Part I – Release to Press

Agenda item: ##

**Meeting** EXECUTIVE

**Portfolio Area** RESOURCES

**Date** 10 June 2020


**CORONAVIRUS RECOVERY PLAN**

**REVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY AND IMPACT OF COVID 19 ON THE COUNCIL'S GENERAL FUND REVENUE BUDGET**

**KEY DECISION**

## 1 PURPOSE

1.1 To consider the General Fund's financial position and the impact of COVID19 on the level of projected balances and to seek Members approval for the recommended mitigating actions.

## 2 RECOMMENDATIONS

That Members approve the:

2.1 Use of earmarked Regeneration capital receipts as outlined in paragraph 4.9.8 of £1.726Million

2.2 Changes to the Capital programme as summarised in paragraph 4.9.10 totalling £125,000.

2.3 Holding of vacant posts as set out in paragraph 4.9.12 totalling £152,110

2.4 Changes to the 2020/21 General fund budget as set out in paragraph 4.9.13 totalling £463,820

2.5 Changes to the approved growth budgets as set out in paragraph 4.9.13 totalling £49,940.

2.6 Holding of the Business Rates allocated reserve as set out in paragraph 4.9.16 totalling £455,000.

2.7 Measures set out in paragraph 4.10.3.

2.8 Measures set out section 4.11 of the report.

2.9 The development of a priority list of services as set out in paragraph 4.12.11.

## 3 BACKGROUND

3.1 This report has been written to update Members on the financial impact on the Council of the COVID 19 pandemic and to assess the level of funding provided versus the impact on Council resources.

3.2 From March 2020 the Council identified some significant adverse COVID-19 impacts on in year finances for both the General Fund and HRA. This report sets out some of those impacts where known and identifies some mitigating action to protect the resources the Council has to continue to run its services.

3.3 The COVID-19 report to the May Executive set out the actions the Council has taken and its approach in supporting the Community and changing service provisions. The report set out how the Council would financially manage support to essential services, commence new services and support to the vulnerable.

3.4 The impact of the pandemic on Local Authorities across the Country, is difficult to gauge due to different demographics, resources and demands. But there has been lobbying on behalf of councils from the Local Government Association (LGA), the Districts Council Network (DCN), Society of District and Council Treasurers (SDCT) and the County Councils Network (CCN), to ensure adequate funding is given to Councils to cover their losses, which were estimated at £10Billion across the sector by the LGA.

3.5 The Government has asked for two data collection exercises to assess the losses projected by Councils. The last information was submitted on the 15 May 2020 and Stevenage and other Councils await the outcome of this. At the time of writing this report no further financial announcements had been made by the Government.

3.6 It is important that the Council ensures the General Fund balances are as resilient as possible to meet any financial challenges from COVID in the current year and any subsequent recessionary pressures as a consequence of the impact of the lockdown and recovery period.

3.7 The Council's Medium Term Financial Strategy (MTFS) updated as part of the 2020/21 budget, set out a plan to deliver savings to fund the identified General Fund budget gap, while drawing on General Fund balances until 2022/23. The impact of COVID-19 on the Council's finances as set out in this report has made those plans more difficult to implement based on the losses contained within this report and deliver that 2022/23 contribution to General Fund balances, (see also para.4.4.4).

## 4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 Government Financial Response to the COVID 19 pandemic for Councils

4.1.1 The 2020 budget announced by the Chancellor on the 11 March included the creation of a COVID-19 response fund. This was to ensure the National Health Service (NHS) and other public services had the resources they needed to tackle the impacts of COVID-19. Initially set at £5billion, it was to be used to fund pressures in the NHS, support local authorities to manage pressures on social care supporting vulnerable people and help deal with pressures on other public services. At the time of setting the budget the chancellor said the size of the fund will be reviewed as the situation developed.

4.1.2 These measures also included help for businesses and residents as the increased threat of COVID19 became apparent on these groups and the budget included the following:

- Hardship Fund of £500 million (nationwide), to be paid by increasing council tax support (CTS) for those already receiving the benefit and in March the Council received £779K to fund the scheme for Stevenage residents.
- Support to businesses – including business rates relief measures which saw reliefs extended from 50% to 100% for smaller businesses and extensions to other leisure and hospitality businesses. These reliefs do not include rates paid by councils which are exempted from the reliefs.
- To support small businesses in meeting financial difficulties arising from COVID-19, the government announced £2.2billion of funding to provide £3,000 to around 700,000 businesses currently eligible for Small Business Rate Relief (SBRR) or Rural Rate Relief, to help meet their ongoing business costs. This was to be administered by local authorities and the value per business was later increased, (see also para.4.1.4)
- The Chancellor also announced the start of the Comprehensive Spending Review (CSR) process, to be concluded in July which would set out detailed spending plans for public services and investment, covering day-to-day budgets for three years from 2021/22 to 2023/24 and capital budgets up to 2024/25.

4.1.3 On the 17 March Robert Jenrick, the Housing, Communities and Local Government Secretary announced £3.2Million to support rough sleepers or those that are of risk who need to self- isolate. Authorities were able to claim costs of based on the number of rough sleepers counted during the Autumn 2019 snapshot which for SBC was £11,500. However as shown in paragraph 4.7.1, the Council's costs have exceeded this to date.

4.1.4 On the 17 March, the Chancellor extended the range of financial support across the economy as the national COVID 19 impact worsened. These measures included grant and funding arrangements:

- The Chancellor stated that, if insurance policies cover pandemic situations, then the government's directions to date are sufficient for insurers to pay out, In response to views that only advising businesses to close is insufficient for a successful insurance claim and;

- 100% retail relief will be extended to all businesses in retail, hospitality and leisure, regardless of their business rateable value. These businesses to be offered a £25,000 cash grant.
- The £3,000 cash grants announced in the Budget for businesses receiving SBRR to be increased to £10,000.

4.1.5 On the 23 March, the government issued a press release on extra protection for businesses, with a ban on evictions for commercial tenants who miss rent payments. The measures to facilitate this were included in the emergency Coronavirus Act 2020 and no business would be forced out of their premises, if they miss a payment in the next three months. A similar stance has been taken by the government on private and social tenants.

4.1.6 On 24 March, the Secretary of State held a conference call with Chief Executives across local government. Following that, MHCLG distributed a note which stated that the government would pay £3.4billion of grants to local authorities on Friday 27 March and that the grant would cover costs and improve cash flows for Councils;

- The £1.6billion of funding allocations (previously announced), as part of the COVID-19 support, to compensate local authorities for losses across all their services
- The £1.8billion of Section 31 grants that would otherwise be paid based on January 2020 NNDR1 paid in full rather than across 12 instalments during 2020/21.

4.1.7 Also on the 24 March the Government announced the Hardship Fund details and allocations. The principle of the funding was that it should be used to reduce the council tax liability for individuals in an area; and Councils may also wish to use some funding to deliver increased financial assistance through other support mechanisms. The government indicated that the fund should be used to reduce the liability of those receiving working age council tax support by £150 in 2020/21. Where a local council taxpayer had an existing liability of £150 or less, this would reduce their council tax liability to nil. Where liability is already nil, there would not need to be any change.

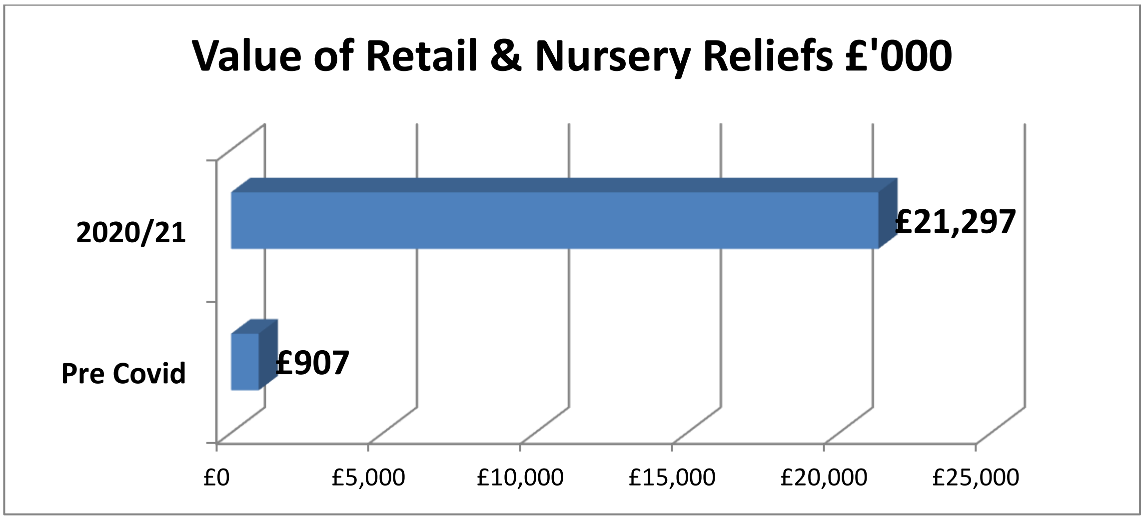
4.1.8 The government also announced that Councils will be allowed to defer £2.6bn of business rates payments to central government. The announcement did not contain precise details, but the national total suggested that the first three months' payments of the business rates Central Share could be deferred. Nationally, the 9% due on each of 30 April, 19 May and 22 June in respect of the Central Share is £0.877billion, with three months' equivalent being £2.630bn.

4.1.9 The Government announced on the 2 May 2020, a further grant scheme to help those businesses which were not able to apply under the scheme set out in paragraph 4.2.2 of this report. The funding was set at 5% of the previous business grant allocation, which for Stevenage equated to £572K. The guidance was published on the 13 May and the CFO and Shared Revenue and Benefits Manager are developing the scheme based on the guidance and propose to get the grants paid as soon as is practically possible.

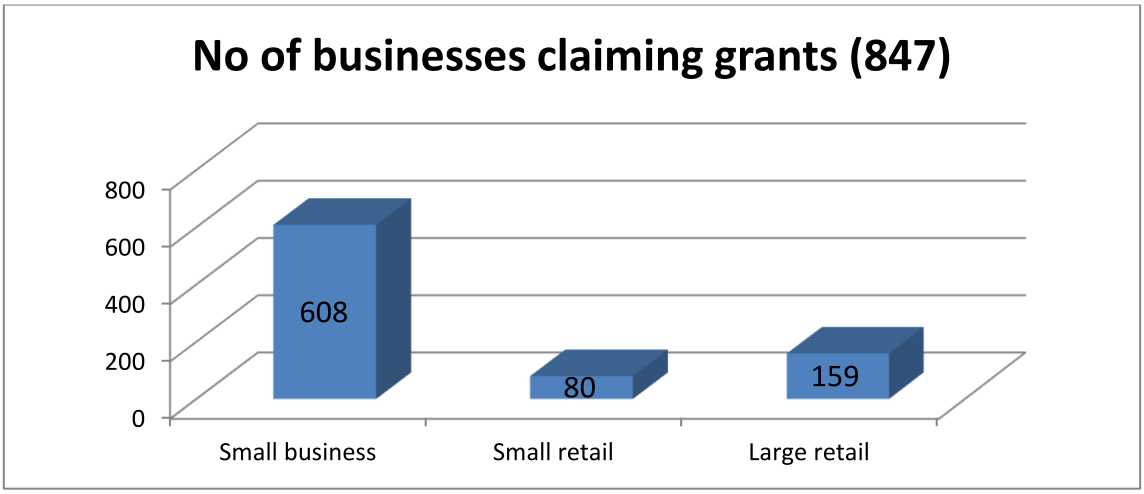
4.1.10 The government has also announced a number of initiatives to help businesses through the use of business loans administered by government or the banking institutions. These were set out in the May COVID 19 Executive report.

