

REPORT OF Interim Section 151 Officer
To: Community and Resources Committee
Subject: Financial Impact of Covid-19 and assessment of going concern
Date: 7th September 2020 Reference:

PURPOSE OF REPORT:

To update members on the impact of Covid-19 on the Council's Financial position for the current financial year and its potential impact upon the Council's finances over the medium term.

1. INTRODUCTION

On the 29th June 2020 a report was presented to Community and Resources which detailed the impact of Covid-19 on Torridge Council's finances. At this juncture the country was in lockdown, restrictions being eased on the 5th July 2020. The report of the 29th June projected the following:

- Financial impact of Covid-19 for 2020/21 of £2.1m
- Adverse movement on the Council's Medium Term Financial Strategy of £4.1m

The Council is now projecting:

- Break even position for 2020/21
- Adverse movement on its Medium Term Financial Strategy of £2.5m

The report will detail the changes to Councils' financial position since the 29th June 2020, whilst highlighting the risks and caveats to the financial projections contained therein.

2. REPORT

2.1 The financial impact of Covid-19 as detailed in the 29th June report is summarised below.

	£'000
Loss of Income from Fees and Charges	1,870
Projected Council Tax Income shortfall	412
Projected Business Rates Income shortfall	308
Additional Covid-19 expenditure	214
Subtotal	2,804
Less Central Government Support	(727)
Financial Pressure to Torridge	2,077

The projected lost income from fees and charges as at 29th June is detailed below:

	£'000
Car Parking	902
Planning & Building Control income	500
Land Charge searches	38
Rents from the Councils' commercial properties	171
Interest from temporary investments	126
Other Income	103
Subtotal	1,870



The projected additional expenditure identified in the 29th June report is summarised below:

Additional Expenditure	£'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 Further Central Government Funding

The following additional tranches of Central Government funding have either been received or announced since the previous report to Community & Resources:

	£'000
New Burdens Funding for administration of Business Support Grants	170
Final tranche of Central Government funding for “expenditure” pressures	129
Projected Government Grant Funding for loss of Fees and Charges Income	500 ***
Total Additional Government Funding support since 29th June Report	799

Assuming Torridge receives circa £500k for its lost income from fees and charges then the total of Central Government support provided to Torridge Council will be **circa £1.5m**.

*** final guidance has yet to be received.

With respect to the Central Government support to Councils for their lost income from fees and charges the full details have yet to be released. The guidance released to date states:

- The first 5% of any income loss will be borne by Councils
- Thereafter 75p in the pound will be reimbursed to Councils for irrecoverable lost income
- No compensation will be paid where Councils voluntarily forgoes income, e.g. offers free car parking.

It is not anticipated that Council’s will be compensated for lost treasury deposit income arising from the Bank of England base rate cut in March 2020.

As at the time of this report it is uncertain if Councils will be compensated for lost income arising from reduced rental income from their commercial properties. The issue being clouded by the fact that some Councils’ have extensive property portfolios located outside their geographical boundaries, which were procured solely for the return on investments they could provide. Torridge has no commercial properties outside its boundaries and its investments in commercial premises have been driven by its desire to enable economic regeneration.



2.3 Lost Income from Fees and Charges

The table below summarises the movement on the Council's Fees and Charges Income.

Income	Reported loss 29 th June - £'000	Current Projected shortfall /(surplus) - £'000	Favourable Movement - £'000
Car Parking	902	640	262
Planning & Building Control Income	500	(80)	580
Land Charges Searches	38	27	11
Interest from Temporary Investments	126	99	27
Commercial Rental Income	171	50	121
Other Income	103	64	39
Total	1,870	800	1,070

2.3.1 Car Parking

The Council suffered a dramatic fall off in car parking income at the onset of the Covid-19 lockdown, however with the uncertainty of international travel and increased staycation car parking income has risen as a result of increased visitor numbers. Consequently the projected shortfall on car parking income has diminished since the June 29th report. It is difficult to ascertain with any degree of certainty what impact of Covid-19 is having / will have regarding residents' car parking, with increased home working and the uncertainty some people feel with regards to visiting our town centres.

