

This Report will be made public on 16 June 2020



Report Number **C/20/14**

To: Cabinet
Date: 24 June 2020
Key Decision: Non-Key Decision
Responsible Officer: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

SUBJECT: Financial Impact on 2020/21 Budget of COVID-19

SUMMARY: This report provides an overview of the financial impact of COVID-19 on the council and also outlines the work underway to address the pressures currently anticipated.

Reasons for the Recommendations:

The impacts of COVID-19 are unprecedented including in the context of Local Government finance. This paper seeks to provide Cabinet with a high level summary of the potential impact and the work underway to address the position. It seeks to aid their understanding of the issue and to support them in fulfilling their corporate responsibilities.

RECOMMENDATIONS:

1. To receive and note report C/20/14.

1. BACKGROUND

- 1.1 On 19 February 2020 Full Council considered and agreed the General Fund Revenue budget for 2020/21 (A/19/29) and set the corresponding Council Tax. The Housing Revenue Account Budget for 2020/21 (A/19/27) and the General Fund Capital Programme 2020 – 2025 (A/19/26) were also agreed at that time.
- 1.2 Since those positions were determined and agreed the COVID-19 emergency has unfolded and its consequences are unprecedented and have significant impacts upon the wider economy as well as the financial position of the Council.
- 1.3 This paper seeks to provide an update of the potential scale of impact on the General Fund and HRA. It also outlines the work underway to address the issues identified.

2. Financial Impacts of COVID-19 on the Council

- 2.1 The Council has a strong track record of managing its financial position prudently and effectively. As a result the Councils overall financial position coming into this crisis was strong. However, all authorities are experiencing financial challenges due to the scale of the economic impact of the pandemic and Folkestone & Hythe is not immune to these issues.
- 2.2 The financial impacts include:
 - Unbudgeted costs to manage the response required to support the community, residents and the economy of the district
 - Reduced income from the majority of key fees and charges collected by the Council
 - Reduced income collected on behalf of the Council and all preceptors for Council Tax and Business Rates
 - The cashflow implications of being a billing authority
 - Maintaining the solvency of the Council both during 2020/21 and future financial years.
- 2.3 The Government has asked Local Government to support the local level response to COVID-19. This response has been an evolving picture but commenced with housing the street homeless & opening community hubs and has now moved into supporting the safe re-opening of high streets and the track and trace programme.
- 2.4 We have been able to redeploy some existing resources to support these areas of work, but there have also been unbudgeted expenditure as a result of the response. To date the Council has incurred or anticipates incurring unexpected expenditure on Community Hubs, PPE, enhanced cleaning, street homeless housing provision, IT and support for key contractors. These are projected to impact the General Fund by £340k and