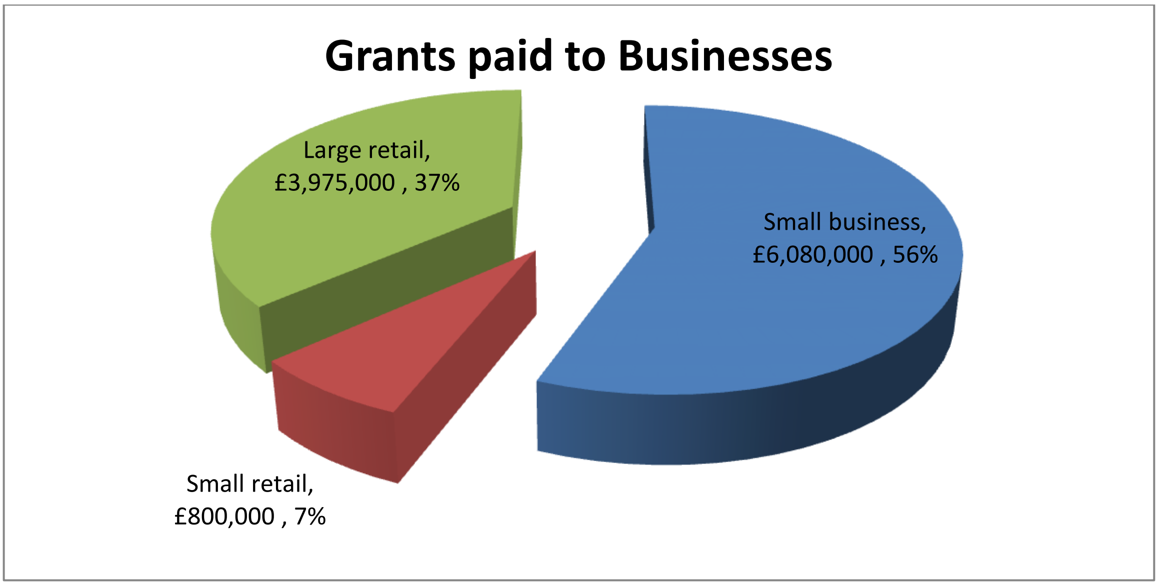
**4.2 The Impact of funding on Stevenage Businesses, residents and Council**

4.2.1 The extension to the Business Retail Relief scheme has meant a significant increase in the number of businesses not having to pay 2020/21 business rates. The original retail relief estimated pre-COVID was £907K, based on 50% retail relief for smaller businesses. This was extended to a 100% relief in the budget speech and announcements made on the 17 March lifted the cap on the rateable value of a premise. In total this meant a further £19.6Million of reductions could be given to Stevenage Businesses as shown below and 96% of reliefs were applied prior to the commencement of the 2020/21 financial year.




4.2.2 The government initiative to support for small, retail and hospitality businesses gave grants of £10,000 (for those in receipt of small business rate relief) and grants of £10,000 or £25,000 for retail businesses depending on their size. The Council received funding of £11.456Million on the 1 April to administer to a potential 927 businesses. The caveat to the scheme was that state aid rules* applied and businesses had to meet the regulations as set out by the Department for Business, Energy and Industrial Strategy (BEIS). These regulations were amended and clarified a number of times. As at the 15 May 2020, 847 businesses had received £10.9Million. The Council has been continuing to seek to contact businesses who have not yet claimed to encourage them to do so. The position is summarised in the two charts below.




**state aid rules relating to European Law mean that no company can receive for the SBRR  €200,000 or approx.£180,000/ or Retail & Leisure grant €800,000 or £720,000 in business grants if they have multiple units nationally.*

4.2.3 A letter sent to Councils on the 23 March setting out further details about these grant schemes indicated that in addition to covering the full cost of the grants, government recognised that administering local authorities would be eligible for New Burdens funding and that assessment and funding would be forthcoming at a later date. No separate funding has been received and it is not yet clear whether this was included in the two tranches of COVID funding distributed to date.

4.2.4 On the 24 March the government announced the Hardship Fund allocations, (£779K for Stevenage) to deliver the scheme. The SBC CTS scheme for working aged claimants is based on 91.5% of their council tax liability (so those on maximum benefit will only pay 8.5% of their council tax bill or £155.36 on a Band D property), pension aged claimants are assessed on a 100% of their council tax liability, so on maximum benefit will pay nothing.

4.2.5 There are currently about 3,570 working aged claimants (WAC) would receive £425K of the fund an average of £119 per claimant, which would leave just £354K for other hardship cases.

4.2.5 To administer the scheme a software update is required to amend the benefit rules on the Council's system. However despite discussions taking place between the Council's software provider and MHCLG this 'fix' still is not working and is not likely to be implemented until June. However those in receipt of CTS are not being sent arrears letters.

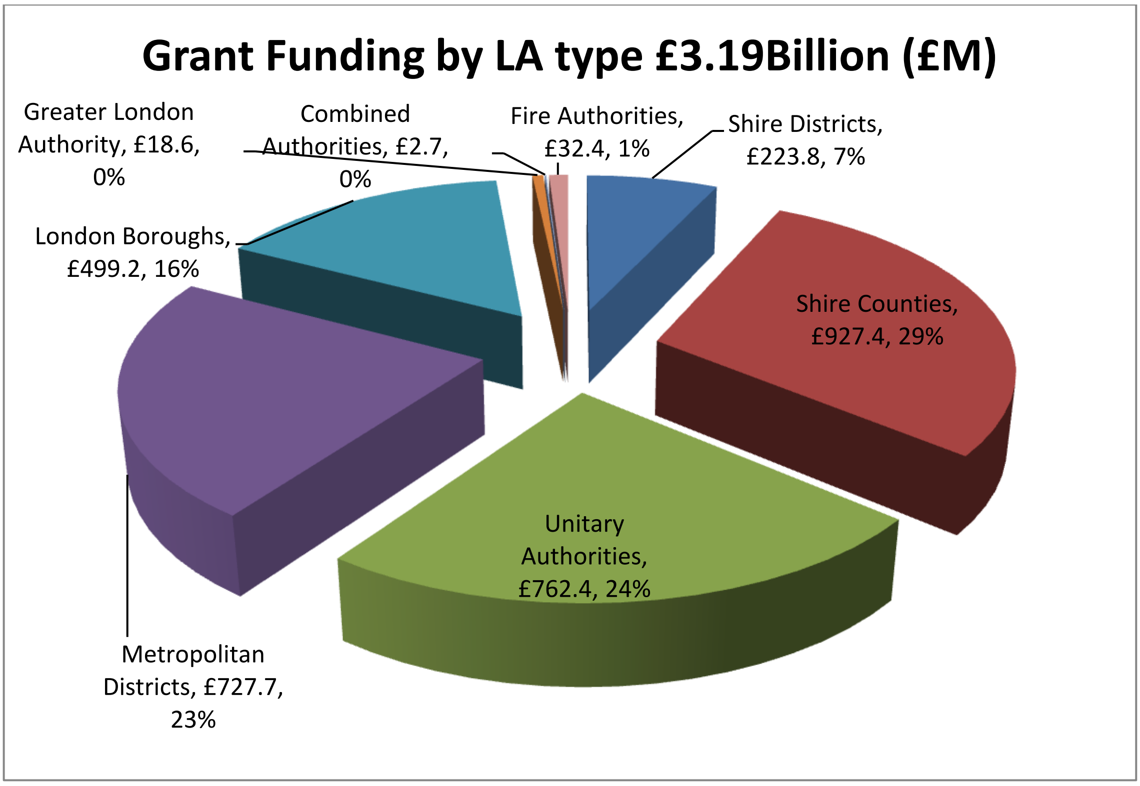
4.2.6 The government's measures to defer cash flow pressure (para 4.1.6) that might arise for Councils meant for Stevenage:

- The Council received £1.150Million on 27th March for pre COVID 19 S31 reliefs for businesses, instead of this being paid in 12 month instalments in lieu of raising business rates. But, the level of S31 reliefs increased by £19.6Million so this did not offset the cash flow pressure. The additional S31 reliefs are now due to be given to Councils in instalments starting on 15th May.

- Deferral of just over £6Million for the government's central share of Business rates for the period April to June payments. These payments are due in the 'second half of the year', however the precise timing has not yet been advised by the government.

4.2.7 The government has announced two tranches of funding for the Council, the first tranche totalled £45,305 with District Councils receiving only 0.61% of the overall £1.6Billion national funding or 52pence for every resident in Stevenage. Following significant lobbying of central government, a second tranche was announced on the 28 April 2020.

4.2.8 The second funding allocation for Stevenage was £871,563 out of £1.59Billion nationally, with District Councils receiving a much larger share of the funding than previously, with the County Council share reducing. The share of funding for Districts increased from 0.61% to 13.43% between the first and second tranches of funding. However as discussed in section 4.3 to the report, this funding does not cover the losses recorded to date by the Council or any lag as a result of a potential prolonged recovery phase for the economy.




4.2.9 The announcement on the 28 April also confirmed that the Review of Relative Needs and Resources and 75% business rates retention will no longer be implemented in 2021/22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic.

4.2.10 Auditing regulations for the Council's accounts have also been changed. The following amendments to the statutory audit deadlines for 2019/20 for all local public bodies apart from health service bodies have been made:

- The publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies.
- To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June (for Category 1 authorities) and July (for Category 2 authorities) has been removed. Instead local authorities must commence the public inspection period on, or before, the first working day of September 2020.

4.2.11 A summary of COVID 19 funding is summarised in the table below, this is as at 15 May 2020.

| Funding | Council £'000 | Businesses £'000 | Council Tax Payers £'000 | Total £'000 |
|---|---|---|---|---|
| Rough sleepers | £11.5 | | | £11.5 |
| Covid 19 tranche 1 | £45.3 | | | £45.3 |
| Covid 19 tranche 2 | £871.6 | | | £871.6 |
| Retail & Nursery Reliefs | | £21,297.0 | | £21,297.0 |
| Grants to Businesses | | £11,456.0 | | £11,456.0 |
| Hardship Fund | | | £779.0 | £779.0 |
| Total | **£928.4** | **£32,753.0** | **£779.0** | **£34,460.4** |

### 4.3 Impact on General Fund Financial Resources

4.3.1 At the outset of the pandemic it was apparent to Stevenage and many other Councils that there was likely to be an immediate adverse impact on the Council's financial position, in particular relating to, reduced income from fees and charges and increased homeless costs. The losses have been modelled but it is not possible for officers to categorically determine the potential depth and lasting impact, at this stage in the year.

