

REPORT OF Interim Section 151 Officer
To: Community and Resources Committee
Subject: Financial Impact of Covid-19 and assessment of going concern
Date: 29th June 2020 **Reference:**

PURPOSE OF REPORT:

To highlight the financial impact of Covid-19 on Torridge Council, and to update the assessment of the Council as a "going concern". The potential impact of Covid-19 on the Councils' Medium term Financial Strategy (MTFS) will also be highlighted.

1. INTRODUCTION

Covid-19 is having a significant impact upon local authority spending and income throughout the country. The impact has been particularly stark for district councils such as Torridge Council who rely on Fees and Charges to fund a significant proportion of their day to day expenditure.

This report attempts to take a prudent view of the impact of the Covid-19 on the Finances of Torridge District Council for the financial year 2020-21 and beyond.

Fortunately financial prudence in prior years means Torridge is in a better position than many Councils to absorb the impact of Covid-19 in the short term. However the potential impact upon the financial health of Torridge is both real and significant.

2. REPORT

2.1 The full impact of Covid-19 on the revenue budgets of the Council will not be fully known until there is clarity on the following:

- Length and severity of the lockdown
- What measures will be in place once the country comes out of lockdown
- How quickly the economy recovers from the impact of the lockdown
- The extent to which society will operate differently in a post Covid-19 environment (e.g. increased home working)
- The level and duration of Central Government support to local authorities

2.2 The Council has incurred both additional expenditure and reduced income as a result of the Covid-19 pandemic. The loss of income is by far being the most significant impact upon the Council's finances.

2.2.1 The projected additional expenditure is as summarised below:

<u>Additional Expenditure</u>	£'000
ICT related expenditure – remote working /additional equipment	20
Support to the community (Grants to Parish Councils)	74
Homeless related	65
Agency backfill with Refuse / Street Cleansing	45
Other (additional PPE etc.)	10
Subtotal	214



2.2.2 The Council has four main sources of income which fund our day to day activities, namely:

- Council Tax
- Business Rates
- Central Government Grants
- Fees and Charges

Council Tax

Torrige, as the billing authority, in addition to collecting council tax on both its own behalf, also collects on behalf of its preceptors, namely:

- Devon County Council
- Devon & Cornwall Police
- Devon and Somerset Fire
- Town and Parish Councils

Torrige's share of the Council Tax collected is circa 8.5%. The distribution of Council Tax for 2020/21 was determined during the financial year 2019/20; and did not account for the impact of the Covid-19 pandemic.

The Council is currently projecting that council tax income for 2020/21 will decline by 10%, as more people claim local council tax support or struggle to pay as a result of declining incomes. The impact upon the Council's revenue budget is estimated at **£412k** (which as a result of current council tax collection fund rules, will be realised in 2021/22). To-date the Council has not seen a marked increase in claims for local council support, an increase in claims is anticipated as the furlough scheme winds down.

Of equal concern to the Council is the cash flow impact; a 10% fall in council tax revenues equates to **£4.8m**; because of council tax collection rules, Torrige is obliged to pay over to its preceptors their pre-determined share of council tax calculated *prior* to the impact Covid-19. The amounts to be paid over to preceptors during 2020/21 are:

- | | |
|---------------------------------------|---------|
| • Devon County Council | £35.27m |
| • Devon & Cornwall Crime Commissioner | £ 5.43m |
| • Devon & Somerset Fire | £ 2.16m |

**** Payments to Parish & Town Councils of £1.612m are fixed and will not be adjusted regarding of the amount of Council Tax collected..

Essentially Torrige will "over pay" council tax to its preceptors for the duration of 2020/21, only recovering the "over payments" during the course of 2021/22.

