

<b>Cabinet Meeting</b>	
<b>Meeting Date</b>	3 June 2020
<b>Report Title</b>	Financial Impact of Coronavirus
<b>Cabinet Member</b>	Cllr Roger Truelove, Leader and Cabinet Member for Finance
<b>SMT Lead</b>	Nick Vickers, Chief Financial Officer
<b>Head of Service</b>	Nick Vickers, Chief Financial Officer
<b>Lead Officer</b>	Nick Vickers, Chief Financial Officer
<b>Key Decision</b>	No
<b>Classification</b>	<b>Open</b>
<b>Recommendations</b>	1. Members are asked to note the report.

## **1 Purpose of Report and Executive Summary**

- 1.1 The Coronavirus pandemic has enormous implications for the residents of the borough. It has also made huge demands on the Council to provide at very short notice new services through the community hubs and deal with Everyone in, and almost all Council staff are working from home. It has also transformed the operation of the democratic processes within the Council with members starting to hold meetings, successfully, remotely.
- 1.2 These reports always look to provide reassurance that there is control of the situation. But we need to recognise that this is an unprecedented situation and the overriding objectives are to support the most vulnerable residents through the community hub and to protect the health of our staff.
- 1.3 This report focuses on the narrow issue of the financial impact on the Council.

## **2 Background**

- 2.1 This pandemic is the most serious crisis for the country since World War 2. It therefore has a huge potential impact on the Council's finances and this report will consider the most significant impacts.

### **Revenue Budget Impact**

- 2.2 One of the first actions undertaken was to prepare a detailed estimate of the projected revenue budget impact. This is very much about establishing a base position which will be subject to regular review, the review process will be examined further below. The Kent local authority Chief Financial Officers meet every 8 weeks in the Kent Finance Officers Group and their work has been fundamental in helping us develop our estimates. The impacts are based on a

variety of assumptions, some for a limited period and others assuming an ongoing impact through the year.

2.3 In coming up with our projected shortfall the most significant financial impact comes from:

<b>Budget Headings</b>	<b>Comments</b>
Car park income (off street)	Assume no income Q1 and 50% reduction Q2 (£759k).
Planning Fee income	Assume 10% reduction (£116k).
Homelessness	Assume a significant increase in costs (£500k).
Sittingbourne Town Centre project	Assume no income from the Leisure development in 2020/21 (£584k).
Leisure Centre contracts	Assume additional costs (£400k).
Council tax	Assume 10% reduction in income (£860k).
Business rates	Assume 5% reduction in income (£400k).

Overall the total estimated impact is £4.1m. It must be made clear that this is an estimate, it gives a base position which we will monitor against. Additionally as we await further Government guidance on the Job Retention scheme and public sector contracts, we will need to understand how this impacts our contractors and more importantly our obligations under contracts with them.

2.4 This is an unprecedented financial challenge to the Council. The objectives in this context are:

- Maintain core services,
- Delivery of Council priorities; Special Projects Fund/public realm, local plan, constitutional changes, affordable housing and Climate Change,
- Ensuring the ongoing financial viability of the Council.

None of these can be taken for granted and agile and intelligent management of the Council's finances will be required to deliver the objectives.

- 2.5 MHCLG have initiated a new detailed monthly finance return which all Councils have to comply with. We completed one return on 15 April and a second one on 15 May- this second return requires far more information. The Leader and Cabinet Member for Finance with Officers will formally review the base estimate on a monthly basis.
- 2.6 On 20 March MHCLG announced an initial funding allocation to local authorities of £1.6bn. This first tranche of funding was heavily weighted to upper tier Councils; Swale received £76k and KCC £39m. Through the District Council Network, MP's and the Society of District Council Treasurers a great deal of lobbying took place to recast the split between tiers. On 29 April the second tranche of funding was received and this gave a 35% allocation to district councils and Swale received £1.5m. The initial £76k will be used to fund the community hubs and deal with the costs of Everyone in, the £1,5m will be set against the £4.1m funding gap. We do not know whether there are any additional tranches of funding to come.
- 2.7 The Council entered the 2019/20 year with Reserves standing at £23.9m, with £4.4m General Fund and £19.5m of earmarked reserves. The Leader and Cabinet Member for Finance and Officers have reviewed Reserves and have identified £2m of earmarked reserves within the Finance portfolio which can be freed up without impacting on core services or administration priorities. An updated Reserves position is being prepared as part of the outturn process for 2019/20 which will be reported to Cabinet in July.
- 2.8 So taking the additional Government funding and the Reserves identified above there is good progress towards closing the overall funding gap. But there is still a gap and for the financial viability of the Council long term we cannot just rely on the use of reserves. It is therefore intended that non-essential expenditure should be restricted. It is always difficult to define non-essential but for current purposes it will be considered to be anything other than expenditure of core largely statutory services and administration priorities.
- 2.9 All of these processes will be pulled together through newly established Finance Group currently meeting regularly, the monthly and quarterly budget monitoring process with quarterly reports to Cabinet and Scrutiny Committee.