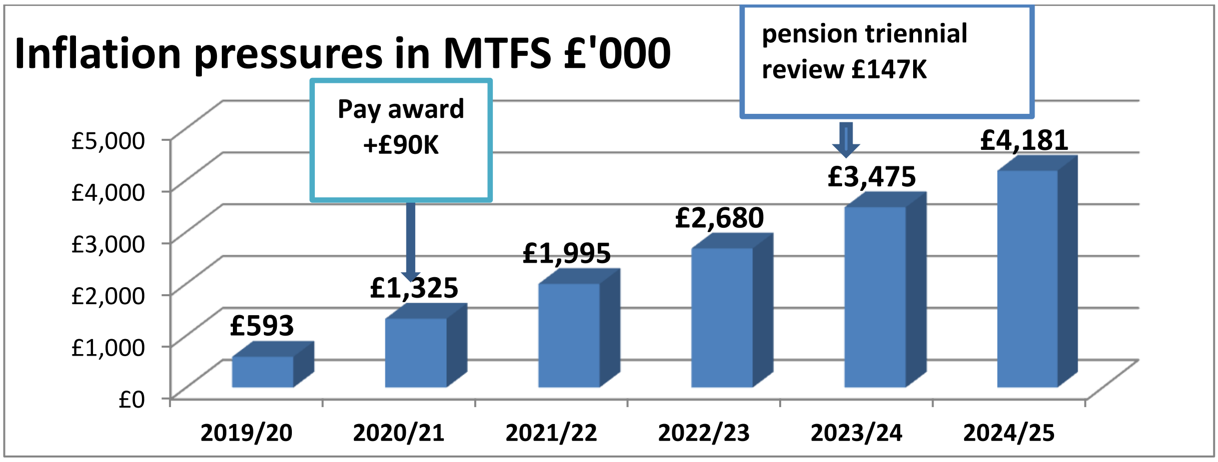
4.3.2 Economists have commentated that the impact of the COVID 19 pandemic will probably go beyond 2020/21. The Bank of England reported this could lead to the 'sharpest recession' on record, reporting that the coronavirus impact would see the economy shrink 14% this year, based on the lockdown being relaxed in June. Scenarios drawn up by the Bank of England to illustrate the economic impact, stated that Covid-19 was, "dramatically reducing jobs and incomes in the UK". Bank governor, Andrew Bailey, described the downturn as "unprecedented", and said consumers would remain cautious even when lockdown restrictions are lifted.

### 4.4 Fees and Charges

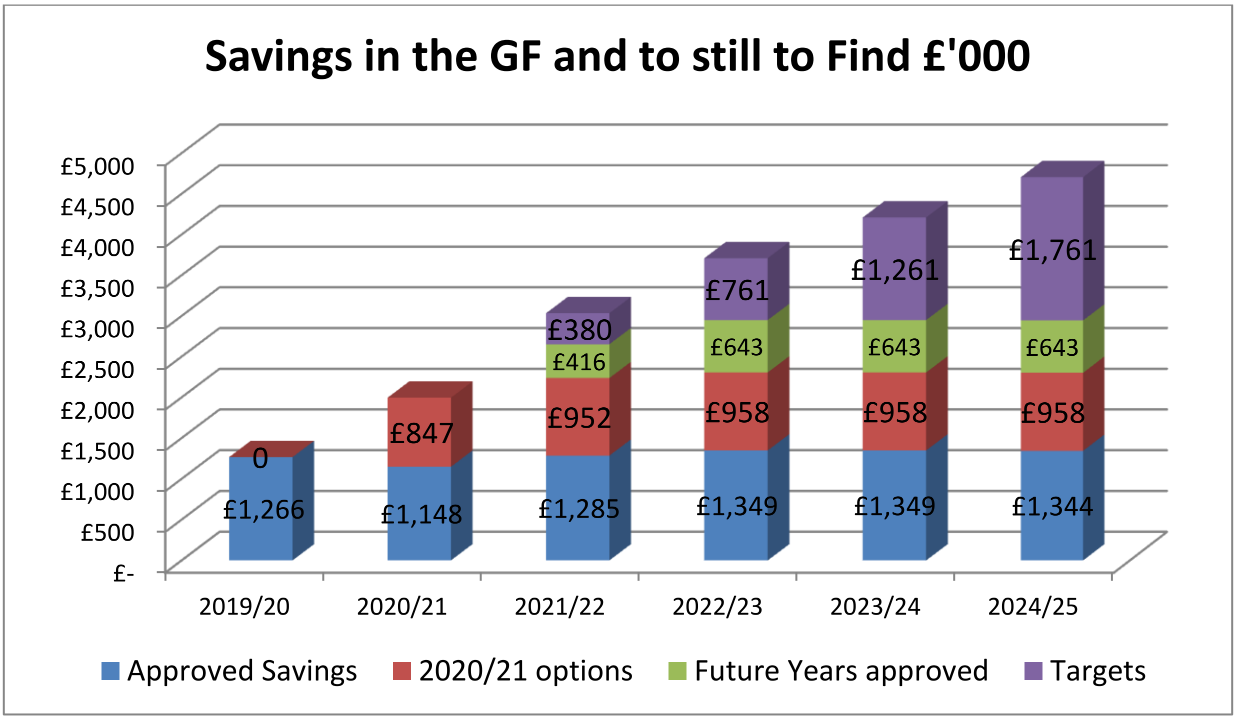
4.4.1 Stevenage like many District Councils, relies on fees and charges from its neighbourhood shops, car parks and services such as recycling and parks and pavilions. A lot of the income is from assets that were transferred to SBC from the Development Corporation, back in the 1980's and not as a result of assets purchased purely for income return. To date the Council has only purchased one income generating asset, situated within Stevenage and that has brought (and continues to bring), an economic benefit to the town and General Fund.

4.4.2 Income from fees and charges play an increasingly important role in supporting front line services and delivering the Council's Future Town Future Council (FTFC) priorities particularly in the context of significant reduction in central government funding as a result of austerity, over the last 11 years. To date the Council has lost in excess of £5Million grant funding and there is considerable uncertainty over other Government funding streams such as New Homes Bonus (NHB), business rate gains and future retained business rates.

4.4.3 Due to the loss of government grant the Council has had to find on-going savings to fund not only the lost grant, but also the inflationary pressures during this period. The MTFS has now been updated to reflect the latest pay award and assumptions about the increased cost of the pension scheme at the next triennial review. However the impact of COVID 19 in addition to this pressure makes implementing the recovery plan more difficult.



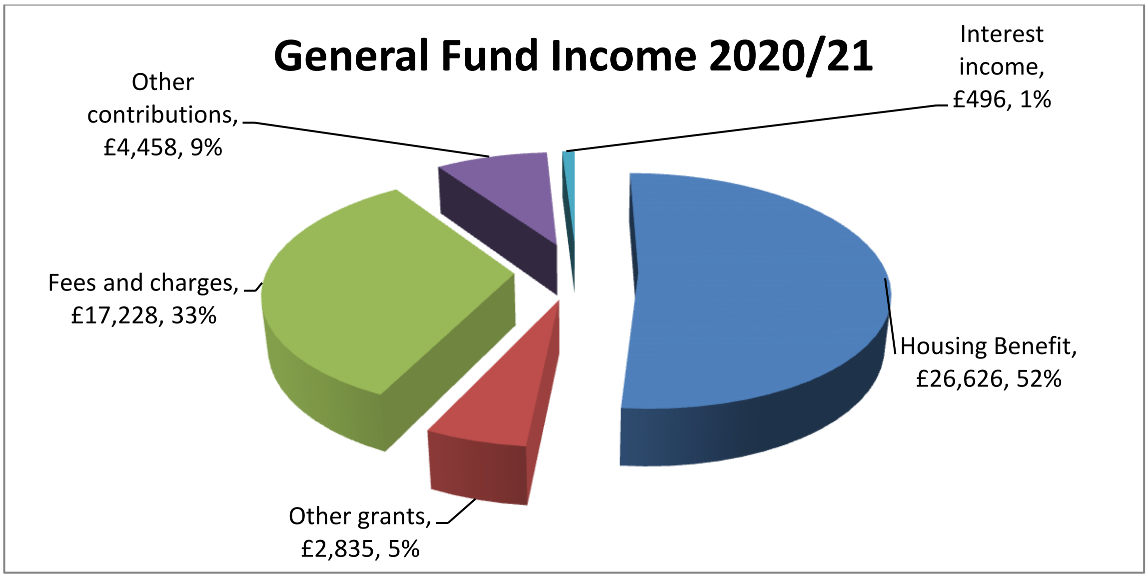

4.4.4 The savings targets have been revised based on the additional inflationary pay costs and are summarised in the chart below. This highlights that SBC must find an additional £1.76Million between 2021/22 to 2024/25 or an average of £440K per year in addition to the in principle savings approved at the November 2019 Executive.



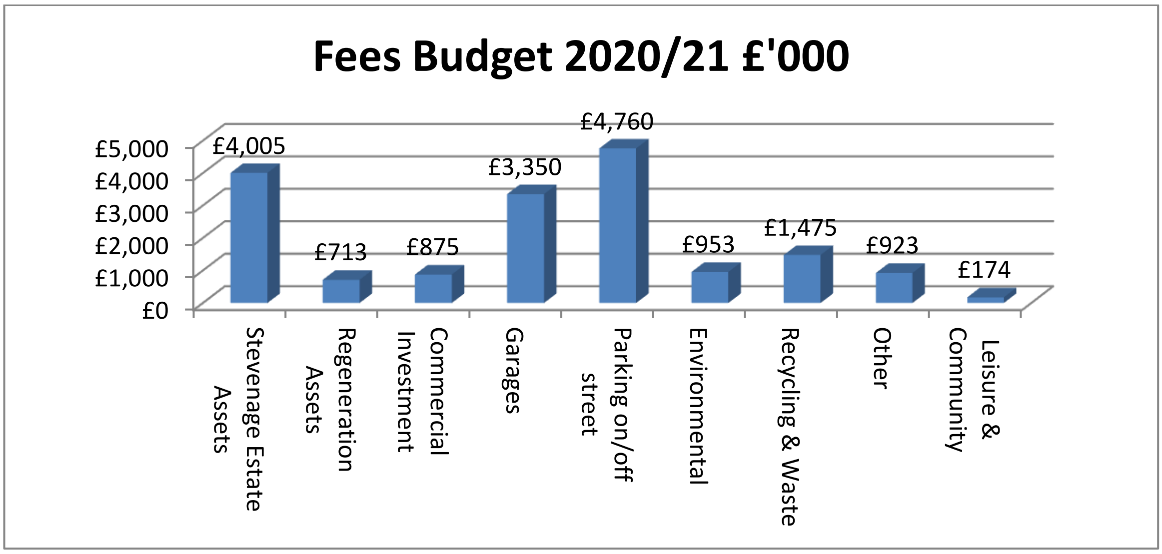

4.4.5 The 2020/21 General Fund budget of £9Million net expenditure includes income of £51.6Million which consists of grants such as housing benefit subsidy (52%)*, New Homes Bonus (NHB), fees and charges (33%) and other contributions

(9%) and investment interest (1%). The 2020/21 Budget income is summarised below.