Business Rates

Torrige collects business rates and retains 40%, the balance being passed over to:

- | | |
|-------------------------|-----|
| • Central Government | 50% |
| • Devon County | 9% |
| • Devon & Somerset Fire | 1% |

As a result of the Covid-19 pandemic Central Government has announced a significant extension of retail relief; the consequence being that the Business Rates to be collected by Torrige Council has declined by circa £6m. Torrige is to receive additional Section 31 grants from Government to compensate for the business rates it will no longer collect.

The Council is currently projecting a 15% shortfall in its collection of Business Rates, the impact on its revenue budget being **£308k** (which as a result of business rates collection fund rules, will be realised in 2021/22)



Central Government Grants

There has been no change to the monies the Council is to receive for the following:

- Revenue Support Grant
- Rural Sparsity funding
- New Homes Bonus

Central Government have provided additional grant funding to Council to assist with respect to Covid-19. Torridge has received notification to-date of additional funding of £727k.

Fees and Charges

Income from fees and charges fund circa 40% of the Council's expenditure, the impact of the Covid-19 lockdown has been estimated as detailed below:

Loss of Income	£'000
Parking	902
Planning	312
Building Control	188
Land charges searches	68
Licensing & regulatory	38
Rents from commercial properties	171
Cemeteries / Crematoria (simpler services)	29
Interest from temp investments (cash flow & interest rates)	126
Other	36
Subtotal	1,870

The total impact upon the Council's revenue budgets is summarised below:

	£'000
Additional Expenditure	214
Council Tax	412 (realised in 2021/22)
NNDR	308 (realised in 2021/22)
Fees & Charges	1,870
Less additional Covid-19 grants	(727)
Total Funding pressure 2020/21	2,077

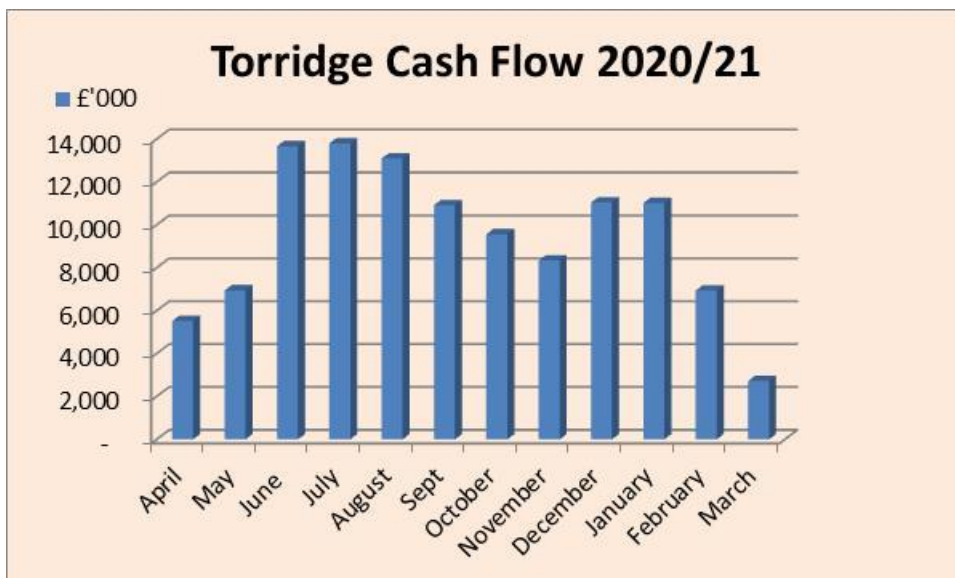
To put the funding shortfall in context this represents 21% of the Council's net revenue budget for 2020/21 of £9.7m.

2.2.3 As discussed above, in addition to the impact upon the Council's revenue budgets Covid-19 will have a dramatic impact upon the Council's cash flow. The main contributory factors to the Council's cash flow:

- Reduced income from Council Tax, whilst maintaining payments to preceptors based upon estimates **formulated prior** to Covid-19.
- Reduced Income from Fees and Charges
- Additional Covid-19 related expenditure



The Table below shows the projected impact of Covid-19 on the Council's cash flow for 2020/21



As the graph above shows based on the latest projections, Torrige Council is currently projecting to have a cash balance of £2.7m as at March 2020. It should be noted that the cash balances above are **after** £6m currently held on deposit with financial institutions are returned to the Council.