2.3.2 Planning & Building Control

Planning income is traditionally difficult to predict as a few large planning applications can significantly impact the figures. The overall volume of planning applications has remained high through out the Covid-19 lockdown, in addition 4 major applications with planning fees in excess of £35k each has been submitted in the current financial year.

Building control income whilst below budget during the lockdown period has picked up with July's income being at pre Covid-19 levels.

2.3.3 Land Charges

Since the easing of lockdown there have been signs of a pickup in the housing market, however land charges income will remain significantly below budgetary expectations for 2020/21.

2.3.4 Income from Temporary Investments

The Bank of England's base rate cut in March 2020, significantly reduced the returns the Council received on its short term temporary treasury investment. The projected shortfall has improved from the figure reported in June as the Council's cash balances have remained high, as it has held unspent Government Business Support Grant monies.

2.3.5 Commercial Rental Income

The Council has actively liaised with its commercial tenants through these difficult times, rearranging rental payment schedules in recognition of their cashflow difficulties. Where appropriate it has directed them to financial grant support available from Central Government. It is difficult to determine how many of its existing clients will be able to trade through these challenging financial times. It is also difficult to determine what the future demand will be for the Council's commercial properties. The estimate of £50k income shortfall should therefore be judged in this light.



2.3.6 Other Income – Court Costs

There is great uncertainty as to when the courts system will start to function at something pre Covid-19 capacity. Currently the Council is unable to take people to court for non-payment of Council Tax, consequently it not been awarded any court costs for non-payment. Income from court costs contributes towards the Council's recovery related costs including staff costs.

2.4 Council Tax

An accurate assessment of the Council's lost income for the non-collection of Council is difficult to ascertain with any degree of certainty due to:

- Timeline for the active recovery of outstanding Council Tax via the court system
- The extent of increased claims for local council tax support as furlough unwinds

Currently Council Tax collection is circa 4.4% below budgeted expectations, the Council is budgeted to collect council tax of £48.6m in 2020/21, the vast majority being collected on behalf of its preceptors, Devon County, Devon & Cornwall Police, Devon & Somerset Fire and the Town and Parish councils.

Torrige is liable for circa 12% of any shortfall in the amount of council tax collected (Town and Parish councils being protected from any shortfall).

At the time of writing this report the shortfall in council tax collection is not explained by increased working age claims for LCTS (Local Council Tax Support), which have only risen by 3% compared with the same time last year.

The shortfall on Council Tax income most likely being explained by customers on reduced income due to furlough choosing to prioritise other financial responsibilities before Council Tax. The suspension of active recovery action for outstanding council tax will have also contributed to this situation.

From August 2020 the furlough scheme begins to unwind with employers having to meet national insurance and pension costs, with the furlough scheme ending in October. It is anticipated that as furlough ends claims for LCTS will increase. Claimants for LCTS can receive relief on up to 75% of their council tax liability, the costs of which is borne by the Council and its preceptors.

Central Government allocated £419k hardship grant to the Council which will partly offset the financial impact of increased LCTS claims.

The projected shortfall on council tax collection for 2020/21 is £2.1m of which **Torrige's share at circa 12% is £252k** (which as a result of council tax collection fund rules will be realisable in 2021/22)



2.5 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 £6.9m (from circa £11.2m to £4.3m). Torrige is receiving additional Section 31 grants from Government to compensate for the business rates it will no longer need to collect in 2020-21.

The Council is currently projecting a 5% shortfall in its collection of Business Rates, the impact on its revenue budget being **£84k** (which as a result of business rates collection fund rules, will be realised in 2021/22).

2.6 Other Covid-19 related pressures

The Covid-19 lockdown has also had a significant impact upon the Council's major contracts, with respect to the delivery of grounds maintenance and leisure. A sum of £200k has been set aside to cover for any additional cost pressures.

2.7 Other non Covid-19 related pressures

2.7.1 Legal costs budget provision - £100k

Full Council on the 10th August 2020 approved allocating a £100k to cover the costs of a legal case.

2.7.2 Contribution towards property maintenance backlog - £110k

The Council's Property and Estate Manager has identified significant maintenance works that will soon require remedial works. Details of the works required will be presented to members as part of the annual capital budget setting cycle. It should be noted that the £110k allocated here is **only a contribution**, the full costs are expected to be significantly higher.