**The council administers housing benefit and claims back in subsidy the cost of this however not all of the benefit paid is claimable at 100%*



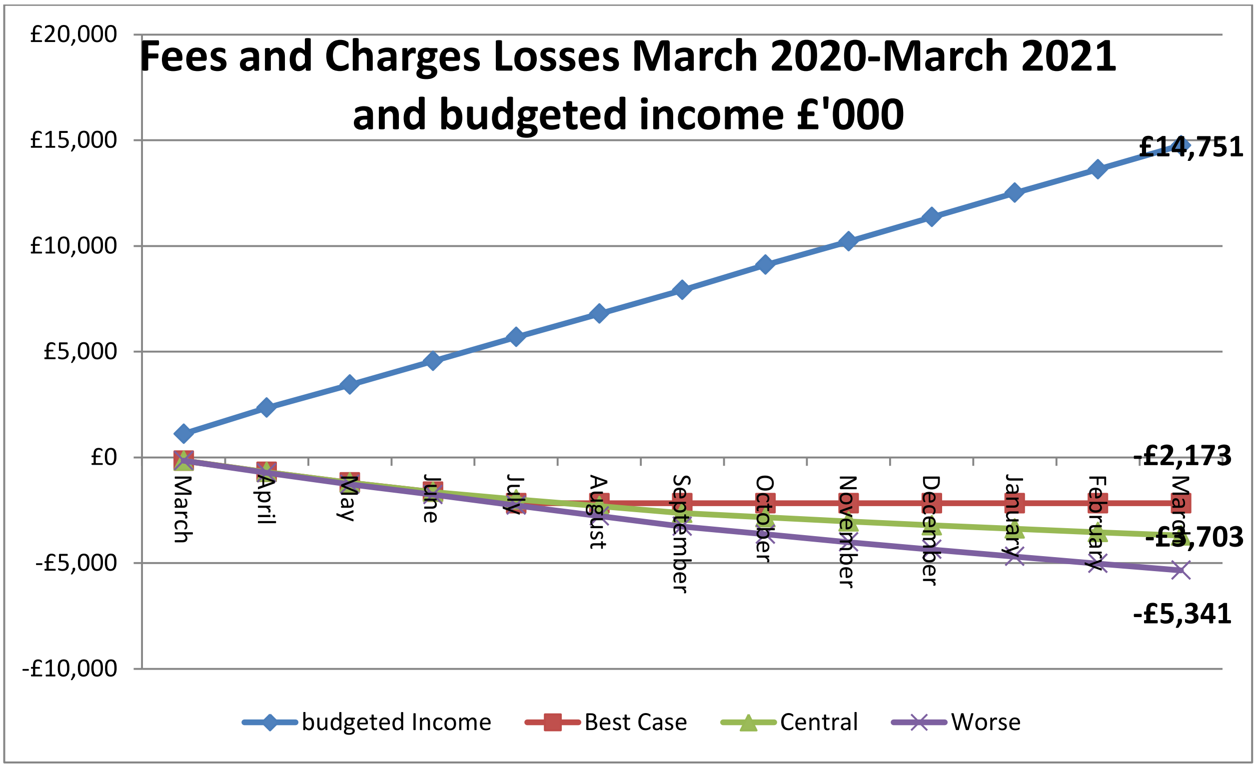

4.4.6 Fees and charges across a number of services and can be summarised below.




4.4.7 The impact of COVID 19 across all income streams has been significant as buildings have been required to close to meet Government requirements, tenants' income streams have stopped and some therefore are struggling to pay rents. Accordingly some businesses no longer require or cannot pay for other services provided by the Council.

4.4.8 A number of scenarios have been modelled regarding the impact of COVID on the Council's finances, based on best, central and worse cases. However the actual impact will not be known for a number of months, because it is not currently clear whether deferred rent or other charges will become uncollectable. However the impact on income streams such as parking has been immediate with a 95% reduction recorded as residents self-isolate. The Council has also taken the decision to offer free parking for NHS and key workers to support those working on the front line of the pandemic.

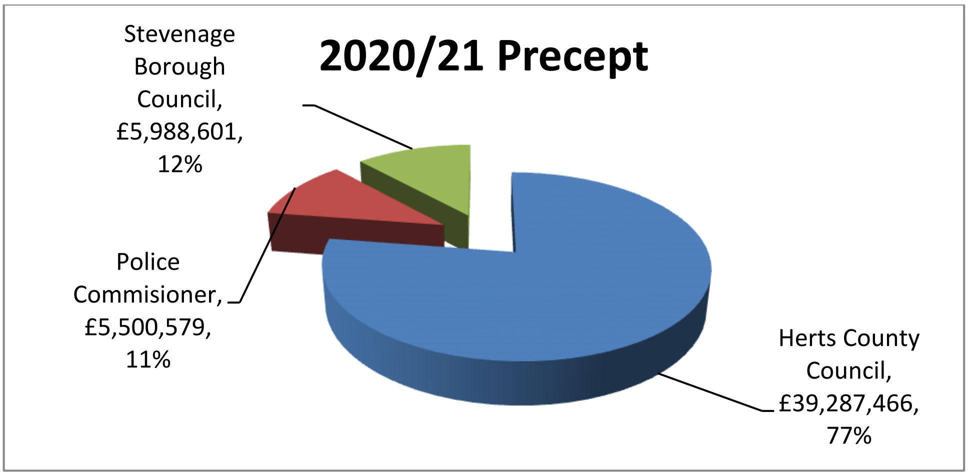
4.4.9 The scenarios of potential income losses summarised in the chart below range from £2.2Million if there is a good national recovery in July across all income streams through to £5.3Million to the end of March 2021 if the economy takes much longer to recover. It should be noted though that the impacts are likely to be experienced beyond March 2021.




## 4.5 Core Resources, Council Tax

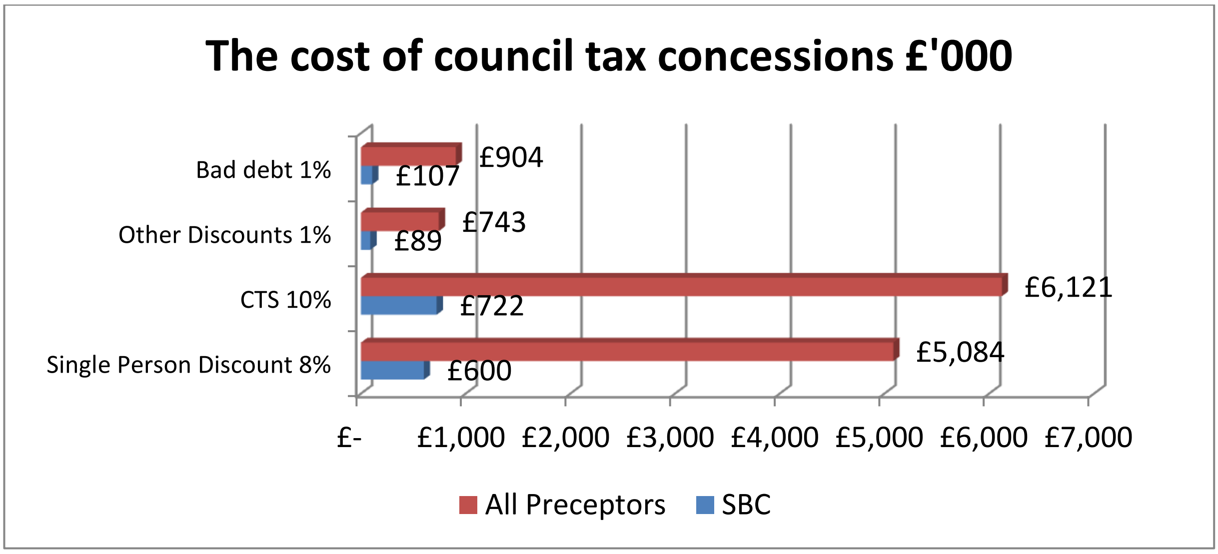
4.5.1 There are COVID 19 related cash flow pressures relating to core resources. SBC is the billing authority for business rates and council tax and as such raises the bills to residents and businesses, but only keeps a small proportion of those receipts.

4.5.2 For council tax SBC retains 12% or £5.9Million out of a total £50Million council tax bills for Stevenage. Payments to the other preceptors, Hertfordshire County Council and Police Commissioner, are set by regulation in February of the preceding financial year.




4.5.3 Even if the customers struggle to pay their council tax, SBC will still need to pay the scheduled Police and County Council precepts. During April 2020, an estimated 2,100 customers contacted the council to make new payment arrangements and 18% made no payment at all during April.

4.5.4 The assumed amount collectable versus the actual received will be impacted by residents' ability to pay. The increase in CTS support required by residents reduces the amount of council tax collected. The Stevenage CTS scheme only requires residents to pay 8.5% of their council tax bill, if on maximum benefit. The impact of this on the Council Tax yield is being kept under review. The discounts assumed within the current tax base for 2020/21 are summarised below.




4.5.5 Based on the current level of CTS and increase in caseload, the current projection could reduce council tax income by £977K for a full year, or 2020/21 reduction of £488K, which equates to a loss of council tax for SBC of £58K. The deeper the anticipated recession in the economy, the increased likelihood that more residents will require CTS support.

4.5.6 Included within the council tax base is an assumption around arrears levels and bad debts. As at the end of April there was approximately £102K unpaid council tax, which would equate to a £1.2Million for a full year and for SBC approximately £148K lost income and potential increase in bad debt cost. If assumed to be uncollectable it will require a repayment to the Collection Fund in 2021/22 for this and the reduction as a result of higher CTS caseload.

4.5.7 The impact on council tax will be kept under review and the Council will continue to make payment arrangements in line with customers' ability to pay. Officers will also seek to support customers and signpost them to other organisations as appropriate that can provide debt advice including the Citizens Advice (CA). This information can be found on the Council's website.

## 4.6 Core Resources – Business Rates

4.6.1 As a result of COVID 19 relief measures taken by the government for businesses (in particular retail reliefs), the 2020/21 NDR yield of £45.6Million was reduced to £26Million, which councils are compensated for through S31 grants.

4.6.2 The Council is partly funded through business rates and retains an amount based on assessed need by the government. For 2020/21 this is £2.67Million (including the amount for historic under indexing of business rates by the government). This equates to just over 5% of total business rates collected from Stevenage businesses.

4.6.3 Each year the Council estimates the amount of business rates collectable and retained after any levy charges by the government. For 2020/21 this totalled £3.815Million, total gains above the base line of £1.139Million, including £455K of projected pooling gains. At budget setting for this year, Members agreed that the pooling gains would be set aside in an allocated reserve until they were realised or achieved. The remaining retained business rates were used to increase General Fund balances and to fund time limited growth bids.

4.6.4 There may be a level of business failure, as companies struggle to pay their rent and rates and with profitability linked, for example, to ongoing social distancing measures. Although over 800 businesses were eligible for government grants and access to a government loan, tax deferral and furlough schemes, the longer the lockdown remains in place in one form or another, the more challenging the business environment will be. The Council estimates that it is probable that the pooling gains identified in para. 4.6.2, will not be realised and that in the worst case scenario all gains above the baseline need totalling £1.139Million will also not materialise. This would result in a significant loss of balances to the General Fund.

4.6.5 **The CFO recommends that any gains from the current year (see also paragraph 4.10.2 (3)) should be ring fenced to offset any further 2020/21 losses above £455K.** The projected pilot gains across Hertfordshire are due to be finalised week commencing the 25 May 2020.

## 4.7 Other Cost Pressures arising from COVID 19

4.7.1 Other significant pressures have arisen from the **increased cost of supporting the homeless and rough sleepers**, who the government directed Councils to house during the COVID epidemic. The Council received a grant of £11,500 to fund this activity. However the estimated gross cost is £491K for the 12 week period. This cost can be mitigated in part by ensuring housing benefit is claimable and that the costs associated with support reclaimable from the HCC's COVID funding. That said the best case scenario would see the Council incur a minimum cost of £135K if no further housing need is identified beyond the middle of June. This however is highly unlikely and could be up to a further £10K per week.

4.7.2 The Council's revenue and benefits team has had to set up a process and **administer the grants and reliefs** as set out in section 4.2 of this report. In addition they have had to deal with high volumes of residents and businesses seeking to make new payment arrangements and an increasing CTS case load. This is currently estimated to cost an additional £7.7K per month in staff costs. The government has stated that Councils will be fully funded for the cost of administering these schemes.