The prime reasons for the adverse cash flow being reduced Council Tax income (whilst still maintaining pre Covid-19 payments to our preceptors) and the reductions in the Council's income from fees and charges.

The cash flow position should improve from April 2021, as the excess council tax paid over to our preceptors is repaid to the council over the course of the financial year 2021/22.

2.2.4 Capital

The approved capital program for the financial year 2020/21 is £9m, with a further £3.7m brought forward from previous years; £12.7m in total. With the lockdown extending to the construction sector, delays to the delivery of the capital program are to be expected. Major projects within the capital program include:

Provision of new Environmental Centre	£5.4m
Disabled Facilities	£0.5m
Burrows Centre	£2.1m (under review)
New Homeless Hostel	£0.5m works commenced in May completion expected in August.

It should be noted that delays to capital program can lead to lost revenue opportunities; for example the delayed conversion of 26 High St, Bideford into a homeless hostel, will result in lost rental income and additional homelessness costs (B&B).

Slippage in the delivery of the new Environmental Centre will mean that operational efficiencies arising from its commencement will be delayed, resulting in additional expenditure.



2.3 Reserves

As a result of financial prudence in previous years the Council has reasonably high levels of reserves. However it should be noted that the majority of the reserves held are to fund future capital projects; such as replacing the frontline refuse and street cleansing vehicles.

As previously reported to members, the Capital program is currently over committed by £1m,

The balance on the Councils' reserves as at 31st March 2020 is:

	£'000
• Capital Reserves	4,920
• Earmarked Revenue Reserves	3,561
• General Reserve	1,044

Clearly, if the projected funding shortfall of £2.1m, identified previously in the report, if realised it will have a significant impact upon the level of council reserves and necessitate a re-examination of previously approved capital projects. This will be subject to a formal report to C&R proposed for the 7th September 2020.

2.4 Longer Term Impact - MTFS

Full Council approved the Council's Medium Term Strategy (MTFS) on the 24th February 2020. The MTFS identified the following funding shortfalls:

	£'000
2020/21	197
2021/22	259
2022/23	299
2023/24	331
2024/25	293
Total	1,379

The MTFS also identified that without remedial action to bring the budgets back into balance the Council's Transition in Government Funding reserve would be **exhausted early in 2023/24**.

It would be prudent to assume that the impact of the Covid-19 pandemic will be felt beyond the financial year 2020/21. The key risks are detailed below:

Council Tax

It is widely predicted that the Covid-19 pandemic will lead to a severe recession greater than the financial crisis of 2008. A recession and the resulting increase in joblessness will result in additional claims for Local Council Tax support (LCTS). Essentially LCTS is Council Tax income that Torridge forgoes with respect to those on low incomes.

Over the last 6 years the amount of LCTS awarded has fluctuated within narrow parameters of between £4 - £4.2m.

The split of LCTS at the close of 2019/20 was

	£'000
• Pension age claims	2,560
• Working age claims	1,624
Subtotal	4,184



It would be prudent to expect a significant increase to the number of working age claiming local council tax support whilst the country remains in recession. There is not expected to be a significant increase in the number of pensioners claims, as a relatively small proportion of these will have been in employment.

A 50% increase in the number of working claimants for LCTS equates **to lost Council Tax revenue of circa £70k** – $£1,624k \times 50\% \times 8.5\%$. 8.5% being Torridge's share of Council Tax collected.

The Council generally collects 98%-99% of all Council Tax due; this collection rate may be difficult to maintain in the midst of general economic recession.

Each 1% drop in the Council Tax collection rates equates to **lost Council Tax income for Torridge of circa £41k**.

