded by the government, to a maximum of £2,083.33 per month, although their employer has discretion to pay more than this if they wish.
- Employers will receive the £1,000 Job Retention Bonus for each eligible employee that was furloughed and kept continuously employed until 31 January 2021.
- Business grants - The Treasury announced additional funding to support cash grants of up to £2,100 per month primarily for businesses in the hospitality, accommodation and leisure sector who may be adversely impacted by the restrictions in high-alert level areas. These grants will be available retrospectively for areas that have already been subject to restrictions, and come on top of higher levels of additional business support for Local Authorities moving into Tier 3 which, if applied across the country, would total more than £1 billion.
- Self-employment income support grant extension – this applies to those who have been previously eligible for the Self-Employment Income Support Scheme and whose trade is temporarily reduced or stopped. The extension will last for six months, from November 2020 to April 2021 and grants will be paid in two lump sum instalments each covering a three-month period. For the first instalment the Government will provide a taxable grant covering 40% of average monthly trading profits, paid out in a single instalment covering three months' worth of profits and capped at £3,750 in total. The second grant will cover a three-month period from 1 February 2021 until 30 April 2021. The Government will review the level of the second grant and set this in due course.

Further Financial Allocations Awarded to Thurrock Council

3.4 Since the previous report to this committee the following further financial allocations have been made to the Council:

3.5 Direct Revenue Funding to manage the effects of Covid19:

The Council initially received £10.757m from the first three tranches of support and this has now been increased by a fourth tranche of £3.481m to a total of £14.238m.

3.6 The Council has submitted the first claim under the income losses support scheme which covers the first 4 months of 2020/21. There are 2 further claims to make in this financial year.

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:

- Enforcement and compliance – The Council has received £0.094m to enforce the requirements of business in respect of test and trace;
- The Council received an initial £1.007m in the initial round of infection control funding. A further £1.2m will be provided in two tranches to support further measures in both residential care settings and for the provision of homecare;
- Schools Transport – the Council has received two tranches of the funding of £0.168m and £0.090m respectively;
- Cultural Recovery Fund – the Council has been awarded £0.191m to address any COVID-19 safety concerns at the Thameside theatre; and
- The Council's allocation from the Cold Weather Fund has yet to be announced.

3.8 Direct support for Business in Thurrock:

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. A total of circa £52m 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 £15,000 or less and £25,000 for those with a rateable value between £15,000 and £51,000; 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 resulting in circa £1.2m being paid out to over 150 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 forecast was presented to the previous meeting of the committee and was followed by the quarter 1 position being reported to Cabinet in September 2020. This reflected a forecast overspend of £2.207m to be met from reserves, but since then, further funding has been allocated by government as set out earlier in the report including £3.48m to be applied to ongoing costs and income losses. The forecast will be re-assessed at the end of the second quarter and reported to Cabinet in December 2020.
- 4.2 There remains significant volatility in the projections as infection rates have now started to rise both regionally and nationally. As previously reported there remains concern over the significant financial impacts in the adult social care market, the potential for increases in child protection referrals, significant risk of increased homelessness in the borough and the impact of social distancing on schools' transport. There are also wider impacts on the costs of ongoing capital schemes which remain under review.
- 4.3 Income losses also remain significant and while MHCLG will cover circa 71% of losses in fees and charges it is noted this does not cover income losses associated with either commercial property or wider commercial investments.
- 4.4 Finally, the projected position does not include the unknown 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 Members surplus 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 Council Tax income levels remain under review but indications continue to suggest wider economic impacts will result in losses but the full extent has been deferred by wider central government initiatives which are providing support to the economy and target specifically the retention of jobs.
- 5.2 Business Rates income continues to be protected in the current year by both the funding of reliefs for affected sectors from MHCLG and a safety net mechanism. However there remains concern over collection rates in the year to date and this continues to be reviewed.

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 three 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 that will significantly reduce the overall level of locally raised revenue available to the Council.

6 Capital Programme

6.1 The impact of COVID-19 on existing projects continue to be managed to mitigate claims for contract extensions and social distancing on site.

6.2 There are now impacts on timelines of some capital schemes and specific costs arising from ensuring sites are compliant with required regulations. The costs associated with this continue to be monitored.

6.3 The capital programme remains under review as part of the overall MTFS assessment. Cabinet is considering the prioritisation and affordability of all upcoming projects to ensure they are deliverable within the new budgetary constraints and the limited staffing resources that will be available to deliver them.

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 the impact remains under review.

8 Impact on MTFS

8.1 The overall projected financial position over the next three years has deteriorated and there is a funding gap now forecast at £34m. This reduction has arisen from the projected direct impact of COVID-19 and the pause to elements of the Capital Strategy, most notably further capital investments and Thurrock Regeneration Ltd (TRL).

8.2 The ongoing impact of COVID-19 has resulted in the following key impacts on the council's budget position:

- Local Funding – the projected decrease in the financial funding from Council Tax and Business Rates equates to lower income estimated at £3.3m. This includes assumptions on the collection fund deficits and increases in the use of the Local Council Tax Scheme from the current year which remain subject to the wider continuing economic impacts of the pandemic;

- Budget surpluses are no longer projected across the life of the MTFS as the costs of the pandemic absorb these to fund essential services. This equates to a deterioration in resources of £5.5m; and
- Additional ongoing costs and loss of income – additional pressures and further income losses total £3.3m.