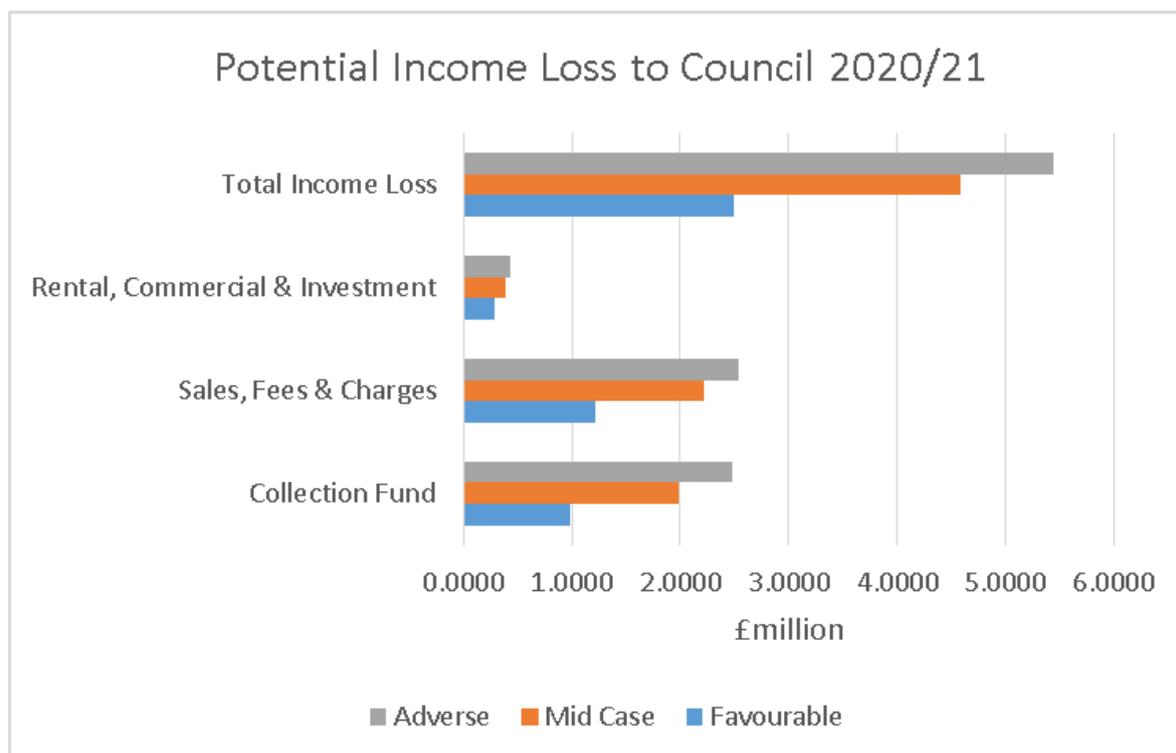
the HRA by £270k. As the local level response continues to evolve so will this position.

- 2.5 The Council's balanced budget relies upon the collection of fees and charges for discretionary services within the district. In total the General Fund budget for 2020/21 is supported by £7.35m of fees & charges. A number of these fees and charges have been significantly affected in the first months of the financial year. In addition the General Fund 2020/21 budget anticipates income of £2.54m from rental, commercial and investment income which will also be affected by the downturn in the economy.
- 2.6 The Council is the billing authority for the district, therefore has responsibility of billing, collecting and distributing Council Tax and Business Rates income for all relevant preceptors. Current arrangements bind the Council to the preceptor payments due monthly, based on assumed collection rates determined earlier in the year. The Government announced a deferral of the collection of 3 months of their share of the Business Rates income (£2.7m), however this is still anticipated to be due during 2020/21. No other changes to preceptors instalments have been agreed in acknowledgement of the changing collection rates in year, however Kent County Council have agreed to work with individual authorities where the cash flow implications require their support.
- 2.7 The Council anticipated collecting £27.4m in Business Rates and £76.9m in Council Tax for 2020/21 on behalf of itself and all preceptors. The Government have acted to seek to support some of those affected by the emergency both directly through the Council and through furlough, support for self-employed, business loans etc. The Council received £1.133m for the Council Tax Hardship Fund, which supports those in receipt of Council Tax Reduction(CTR). The Council has seen a significant increase in CTR caseload with 828 new cases during April and May, taking total caseload to 9,973. In addition further reliefs were offered to the leisure and retail sector, and grants awarded to small businesses and now a discretionary grant scheme is also being funded. However it is unlikely that this support will be sufficient to alleviate the pressures in all households and businesses, it is therefore appropriate to anticipate a drop in income for the Collection Fund.
- 2.8 The Council has a responsibility to remain solvent and to deliver statutory services to the district. Where a Council is not able to fund its statutory services then the Section 151 Officer has to issue a S114 notice, which requires the Council to address the position before it can continue its business. Councils will continue to play a critical role within communities during the response to COVID-19 and during the recovery from it. It is likely as the full impact of COVID-19 is felt by Local Government that some authorities will find themselves in these circumstances. The Government have been clear that they wish to discuss with individual authorities their position before they issue a S114 notice. Folkestone and Hythe District Council remain a going concern and whilst there is work to do during the current financial year to address the budget gap, there is no current requirement to issue a S114 notice.

3. Range of potential financial impact during 2020/21

3.1 The actual impact of COVID-19 is not yet known. Officers continue to review data as it becomes available and will be undertaking an early monitoring position during June to try to reliably ascertain the position to date. Outlined below are three potential scenarios of the impact on the Councils position.