Business Rates

Clearly the Covid-19 pandemic has had a significant impact on businesses. Torridge has acted as an agent of Central Government in distributing Business Support Grants to mitigate the impact of the lockdown. However it would be prudent to assume that the underlying business rate base within Torridge will decline.

Torridge retains 40% of the business rate income collected within the district; its income is vulnerable to business failures and collection issues. Torridge Council's income from Business rates for 2020/21 is circa £3.9m.

In order to support businesses throughout the Covid-19 pandemic, Government has extended retail related business relief to £6.8m; the result being that the amount of business rates to be collected in 2020/21 by Torridge have reduced to under £5m from £11.6m.

Despite the support offered by Government during the Covid-19 pandemic it is inconceivable that there will not be a significant decline in the underlying business rate base once the country comes out of lockdown.

A 5% decline in the underlying business rate base would result in **lost business rate income to Torridge Council of circa £232k** ($£11.6m \times 40\% \times 5\%$). For the purpose of this modelling it assumed that the business rate base will not recover to pre Covid-19 levels until 2025.



Fees and Charges Income

The long term impact upon of Covid-19 upon the Council's Fees and Charges is difficult to predict. Some revenue sources will be impacted more than others and the extent of lost income will be dependant upon how quickly economic and visitor activity returns to pre Covid-19 levels and any longer term changes to society. The possible impact upon the various Council's Fees and Charges are summarised below:

- **Parking**
The Council's income from Car Parking (including the Burrows) is circa £1.4m; with the anticipated decline in the number of businesses within town centres and increased working from home in the aftermath of the Covid-19 pandemic, a long term reduction in parking income of 7.5% would not appear to be unreasonable.
- **Planning / Building Control /Land Searches**
A recession is widely predicted to follow the Covid-19 pandemic, Planning, Building Control and Land Searches charges generate income of circa £930k per annum. All of these income sources fluctuate with the wider economic activity with the district. It would be prudent to anticipated a slow down in the both the commercial build and housing market for a minimum of two years. For modelling purposes, a decline in income of 10% for 2021/22 and 5% for 2022/23 is projected.
- **Licensing**
In the aftermath of the Covid-19 the number of licensed premises within the district is expected to decline; the scale of this decline will not be known for some time; but a reduction of 10% would not appear to be unreasonable, given that social distancing may prevent licensed premises from operating at full capacity for some considerable time.
- **Income from Temporary Investments**
The Council has traditionally placed surplus funds with financial institutions in order to receive interest income. The monies being lodged representing cash backed reserves. In addition through out the year the Council traditionally generates positive cash flows as Council Tax income is generally received in the first 10 months, whilst expenditure is spread throughout the financial year.

With the recent Bank of England base rate cut to 0.1%, the interest income the Council could accrue has been dramatically cut. Allied to the cut in interest rates, the projected income shortfall in 2020/21 means there are significantly reduced cash funds available for investment. It is not anticipated that the Bank of England base will increase to pre Covid-19 levels for two years. The projected loss in temporary investment income for 2021/22 and 2022/23 is circa £100k with income not fully recovering until 2025.

- **Commercial Rents**
The Council has a portfolio of properties which it rents out to commercial tenants, for example studios at Caddsdawn business Support Centre; prior to Covid-19 the Council was close to full occupancy on its commercial and industrial units.

The Council's rental income arising from rents is £690k. It would be overly optimistic to assume all of its current tenants will continue to trade in the aftermath of Covid-19. For financial modelling purposes it is assumed that 10% of properties will be vacant for 2021/22, declining to 5% in 2022/23.

- **Cemetery / Crematoria / Green Waste / Recycling Credits**
It is not anticipated that income from Cemeteries, Crematoria, collection of garden waste and income from recycling credits will suffer significant reductions over the life of the MTFs. At the time of this report Green Waste renewals are 9% ahead of 2019/20 levels.