4.7.3 The Council has ten **Community Associations** in the town which rely on room hire and café income to cover their staffing and building costs which are estimated in total to be circa £66K per month. The Council recognises the importance of these facilities and organisations to the community and has approved a Community Centre policy to help fund the associations during this difficult time. This is subject to the centres using their business grant funding, furloughing their staff and using reserves to help fund costs as set out in the policy. Despite the use of other funding and reserves this is estimated to cost the Council a minimum of £80K and upwards of £214K this year. This is dependent on the length of the closure period and the ability of the centres, once they reopen, to maintain social distancing rules and still earn income.

4.7.4 There are also additional cost pressures identified from **remote working of SBC staff**. Most of the Council's staff have traditionally been office based and the switch to home working for most has required ICT interventions including new equipment and software solutions to allow remote meetings to take place.

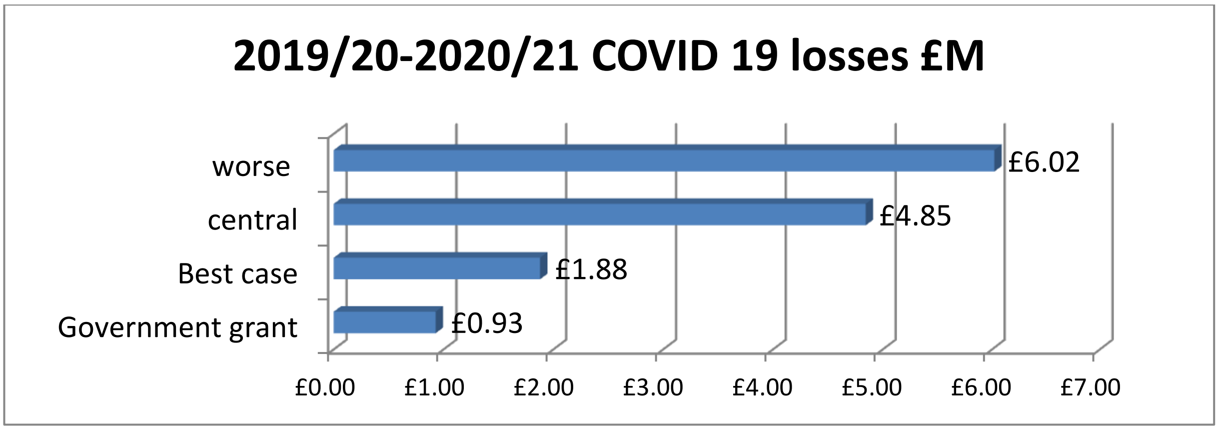
4.7.5 ICT solutions have also been required for Members, in order to allow the continuation of local government democracy and decision making to take place. The first virtual Executive was held on the 13 May and Annual Council took place on the 20 May.

4.7.6 In addition to the costs set above, there is expenditure associated with **PPE** for front line staff and additional staffing where council officers have had to self-isolate. Front line staff such as refuse and recycling, housing, independent living and other key workers have delivered their services throughout the pandemic and the council fully recognises the great work these staff have done and continue to do. Once buildings start to open, strict sanitation regimes will need to be in place which will increase the cost of operating and maintaining the sites. A total of £10.5K has been spent to date which for a full year could mean costs in excess of £60K.

4.7.7 The pandemic has impacted on a number of **savings options** which Members have already approved but have not been deliverable during the current period. The options affected total £56.7K for the General Fund and £3.3K for the HRA. They include the part year saving for charging for replacement waste bins (£15K), delays in restructure options £40.7K and charging for health & safety training £1K. These options will be reviewed regularly to determine when they can be introduced.

**4.8 Summary of losses for 2019/20 and 2020/21**

4.8.1 Based on the income and cost pressures identified above the chart below summarises the worst case, realistic and best case scenario modelling.




**note with HRA rental losses and increased costs take a total SBC cost to an estimated £8Million on worse case scenario*

4.8.2 The government grant funding received thus far does not meet the expected losses under any of the scenarios modelled. The Council not only has to meet the shortfall if no other funding is received, but also meet savings targets built into the MTFS as a result of reducing NHB levels, inflationary pressures and the additional cost of the pay award offered by employers (not accepted by the unions), estimated to be £90K per year. These targets were summarised in paragraph 4.4.4.

4.8.3 The impact of COVID 19 on the Councils resources put more pressure on the targeted savings the Council has to find, as outlined in the General Fund MTFS and budget reports, compounding the Council's financial position, hence the need for further options to plug the gap.

**4.9 Options for Consideration**

4.9.1 The Council's ability to meet the funding gap is very much dependent on the level of losses sustained and the length of the impact. Even with the best case scenario which would see the economy only impacted for the period April to June, the funding received from Government thus far only represents 49% of the total anticipated cost. **The options proposed within the report can be summarised as follows:**

I. Reduce Revenue Contribution to Capital (RCCO) from General Fund - £1.726Million

II. Stop part of Capital Programme (and reduce RCCO) £125K

III. Hold a number of vacant posts £152K

IV. Reduce the growth bids approved by utilising other resources £49K

V. Hold expenditure budgets for some projects and utilise projected underspends on print and post £463.8K

VI. Use allocated reserve for Business Rates - held for funding future regeneration and FTFC bids £455K

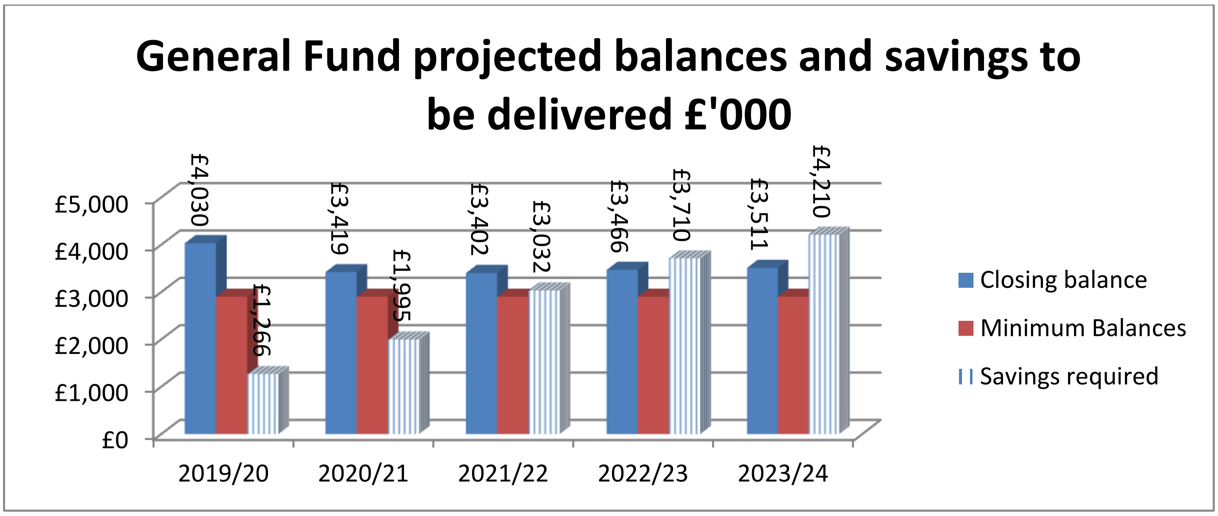
VII. Use 2019/20 Underspends £812K

VIII. Hold CNM 2020/21 budget £75K

IX. Review other budgets

4.9.2 The General Fund cannot absorb the level of losses set out in the scenarios modelled without some interventions to reduce some areas of spend and the consideration of the use of balances held for other purposes. **The Senior Leadership Team (SLT) recommend the precautionary measures set out above. This is to allow the Council to be able to continue to deliver its much needed services in the recovery phase and have sufficient balances, should further government funding fall short of the losses sustained**. However the majority of measures set out in this report are one-off opportunities and more far reaching options will have to be considered if losses are realised at the higher end of the modelling.

4.9.3 The CFO makes a risk assessment of the minimum level of reserves which for 2020/21 is £2.9Million (pre-COVID). In determining whether General Fund reserve balances can be used to fund some of the losses, it is important to review the level of balances projected versus the risk assessed level of balances and level of savings to be delivered. The level of General Fund reserves versus minimum levels is shown below (pre-COVID 19).




**the savings required are the cumulative value compared to balances in reserves at year end*

4.9.4 Paragraph 4.4.4 show the cumulative savings required to be realised for the General Fund 2019/20-2024/25. Some of these options are **agreed in principle however they still need to be implemented and maintained.** This shows there is very little scope for using balances to fund COVID 19 losses.

4.9.5 It is important that General Fund balances remain resilient during the pandemic because of the uncertainty around cost and income factors and projections, these being:

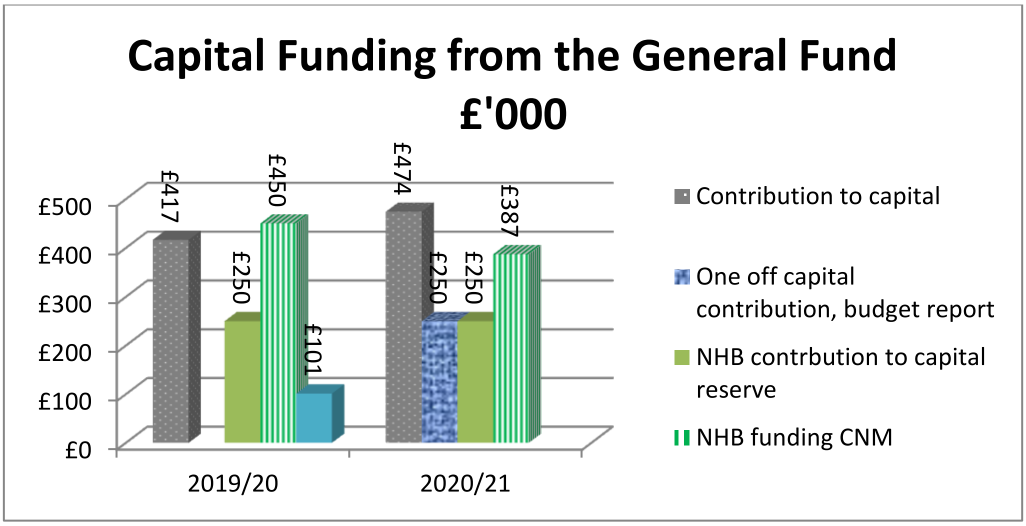
I. Uncertainty around level of government funding
II. Level of in year impact best/central or worse case for 2020/21
III. Impact of recession in future years beyond 2020/21
IV. Ability to deliver savings during the pandemic
V. Impact on services from additional demand

VI. Ability to fund discretionary services that the community may rely on in recovery

4.9.6 The first action recommended by the CFO is to **switch revenue funding by the General Fund to support the capital programme by using capital receipts**. The General Fund revenue budget finances some capital expenditure by:

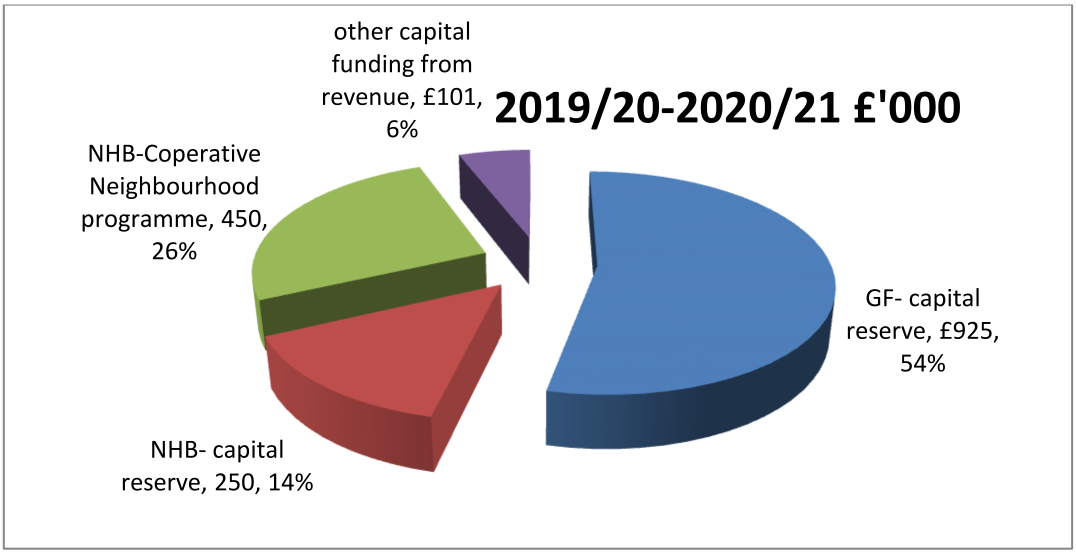
- Making a revenue contribution to the capital reserve or Revenue Contribution to Capital, (RCCO)
- Expenditure funded from New Homes Bonus which is a revenue grant is also classified as RCCO.