### **Business Rate Grants**

- 2.10 One of the first actions of Government was to announce £12bn of business rate grants and reliefs. Swale received £32.5m of grants and had to quickly establish a process for businesses applying for the grants. Government didn't say how they had calculated the grants but said explicitly that the notification states that under no circumstances may the grant be used to cover any expenditure outside of these schemes and that unspent grant would have to be repaid. The Government has also produced a number of clarifications of what the scheme can be used for. At the core of the grant scheme are a Retail, Hospitality and Leisure Grant Fund, under which grants of either

£10,000 for properties with a rateable value of up to £15,000; or £25,000 for properties with a rateable value of over £15,000 and less than £51,000 could be awarded. Businesses had to be on the rating list on 11 March to be eligible. Wide ranging reliefs have also been announced with the Council being compensated through Section 31 grants.

2.11 The Economic Development team has been working very closely with the Business Rates team to develop a process and get the grants paid. The Government requires that businesses apply for the grants and this has proved problematic for a variety of reasons; including businesses not knowing they can apply, businesses being closed due to lockdown and organisations such as village halls which are rateable but get full relief but are eligible. So its been a tremendously labour intensive process to get the grants claimed.

2.12 The latest position is:

Grant Type	Eligible businesses	Claims paid	Grants paid
Small Business Grants	2,081	1,674 – 80%	£16,740,000
Retail Grants	244	157 – 64%	£1,570,000
£25K Grants	307	244 - 79%	£6,100,000
	<b>2,632</b>	<b>2,075 – 79%</b>	<b>£24,410,000</b>

Whilst this reflects enormous progress it is still quite mystifying that more businesses have not claimed.

2.13 Government has also announced more recently that it will introduce a Discretionary Grant Scheme at a level of 5% of the initial scheme value (£32.5m) although this now seems to be subject to change.

### Local Council Tax Support Scheme

2.14 The Council operates a Local Council Tax Support scheme for working age residents in receipt of benefit payments. In February Council agreed that the percentage payment required was reduced from 25% to 20%. On 24 March Government announced a Hardship Fund and the Council would receive £1.1m to be used towards reducing Council tax for residents covered by the Local Council Tax Support scheme.

2.15 The Government's expectation was that billing authorities would provide all recipients of working age Local Council Tax Support (LCTS) during the financial year 2020/21 with a further reduction in their annual council tax bill of up to £150, using their discretionary powers to reduce the liability of council tax payers outside of their formal LCTS scheme design. This is £814,800 of the funding based upon 5,400 clients. The remaining funding will be held to meet increasing numbers of claimants. The payment will remove the bulk of any liability for Council tax from recipients.

## **Cashflow**

- 2.16 The Council has to manage its cashflow to balance payments made and income received to ensure that liquidity exists to meet all financial commitments. For a district council as the billing and collection authority for all Council tax and Business rates the sums involved are very large. There are fixed payment schedules for payments to Government and the preceptors. Government has given a deferral of the payment of the first Quarter Central share of business rates collected.
- 2.17 The receipt of the £32.5m of business grants created a major cash management difficulty as we could not use the Council's usual counter parties (eg Money Market Funds, banks) as these were already full so we defaulted to use of the Debt Management Office (DMO). Deposits with the DMO have to be for fixed periods, there is no daily access as there is with Money Market Funds or other bank deposit accounts. In the event the business grants were paid out quicker than anticipated so there was a need to borrow short term. The Council borrowed £10m for 1 month from Essex County Council at a rate of 0.5% (interest cost £4,200).
- 2.18 Any future need to undertake short term borrowing will be reported to members.

## **3 Proposals**

- 3.1 The main purpose of this report is to update on the Coronavirus financial issues. All actions taken have been within the terms of the budget and treasury management reports agreed by Council in February. Progress will be formally monitored through reports to Cabinet and Scrutiny Committee. Therefore the report is for information not decision.

## **4 Alternative Options**

- 4.1 This is an information only report.

## **5 Consultation Undertaken or Proposed**

- 5.1 No consultation has been undertaken outside of Cabinet and SMT.

## 6 Implications

<b>Issue</b>	<b>Implications</b>
Corporate Plan	Supports all Corporate Plan priorities.
Financial, Resource and Property	The report is for information only updating on key financial issues related to the Coronavirus pandemic.
Legal, Statutory and Procurement	The report reflects changes in legislation linked to managing the Coronavirus pandemic.
Crime and Disorder	Not directly applicable.
Environment and Climate/Ecological Emergency	Not directly applicable.
Health and Wellbeing	The report reflects the role that the Council is taking in helping to manage the response to the pandemic.
Risk Management and Health and Safety	Not directly applicable.
Equality and Diversity	Not directly applicable.
Privacy and Data Protection	Not directly applicable.

## 7 Appendices

None

## 8 Background Papers

None