8.3 As reported in the September 2020 Cabinet report, elements of the capital strategy has been paused for new activity. This lends to a projected impact of circa £12.0m over the life of the MTFS and includes both cash investments and capital investments in TRL - hence the associated targets have been removed pending further consideration.

8.4 The reform of the council's services and approach will continue as planned despite COVID-19, but now at a faster pace than anticipated pre-pandemic. There remains no impacts on existing investments from the pandemic in regards to performance, seven months after lockdown commenced. The council's financial planning is on the basis that the pause (while democratic oversight changes required by this committee have been implemented) is a longstanding position. In addition, savings targets for subsequent years have been removed totalling £2m and revisions to wider projections total £3.4m.

8.5 There remains uncertainty over the wider, longer-term economic impacts of the pandemic and the level of any further financial support available to local authorities from central government. This continues to be monitored and updates to the MTFS will be made to reflect updated assessments of this position.

9 Addressing the Funding Gaps

9.1 Given the position set out above essential action is required. The increase in reserves in recent years has allowed the council some breathing space to address the significant budget challenges. Action taken this year has been required to operate on a lower-cost base that will start to address the severe pressures later in the MTFS.

9.2 In October 2020 Cabinet supported three immediate actions which have a significant impact to begin to address the financial pressures and deliver a balanced budget:

9.2.1 The use of reserves – Cabinet agreed to commit to the use of the non-specific reserves totalling up to £5.5m. This provides resilience against unplanned budget pressures in the future and can be used to meet a budget deficit;

9.2.2 The use of capital receipts. Whilst capital receipts cannot generally be used for revenue expenditure, an exception is the annual Minimum Revenue Provision (MRP). This budget relates to the amounts that must be set aside for the repayment of debt incurred for capital project borrowing. This is currently included in the revenue budget and is in excess of £8m; and

- 9.2.3 Post vacancies. Officers have already put in place a recruitment freeze on non-essential roles and currently have in excess of 200 vacant posts in the organisation. Through restricting recruitment into vacant posts savings can be achieved.
- 9.3 There are further considerations that would impact on the budget pressures and include:
- The level of Revenue Support or other grants for next year. The published aim of the Chancellor was to complete a full Comprehensive Spending Review (CSR) that would provide councils with indications of government support for the next three to four years. It has now been confirmed this will be a one-year settlement given that the pandemic has led to significant economic uncertainty; and
 - Council Tax referendum limits. The current limit is 2% and, in line with the normal approach, this is the level increase modelled into the MTFS for the next three years. Any 1% increase equates to approximately £750k and remains a permanent increase to the council's base.
- 9.4 A date for the local government settlement is yet to be announced though, in recent years, these announcements have tended to be the week before Christmas, leaving less time to react and plan.
- 9.5 Without a significant increase in government grant, the initial actions above will not be sufficient to meet the budget gap as currently forecast and officers continue to work with Members on options to achieve this.
- 9.6 It should be noted that any short-term measure, such as the use of reserves and capital receipts, are not sustainable. Whilst such measures push the pressures into the following years, it does allow some time to reform services and reduce the size of the authority, ahead of years where pressures are most severe. However, only permanent impacts on the budget have an ongoing impact and reduce the deficit over the life of the MTFS and this suggested approach affords Members and officers time to bring forward sustainable options, but with pace to meet the upcoming pressures over the life of the MTFS.

10 Wider Medium Term Actions

- 10.1 In addition to the requirement to set a balanced budget in 2021/22, it is clear sustainable changes will be required over the medium term. Cabinet has agreed to support the following actions:
- 10.2 A continuation of the review of the council's assets with two objectives:
- Identify those assets that are not required to realise capital receipts to support the budget through the Retain, Re-use or Release programme; and
 - Assess whether better services can be delivered within fewer buildings.

Both of these objectives reduce revenue expenditure in the operation, maintenance and any future capital needs of buildings.

- 10.3 The transformation programme will continue to identify ways of reducing expenditure through, for example, greater use of digital channels and supporting social care in early intervention.
- 10.4 A review of staffing budgets - the council's largest single budget relates to staff, half of which are in the Adults' and Children's Directorates. All permanent changes that impact on staff and services require considered approaches, formal consultation, impact assessment, mitigation where needed/possible and lead in time to implement.

11 Issues, Options and Analysis of Options

- 11.1 This report sets out the current projected financial impact of COVID-19 and the impact 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 initial actions to support the delivery of the 2021/22 budget have been agreed by the Cabinet.
- 11.2 Wider actions to support the delivery of the MTFS over three years are under active consideration with regular updates to Cabinet reporting on progress towards this.

12 Reasons for Recommendation

- 12.1 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.

13 Consultation (including Overview and Scrutiny, if applicable)

- 13.1 The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members.

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

- 14.1 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.
- 14.2 The budgeted surplus for 2020/21 provides further financial resilience to support the Council response to the pandemic.

15 Implications

15.1 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.

15.2 Legal

Implications verified by: **Ian Hunt**
Assistant Director Law & Governance, and Monitoring Officer

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

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

15.3 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.

15.4 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.

15.5 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

16 Appendices to the report

None

Report Author:

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