The total resources that flow from the General Fund to Capital are summarised in the chart below. Some are on-going, (circa £470K) and NHB funding for as long as the Council receives sufficient NHB.

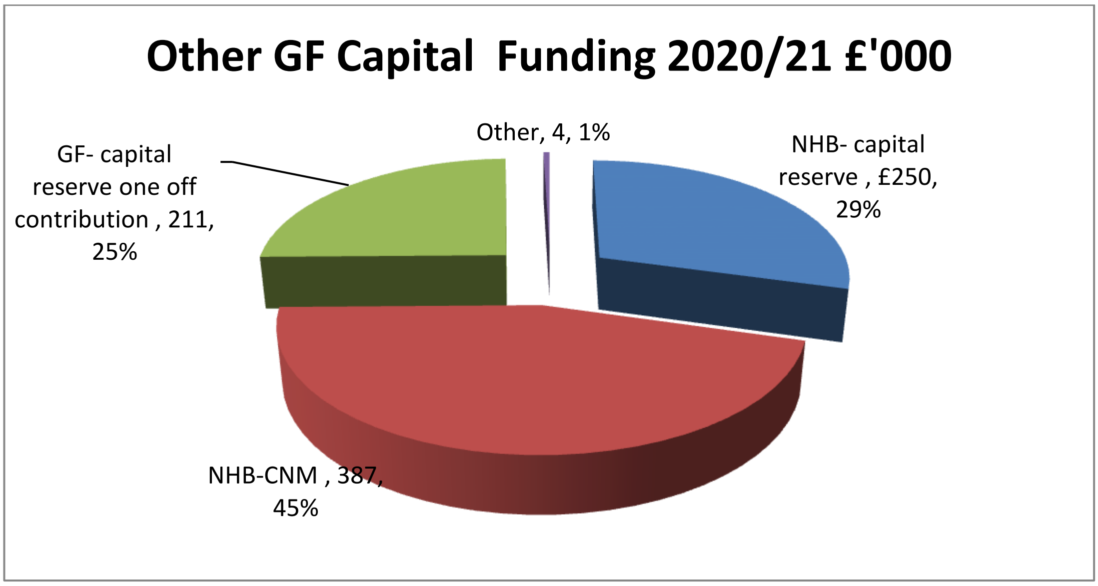



4.9.7 There are capital receipts, earmarked for the Council's future regeneration phases beyond current schemes, totalling £1.726Million in reserves. This receipt could be 'substituted' for some of the contributions identified in paragraph 4.9.6 to increase General Fund balances. However, it is intended that this would be a temporary measure until more funding is received. Taking this action will boost General Fund balances by this amount in the short term.

4.9.8 If sufficient government funding is not forthcoming or losses are greater than estimated, this receipt potentially will not be available to pump prime future regeneration phases. **Members are recommended to approve the use of this regeneration receipt for general capital expenditure in 2020/21.**




4.9.9 If Members approve the use of the regeneration receipt there is still a further £852K of capital funding from the General Fund in 2020/21 as summarised below.



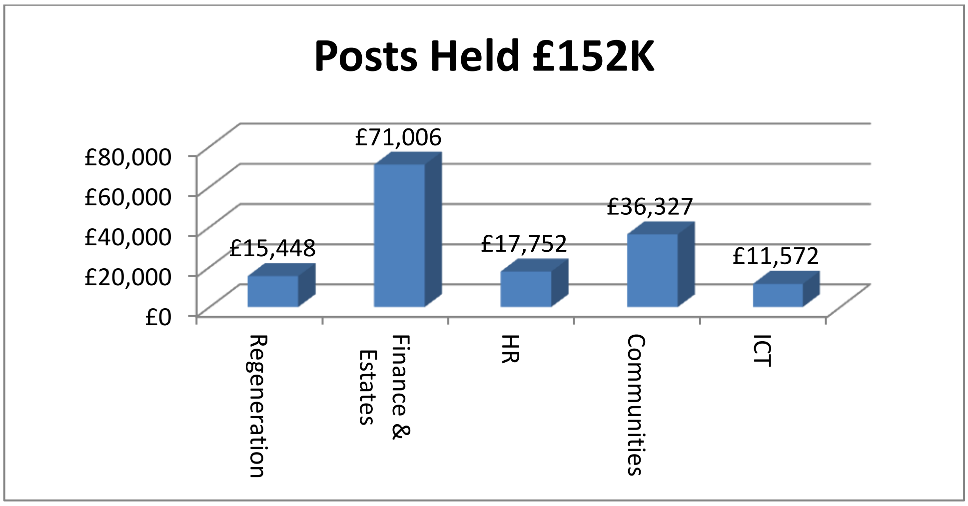

4.9.10 To further reduce the revenue contribution to capital from the General Fund consideration needs to be given as to whether any of the **Council's capital programme can be stopped for a year,** which would in turn increase revenue balances. Stopping rather than deferring means that resources are not subsequently used in any following period as this would only push the problem into future years. The Senior Leadership Team has reviewed the capital programme and has put a hold on the following projects totalling £125K, this further reduces the transfer from the General Fund in paragraph 4.9.9. **Members are recommended to approve the holding of the following capital spend in 2020/21.**

- CCTV £25K

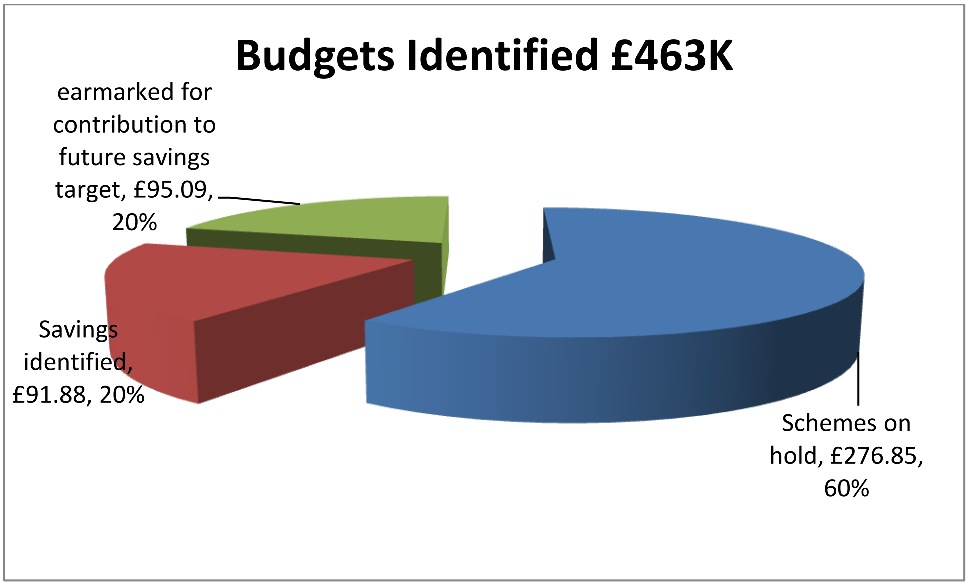
- Hard standings programme - miss a year £70K
- Workforce travel plan- miss a year £15K
- Parking Restrictions- £15K (part budget)

4.9.11 Looking at the modelling of the COVID impact scenarios, from £2Million to £6Million, the options around reducing capital funding is not sufficient to meet the central and worst case scenarios. Therefore a review of General Fund expenditure has been completed and **a number of options are being recommended for approval until the level of the losses can be better understood and/or government funding covers them**. The majority of these measures are not on-going and are proposed as temporary measures.

4.9.12 Employee costs represent 33% of General Fund costs**. A review of vacant posts** has been completed by Assistant Directors and a total of £152K of spend can be prevented by not recruiting to the establishment. This would not be recommended as a permanent reduction in the establishment because it could impact on the ability to deliver services. A number of the Communities posts can be held vacant until the current restrictions are eased. **Members are recommended to approve the holding of these posts.**

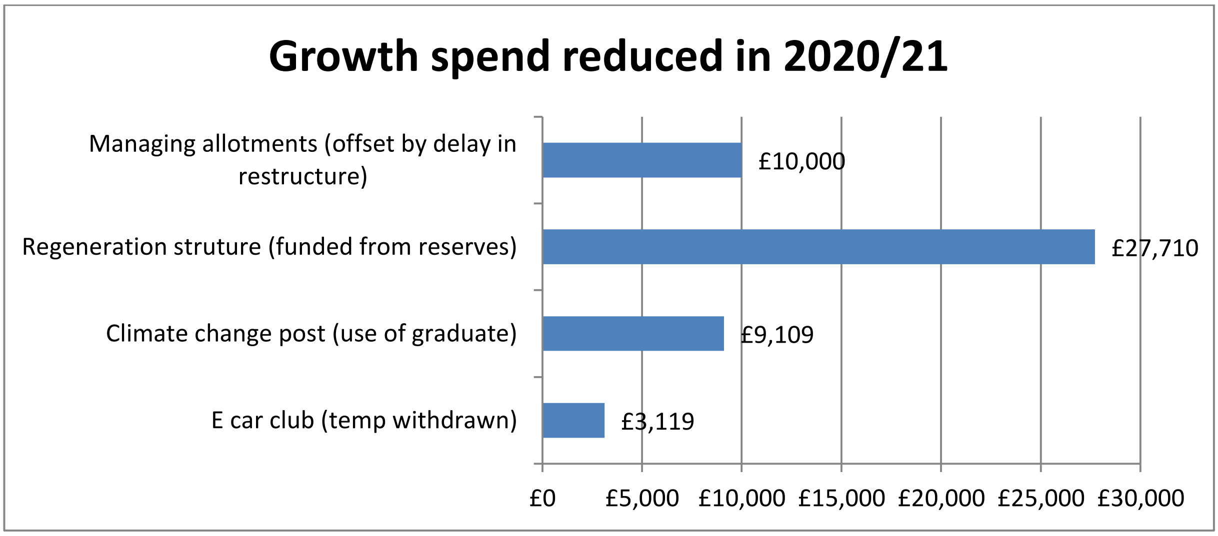



4.9.13 **A review of balances and spend budgets** has been undertaken and a total of **£463,820** relating to the General Fund and £35,000 related to the HRA can be removed from the General Fund 2020/21 revenue budget. This includes £95,090 in historic borrowing costs for external borrowing not yet taken and is recommended for removal from the General Fund as an on-going saving. This remained in the budget while there was uncertainty about the Local Enterprise Partnership (LEP) funding of the bus station.