General Fund



3.2 The mid-case scenario anticipates a loss of income of £4.5 million, which coupled with the additional expenditure outlined in 2.4 brings the potential budget gap of £4.93 million during 2020/21.

3.3 The early stage modelling for the impact on the HRA suggests the combined impact of loss of income & additional expenditure would be £1.03 million in the mid-case, £418k in the favourable case and £1.30 million in the adverse case scenario.

3.4 To date the Council has received two additional grants to support its own financial position. The first being £65,737 which was fully utilised in housing the street homeless. The second grant of £1,128,417 will be utilised to offset the budget gap identified above, but will be insufficient to address the entire gap. No further announcements on funding have been made at the time of writing this report.

4. Proposed actions and next steps

4.1 The Councils response to COVID-19 and its resulting Recovery Plan will be a significant focus for the authority for the next 2 years. One of the key themes proposed within the recovery plan is the council's financial stability.

4.2 A number of actions are already underway to address the budget gap anticipated in 2020/21, and there are further pieces of work planned. These include:

- A review of key budgets has been undertaken by the finance team in liaison with Directors & budget managers. A RAG status has been assigned to budgets and this exercise has identified items which could be removed from the 2020/21 budget or deferred. The exercise has also identified further savings that could be made, but that would have a service impact that would require further consideration.
- Meetings have been held with Portfolio Holders and the Finance Portfolio Holder to discuss the review of budgets and support for the amendments being considered.
- A review of capital budgets will be undertaken shortly to consider which schemes can be deferred to later in 2020/21, deferred to 2021/22 or their funding route reviewed.
- A review of HRA budgets establishing the same RAG status will be undertaken.
- A review of Earmarked Reserves is underway. At the 31 March 2020, the Council held £20.7 m in Earmarked Reserves in addition to £3.3 m in the General Reserve, whilst all earmarked reserves are identified for a purpose, in the current climate it is appropriate to re-evaluate the priority and timing of these commitments.
- Early monitoring of the projected outturn position is underway with staff reviewing the end of May position.

4.3 It is proposed that flexible options are considered in revisiting the 2020/21 budget. The true impact of COVID-19 is not yet known and the Council remains key to the community and economic response as well as ambitious. The balance must be struck between a robust financial position that addresses the potential gap with maintaining key services and supporting the district during its recovery.

4.4 It is anticipated that a revised budget will need to be considered by Council in early autumn. The financial position should be clearer over the coming months assisting the Council with taking appropriate decisions for 2020/21. Officers will continue to monitor and evaluate the options available as well as refine the scenario modelling.

4.5 It is important that the Council consider not just the impact on the immediate future but also on the medium term position. Over the summer-autumn the finance team will also be undertaking a review of both the MTFS and the assumptions within the HRA Business Plan.

5. RISK MANAGEMENT ISSUES

5.1

Perceived risk	Seriousness	Likelihood	Preventative action
The Council fails to set a clear direction to address the budget gap in 2020/21	High	Low	Cabinet are being regularly briefed on the emerging financial position. Officers and Members are developing proposals for the amendment of the 2020/21 budget. The Medium Term Financial Plan will be updated over late summer. The recovery plan considers the Councils financial position as a key theme.
The Council has insufficient resources to deliver its statutory functions	High	Medium	Officers and Cabinet members are working on proposals to address the budget gap and safeguard statutory services. The Council also has reserves available.
The Council fails to manage its cashflow position resulting from COVID-19	High	Low	Daily cashflow monitoring is being undertaken, with all key streams being examined. Discussions across Kent are being held with key preceptors.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (AK)

There are no direct legal implications of this report.

6.2 Finance Officer's Comments (CS)

There are no direct financial implications of this report.

6.3 Diversities and Equalities Implications (CS)

Whilst there are no direct diversities and equalities issues arising from this report any revisions to the budget will need to consider its impact in due course. A full evaluation will be undertaken before a final proposal is drafted and presented to members for adoption.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:

None