Summary of Financial Impact

The impact of the Covid-19 on the Council's MTFs are summarised in the table below:

	2020-21	2021-22	2022-23	2023-24	2024-25	
	£'000	£'000	£'000	£'000	£'000	
Deficit reported at Full Council - Feb 2020	197	259	299	331	293	1,379
Impact of Covid19						
Council Tax 2020-21 deficit	0	412	0	0	0	
Business Rates 2020-21 deficit	0	308	0	0	0	
Increased Local Council Tax Support	0	70	70	70	70	
1% reduction in Council Tax Collection Rate	0	41	41	41	41	
5% reduction to underlying Business Rate base	0	232	155	78	77	
Subtotal Council Tax / Business Rates	0	1,063	266	189	188	
Additional Expenditure	214	0	0	0	0	
Fees and Charges						
Parking	902	105	105	105	105	
Planning /Building Control / Land Searches	568	93	47	-	-	
Licensing	38	13	13	13	13	
Temporary Investments	126	100	100	50	25	
Commercial Rents	171	69	35	0	0	
Other	36	0	0	0	0	
Cemeteries / Crematoria	29	0	0	0	0	
Subtotal	1,870	380	299	168	143	
Less Central Government Grant Funding	(727)	0	0	0	0	
Covid19 Financial Impact	1,357	1,443	565	357	331	
Revised Deficit	1,554	1,702	864	688	624	5,432

The key points to note are:

- The cumulative deficit over the MTFs rises from £1,379k to £5,432k; an increase of £4,053k.
- The impact of Covid-19 is felt far beyond the current financial year
- The projection above makes NO assumption about additional Central Government funding for local government.
- The MTFs presented to Full Council in February 2020, informed members that without corrective action to bring the budgets back into balance, the Transition in Government Funding reserve would be exhausted early in 2023/24. Without further Central Government assistance this reserve will be fully utilised during 2020/21.



2.5 **Going Concern**

The Council is obligated to make reference to its ability to continue its operations as a going concern. Through out the Covid-19 pandemic, Central Government has made repeated assurances that local government will be supported financially and that it does not see a circumstance where a local authority Section 151 Officer would be required to issue a Section 141 notice (suspension of all but essential spend). With these assurances in place from Central Government the presumption of Torridge Council as a going concern is unaltered.

3. **IMPLICATIONS**

Legal Implications

Financial Implications

The financial implications are detailed within the report

Human Resources Implications

None

Sustainability/Biodiversity Implications

None

Equality/Diversity

None

Risk Management

None

Compliance with Policies and Strategies

The report is written with reference to the Council's requirement to make reference to its continued operation as a going concern.

Data Protection (GDPR) Implications

None

Lead Member Views

Date of Consultation –09/06/2020

Clearly the Covid-19 represents a great financial challenge to Torridge Council; whilst past financial prudence has allowed the Council to maintain its current level of operations without immediate concerns regarding cash flow.

The longer term outlook is very uncertain; the need for continued Central Government support during these difficult times is of paramount importance.

Councillor Claire Hodson, Lead Member for Finance.



4. CONCLUSIONS

The report by its nature can only make educated assumptions regarding the actual financial impact of the Covid-19 pandemic; however it is prudent to project based upon the best information available. The financial position with regards to the pandemic is constantly evolving. The requirement for continued Central Government support is self-evident.

Given the financial challenges faced by the Council; it is not in a position to alleviate financial hardship within the district from its own resources.

5. RECOMMENDATIONS

It is recommended that:

- a) Members consider the financial impact of Covid-19 upon the Council and the necessity for the Council to maximise its income streams where ever possible.

SUPPORTING INFORMATION

Consultations:	Date of Consultation – 09/06/20 Officers Consulted – Interim Head of Paid Service, Senior Solicitor and Monitoring Officer.
Contact Officer:	David Heyes
Background Papers:	