4.9.14 The remaining identified budgets are one off underspends and relate to assumptions around reduced print, postage, fuel and overtime costs during the lockdown period with the remaining sums related to unspent prior year CNM balances. There is an overtime underspend assumption totalling £50,000, which will be monitored to ensure it is delivered but not guaranteed. The CFO considers it necessary to adjust the budgets to ensure that there are sufficient balances in the General Fund to cover the central scenario assumption. **Members are recommended to approve the temporary removal of budgets.**

4.9.15 Assistant Directors have also reviewed the growth bids for 2020/21 and £49K can be deferred through using supernumerary graduate posts and allocated reserve balances. The growth deferred is summarised below and **Members are recommended to approve the reduction in those budgets**.




4.9.16 The last completed review was for **allocated reserves** and the yearend General Fund balances. Included in allocated reserves is part of the 2020/21 NDR business rate gains of £455K. The current assessment of losses on a central scenario assumes that this amount would not be realised due to the impact on the economy. If this is realised it would have been used to carry on the Council's transformation, digital work or regeneration pump priming. **Members are recommended to approve the holding of this allocated reserve and not commit its use at the current time**.

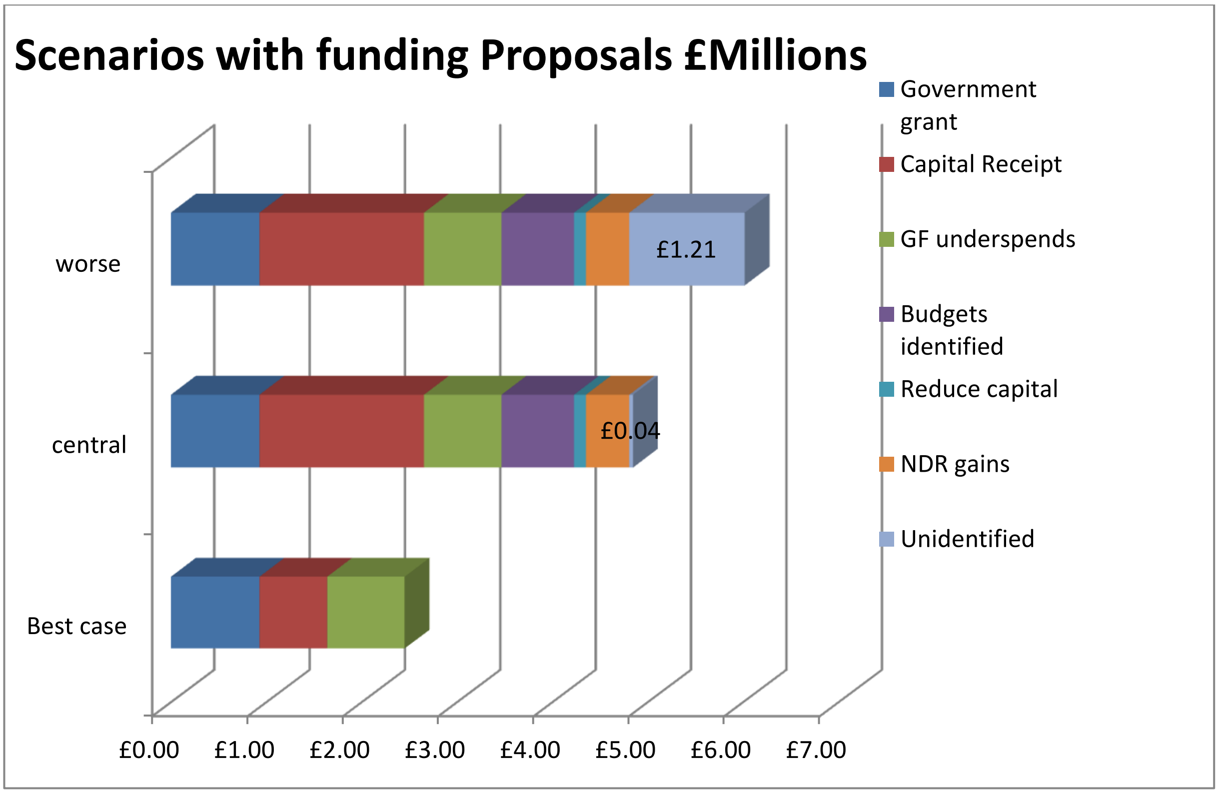
4.9.17 The 2019/20 budget outturn shows a projected under spend of £812K, offset by COVID 19 losses of £184K, **a net £628K underspend**. The final accounts have not been completed and this balance may change depending on completion of the Statement of Accounts and the ensuing External Audit in August 2020. **However the current 2019/20 projected underspend increases the General Fund balances and has been assumed to fund losses** not refunded by the government, rather than available to counter any short fall in future saving options to be delivered.

### 4.10 Impact of Measures taken on the COVID 19 2020/21 loss Scenarios

4.10.1 A summary of the measures recommended to improve the resilience of the General Fund is summarised in the Table below.

| Options £'000 | 2019/20 £ | 2020/21 £ | 2021/22 £ | Total £ |
|---|---|---|---|---|
| **COVID impact on General Fund:** | | | | |
| Losses | £184 | £3,999 | £0 | **£4,183** |
| Council Tax | £0 | £0 | £207 | **£207** |
| Business Rates | £0 | £0 | £455 | **£455** |
| Total | **£184** | **£3,999** | **£662** | **£4,845** |
| **Funding Options:** | | | | |
| Government grant | £0 | £928 | £0 | **£928** |
| Use of Regeneration receipt | £1,218 | £508 | £0 | **£1,726** |
| Hold Capital Expenditure | £0 | £125 | £0 | **£125** |
| Hold vacant posts | £0 | £152 | £0 | **£152** |
| Hold spend budgets | £0 | £464 | £95 | **£559** |
| Remove approved growth budgets (part) | £0 | £50 | £0 | **£50** |
| Use allocated reserve (NDR 2020/21 gains) | £0 | £455 | £0 | **£455** |
| Underspend 2019/20 | £812 | £0 | £0 | **£812** |
| Unidentified- under review | £0 | £37 | £0 | **£37** |
| **Total** | **£2,030** | **£2,720** | **£95** | **£4,845** |

4.10.2 Taking the measures outlined in section 4.9 above, each scenario is summarised with the remaining funding gap, which is labelled in the chart below.



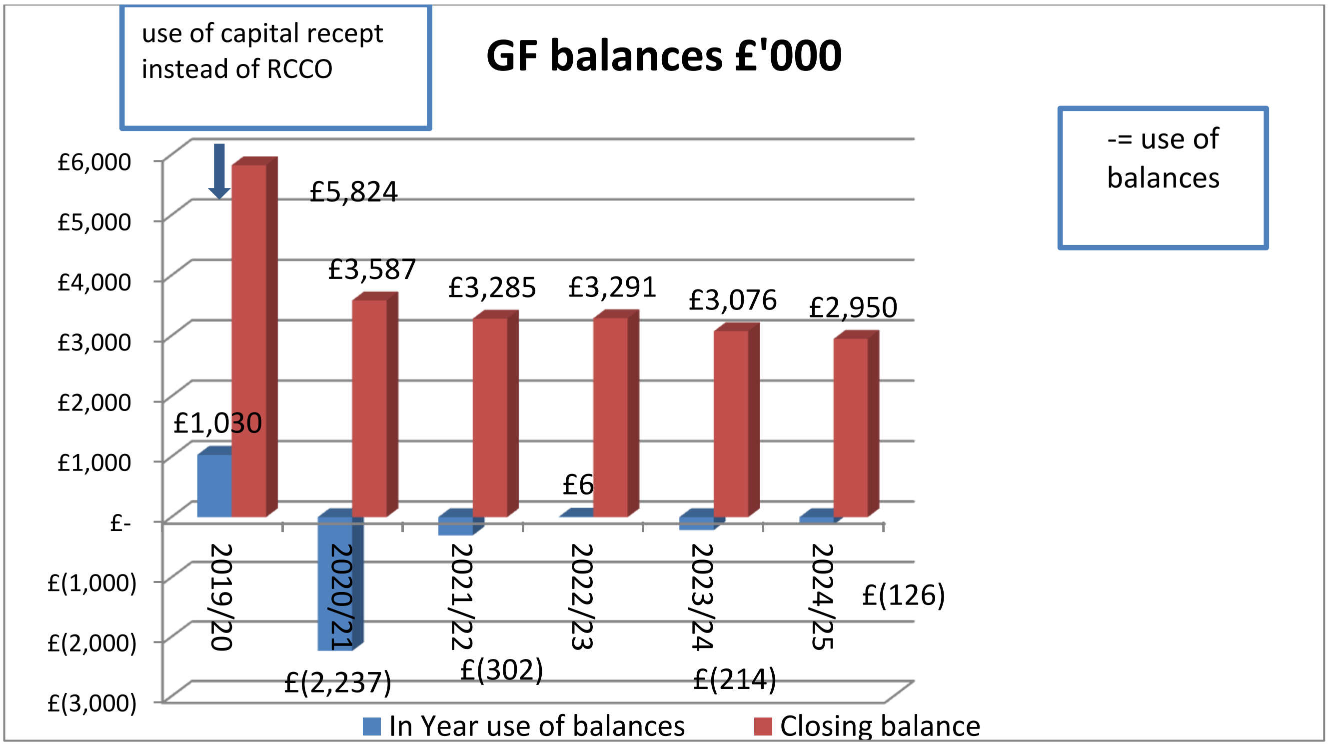

4.10.3 The funding options identified are £37K less than the central losses for 2020/21, but the yearend position is not finalised and it is not clear yet what the overall level of losses will be so the CFO recommends the following options:

1. **Hold expenditure of CNM programme for 2020/21 £75K**
2. **Review event and similar type budgets to determine whether they can be released.**
3. **Potential NDR additional gains for 2019/20 currently being reviewed of £477K (subject to Pilot gains of £275K being realised, not yet known) if this was achieved recommend ring fenced for 2020/21 NDR gains if the £1Million was not achieved.**

4.10.4 The ability to fund losses of £6Million plus and potentially future years losses would require a more fundamental review and the need to do this is being monitored by the Senior Leadership Team and Executive Team whilst the Council continues to lobby for more funding. This will require another review of the MTFS to be undertaken this year.

4.10.5 The projected level of balances for the General Fund if the central projections materialise with the level of losses and the measures taken in section 4.9 and 4.10 (1) being implemented would result in the General Fund balances being above minimum levels.

4.10.6 However there would still be a draw on balances contrary to the MTFS principles, partly as a result of the revised pay award projections and assumptions about increases in the triennial review for pensions. Forecast General Fund balances are summarised in the chart below.




*doesn't include potential NDR gains outlined in para 4.10.2 (3)- not yet verified

4.10.7 **The projections above rely on there being no further losses other than the estimated £4.84Million and that all savings targets are achieved and the yearend balance on the General Fund is achieved**. The recovery phase is inevitably going to bring new pressures and will require a review of Financial Security targets for future years, once there is a better understanding of the level of on-going unfunded COVID 19 losses.