2.7.3 Continued support for apprentice and trainee posts - £51k

The Council has recently provided apprentice placements which has been very successful. As part of its succession planning and to provide job opportunities to young people it is recommending that funds be set aside to allow it to provide 4 apprentice placements.



2.8 The table below summarises the projected break even position for 2020/21.

Variance from Budget	Overspend / (underspend) - £'000
Car Parking Income	640
Income from short term treasury deposits	99
Other Covid-19 Income shortfalls	141
Covid-19 major contracts	200
Legal Fees	100
Contribution towards Property Maintenance	110
Support for apprentice placements	51
Council Tax income	252
Business Rate income	84
Central Government Funding for Covid-19	(1530)
Planning Income	(80)
Net of Other variances	(67)
Total	0

2.9 Caveats and risks pertaining to projected breakeven position

2.9.1 Further Lockdown

The projected break even position does not consider the impact of any further lockdown measures. Should further lockdown measures come into effect, there will be an adverse impact upon the Council's income from fees and charges.

2.9.2 Business failures

As stated previously the Council is compensated by Central Government Section 31 grants for extended retail relief. Business rates of £6.9m are no longer collectable and the Council receives a grant to cover it for the business rates it no longer collects. However this compensation only applies where the business continues to trade.

In the event of a business closing, empty relief is awarded; empty relief is awarded for between 3 – 6 months depending upon the nature of the business. After the empty relief period is exhausted, the owner of the premises becomes liable. Where the owner of the commercial premises goes into administration, no business rates are payable for the duration of the administration.

2.9.3 Council Tax

The impact on LCTS claims following the unwinding of the Government's furlough scheme cannot be estimated with any degree of certainty, particularly as there is no previous point of reference against which a judgement can be made.

2.9.4 Additional Support to Business and/or voluntary sector

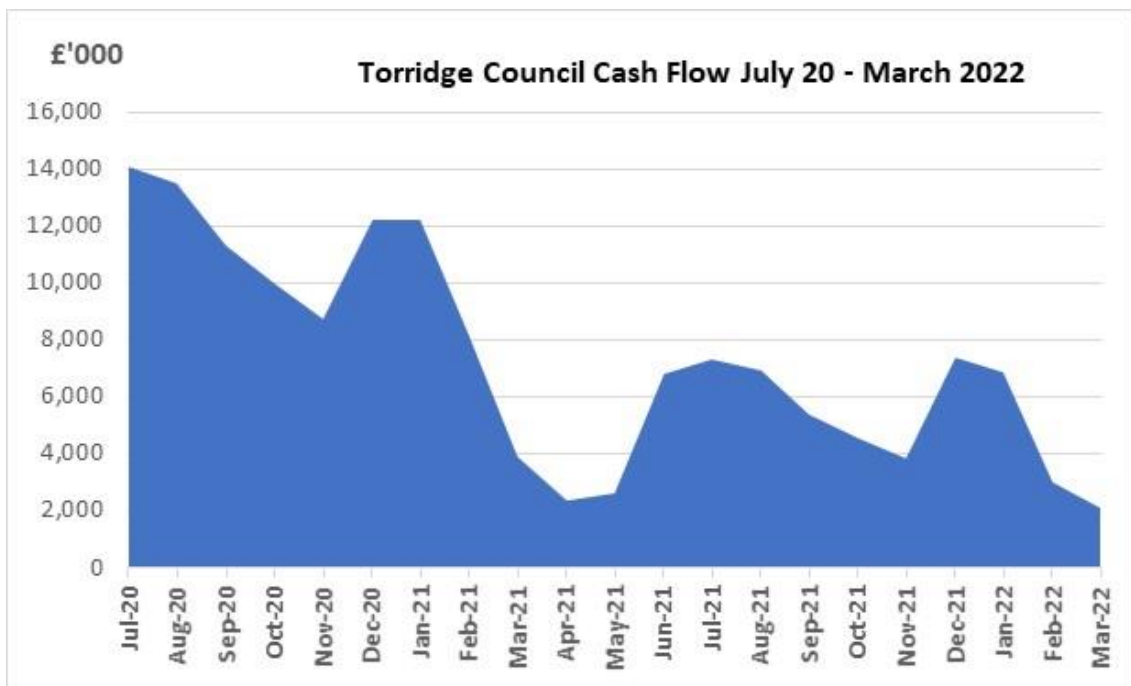
The projected break even position excludes any additional support the Council may take to support the business/voluntary sector; such as free car parking etc.