## 4.11 Further Measures to maintain General Fund resilience

4.11.1 Alongside the measures identified in the report in sections 4.9 and 4.10, it is also critical that the Council pursues measures to increase General Fund resilience, as outlined in para. 4.9.5. This could be achieved by reducing the on-going £470K contribution from revenue to capital, (as identified in para. 4.9.6). This would maintain the resilience of revenue balances, (particularly as fees and charges may result in it taking a considerable time to return to 'normal levels'). **The CFO recommends that a pipeline of land disposals identified as part of the on-going Locality Reviews is brought forward to the July Executive for in principle support subject to due diligence and consultation with Ward Members and the Executive**.

4.11.2 The timing of land sales may need to reflect the prices that can be achieved but will help future proof the General Fund, giving more ability to absorb future losses and variations from approved savings plans.

4.11.3 The February 2020 General Fund budget report identified the need to seek more transformational ways of working through digital solutions and identified a budget of £75K to start this work. **The Senior Leadership Team recommends this work is started as soon as practically possible** to ensure that planned savings targets can be achieved. Some new ways of operating have already commenced as part of the move to remote working.

### 4.12 Risks to the General Fund of not identifying a Strategy for COVID losses

4.12.1 The Council must set a budget that is balanced each year and cannot run a deficit General Fund. It is the duty of the statutory officers to ensure that this is the case.

4.12.2 The General Fund budget position has been improved by 'holding' expenditure and diverting receipts available to future phases of regeneration projects, in order to meet the losses if no further Government grant is forthcoming**. This position has not been achieved by just using General Fund reserves.**

4.12.3 If the projection of losses increases and cannot be contained within the reserves the statutory officer may bring a S114 report forward.

4.12.4 Within the Local Government Finance Act 1988, Section 114 (3) dictates that:

"The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".

4.12.5 This means that for Local Government, it is the Chief Finance Officer or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council's leadership on its financial plans.

4.12.6 The CFO has the responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one.

4.12.7 Once a S114 Notice is issued it means that no new expenditure is permitted, with the exception of funding for statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured. Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.

4.12.8 The only allowable expenditure permitted under an emergency protocol would include the following categories:

- existing staff payroll and pension costs
- expenditure on goods and services which have already been received
- expenditure required to deliver the council's provision of statutory services at a minimum possible level
- urgent expenditure required to safeguard vulnerable citizens
- expenditure required through existing legal agreements and contracts
- expenditure funded through ring-fenced grants
- expenditure necessary to achieve value for money and / or mitigate additional in year costs.

4.12.9 Councillors have 21 days from the issue of a Section 114 notice to discussing the implications at a Full Council meeting.

4.12.10 There have been a number of Councils including Windsor and Maidenhead, Liverpool and Luton Council to name a few that have raised the possibility of issuing such a report as a result of losses they are experiencing.

4.12.11 To mitigate the risk of bringing a S114 forward it is preferable to have control over the services provided by the council. To that end it is recommended that the Executive approve the development over the summer of a priority list of services as a further precautionary measure, if losses and the impact of COVID 19 is financially greater than modelled . However this would include services to vulnerable residents .This will consider short term need to run services which would be impacted from social distancing measures and could be based on the following factors:

- Critical to the recovery and Stevenage businesses and residents economic and community welfare
- Number of residents/businesses served by the activity
- Consideration of whether the service is offered by other organisations

4.12.12 **It is recommended that the measures set out in the report are in force until 30 September 2020 and when/if a better financial position can be established** then the following budgets are **reinstated** in the following listed priority order:

1. CNM spend for 2020/21 £75K (para. 4.10.3)
2. Future Regeneration funding (para 4.9.7)
3. Unspent CNM funding (para. 4.9.14)
4. NDR allocated reserve (para 4.9.16)
5. Posts on hold (para. 4.9.12)
6. Capital budgets releases (para. 4.9.10)
7. Other budgets reduced (para 4.9.14, schemes on hold).

**4.13 Housing Revenue Account (HRA)**

4.13.1 This report focuses on the General Fund, however there is likely to be an impact on the HRA in terms of rental income, issuing of leaseholder S20 notices (which were deferred during the pandemic) and return of right to buy pooling receipts (RTB). In addition to the cost of additional PPE for front line staff.

4.13.2 The Council will potentially have to return £197K and £1Million of pooling receipts to the government plus interest, as housing development schemes have been impacted by COVID19. The CFO has written to MHCLG too ask them to allow SBC to retain the receipts for five years rather than three years, giving supporting evidence to aid the case. The CFO has been in contact with the relevant civil servants but has not yet received an answer at the time of writing the report.

4.13.3 The rent arrears for the first six weeks on 2020/21 had increased by £286K and the impact of this on the HRA is being monitored.

4.13.4 The impact on the HRA can be ameliorated in part by the lower borrowing costs in the HRA compared to the HRA business plan, this has been improved by the reduction in borrowing rates for HRA capital programmes. This is estimated to be £500K for 2020/21 and a £800K for 2021/22.

# 5 IMPLICATIONS

## 5.1 Financial Implications

5.1.1 The report is financial in nature and the financial impacts are contained within the body of the report.

5.1.2 There has been no further announcement on funding but it is anticipated that the funding model will change and will be based on different criteria based on soundings with the MHCLG. The Council awaits further information to be announced.

## 5.2 Legal Implications

5.2.1 The legal position in setting a legal budget is set out in section 4.12

## 5.3 Risk Implications

5.3.1 There is considerable uncertainty about the potential for the Council to receive further government funding. The positon regarding COVID losses and the cost of recovery is also uncertain at this time. The Council must have a Strategy in place to address the financial impacts due the likely level of losses and the increased certainty that income levels are going to challenging to achieve for some time to come.

5.3.2 The risks for the MTFS and General Fund budget have been updated.

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| NEW: Government COVID funding does not cover losses | The measures included in this report would need to be implemented up to the level of losses realised | High | High |
| NEW: Government COVID funding does not cover losses and exceeds options identified | This would require some of the measures outlined in para. 4.12.8 to be considered, review of Financial Security Targets and depending on the gap, the need for a s114 notice to be reviewed | High | High |
| NEW: The 75% retention of receipts produces lower gains for SBC in 2021/22. | The Council does not budget spend on future gains only for those forecast for the coming year. However in the past this has increased Regeneration spending | Medium | Medium |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| Anticipated Financial Security options not achieved (Negative Risk) –agreed options do not deliver expected level of savings either on a one-off basis or on-going. | Regular monitoring and reporting takes place, but the size of the net budget reductions increase the risk into the future. Non achievement of options would require other options to be brought forward. General Fund reserves should be held to ensure that decisions to reduce net costs are taken in a considered manner. This may become more of a risk as options around commercialisation are explored. | Medium | Medium |
| UPDATED: Under-achievement of Commercial Property Investment (Potential Negative risk) | Properties being investigated are on hold during the current pandemic and the losses included the shortfall for 2020/21. | High | High |
| REVISED: Council Tax Support (Negative Risk) – increased demand is under- estimated. | An increase in demand would impact on future years as the deficit in the collection fund would need to be repaid by the General Fund. This could equate to £58K in 2021/22 if the caseload continues to increase. | High | Medium |
| Localisation of Business Rates (Potential Negative) – A major employer leaves the town and impacts the business rate yield due to the Council | Negative: The safety net means a maximum loss in year of £180K which the council has included in an allocated reserve. On-going this would impact on the savings target and ultimately services. | Medium | High |
| Loss of Business Rates due to Companies going into administration | As above. | High | High |
| The NDR Check Challenge Appeal process impacts on the council's baseline assessment and increases the level of successful appeals and reduces the yield (Negative risk) | Officers will be monitoring changes to the NDR system and will be talking to the Valuation office. However since the system has been introduced, little has been completed in Stevenage and a considerable amount of appeals from the 2010 list remain. | Medium | Medium |
| Impact of the Universal Credit (Negative Risk) – The grant given to the | A reduction in the amount of grant assumed within the MTFS would require compensating reductions in | Medium | High |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| Council is cut before the Revenue and Benefits Partnership is able to reduce costs. The Welfare reform bill may impact on residents' ability to pay council bills. | planned spending within services . However UC is being implemented at a very slow pace and the current case load is reducing. | | |
| UPDATED:Inflation (Negative Risk) – The majority of contracts the Council holds include an annual price increase | General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. The inflation projections have been increased for a 2.75% pay award (offered by the employers side) and an increase in pension costs at the next renewal assuming the pension fund will be less well funded due COVID impacts | Medium | Medium |
| Impact of Future Welfare Reforms (Negative Risk) – There could be an increase in the need for the council's services requiring additional resources to be put into those services | Regular monitoring and reporting and the council has a welfare reform group which monitors impacts. | Medium | Medium |
| All MTFS risks not adequately identified (Negative or Positive Risk) – Financial risks and their timing are not accurately judged leading to either a pressure or benefit to the MTFS. | Council's risk management framework ensures operational and strategic risks are identified as part of the annual service and MTFS planning process | Low | High |
| The impact of BREXIT (negative risk) the impact of Brexit leads to economic instability and further financial cuts to the council's budgets | A reduction in the resources available within the MTFS would require compensating reductions in planned spending within services . The council would use the Financial Security priority to help address this. | Medium | Medium |

| Risk Area | Risk Mitigation | Likelihood | Impact |
|---|---|---|---|
| Impact of future years capital programme (Negative) There could be increased pressure from the capital programme on the General Fund. | There is a robust challenge process for capital bids. Officers will be required to confirm that resources are in place to deliver any approved spend.<br>The Locality reviews should identify capital receipt opportunities. | Medium | High |
| The Council's regeneration of SG1 increases the financial resources the Council must find. | The Council has already approved the use of ring fenced NDR gains for this purpose and the MTFS recommends this continues. However a full reset of business rate gains could see this reduce and put a pressure on the General Fund | High | High |
| AFM (Negative risk) HCC may review the amount paid to Councils, | HCC has already planned to remove £1.5Million from the scheme and could remove more. SBC received about £250K in 2018/19, further reductions would lead to an increase in the Financial Security Targets. | Medium | High |
| UPDATED Fees and Charges target may not be reached (negative risk) | Non achievement of the target would require other FS options to be brought forward. For future years. The in year losses have been addressed within the report from a central scenario modelling | High | High |
| UPDATED GD3 monies are not released and the cost of borrowing is a GF expense | The Council will have to fund the costs from borrowing circa £240K per year and increase savings targets or defer other capital spend or a combination of both. The indication is that the obligations have been satisfied | Low | Low |

### 5.4 Climate Change Implications

5.4.1 The changes to the budget do not have a negative impact on any of the Council's climate change work. However the workforce travel plan spend of £15K is recommended for suspension in 2020/21.

5.4.2 The e-car club has been suspended due to the COVID 19 impact on sharing of vehicles and only consequential savings relating to the suspension have been assumed.

### 5.5 Equalities and Diversity Implications

5.5.1 The report outlines the measures required to resource the losses identified from COVID19. The options recommended are done so as to minimise the impact on services.

## 6. BACKGROUND DOCUMENTS

BD1 FINAL GENERAL FUND AND COUNCIL TAX SETTING 2020/2021- (12 February Executive)

BD2 GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY UPDATE (2019/20 – 2023/24) (11 September 2019)

BD3 CORONAVIRUS (COVID19) UPDATE REPORT (13 MAY 2020)

## APPENDICES

A Updated MTFS Summary