2.10 Cash flow

With Councils through the country reporting financial difficulties arising from Covid-19, it is appropriate that Torridge assesses its financial health to provide assurance to members that it can continue to deliver its services for the foreseeable future.

The Council's is required by its external auditors to produce a cash flow forecast up to September 2021, Torridge officers has extended this up to the 31st March 2022, the graph below illustrates this. As can be seen the Council is predicting that it will have sufficient cash to fund its services until March 2022. It should be noted that the cash balance falls sharply in February and March as the councils collects the majority of Council Tax over 10 months (April – January) but incurs expenditure almost equally across all 12 months.



3 Capital

The Council's capital program which runs to 2025-26 is currently over committed by £706k. The forecast includes future receipts expected from asset disposals and governmental grant funding.

In light of Covid-19 and the impending spending review it is paramount that the Capital Program and its funding is revisited.

As at the 31st March 2020, the Council had already set aside £5.1m to capital reserves against an agreed capital program of £23m (should funding for the Future High Street be secured then the capital program will increase by £9.7m).

The Council sets aside monies annually from its revenue budget towards its capital program mainly to fund its vehicle replacement program.

The Council also receives Better Care Funding on an annual basis via Devon County Council for disabled facilities adaptations and energy efficiency schemes within domestic properties.

Members have previously approved borrowing of £5m for the provision of a new environmental centre and additional homelessness accommodation.

The balance of the future sources of capital funding is made up of anticipated sales receipts, contributions from New Homes Bonus funding and external grants. These funding streams are not certain in nature

If we measure funding on a **cash basis only then the funding shortfall would be circa £5.1m.**



4 Longer Term Impact – MTFS (Medium Term Financial Strategy)

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 LCTS 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. For the purpose of this modelling it is assumed levels of LCTS will not return to 2019/20 levels until 2024-25.

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

Each 1% drop in the Council Tax collection rates equates to **lost Council Tax income for Torridge of circa £41k**. It is assumed that collection rates will not return to 2019/20 levels until 2024/25.

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 £6.9m; the result being that the amount of business rates to be collected in 2020/21 by Torridge have reduced to £4.3m from £11.2m.

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** ($£11.2m \times 40\% \times 5\%$). 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 town parking income could be expected. However this may be somewhat offset by increased visitor numbers as a result of a nervousness regarding foreign travel and a trend towards staycation. For the purpose of this modelling the long term impact of Covid-19 is neutral with regards to car parking income.

- **Planning / Building Control /Land Searches**

Planning, Building Control and Land Searches charges generate income of circa £930k per annum. All these income sources fluctuate with the wider economic activity within the district. It would be prudent to anticipate a slow down in 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 7.5% 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 throughout 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 Caddsdwn 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 its current tenants will continue to trade in the aftermath of Covid-19. For financial modelling purposes it is assumed that 7.5% 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 ahead of 2019/20 levels.

- **Contractual Pressures arising from Covid-19**

The Council has been in discussions with two of its major contractors pertaining to the delivery of Grounds Maintenance and the provision of leisure services. The grounds maintenance contract is up for renewal in April 2021, and the existing provider has indicated they do not wish to renew.

The leisure industry has clearly been heavily impacted by Covid-19, and for the foreseeable future will only be able to operate on reduced capacity. The longer term impact on people's attitudes towards attending leisure facilities is unknown.

The leisure services contract is currently due for renewal effective from April 2022; it would be expected that any organisations seeking to tender for the provision of leisure services will only do so at significantly increased cost to the Council due to increased risks.

For the purpose of this modelling it has been assumed that the additional costs of grounds maintenance and provision of leisure services will be £300k per annum for the duration of the MTFS.



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 Covid-19						
Council Tax 2020-21 deficit (set aside to reserve)	252					
Business Rates 202-21 deficit (set aside to reserve)	84					
Increased Local Council Tax Support Claims		70	50	20	0	
1% reduction to Council Tax Collection Rate		41	25	15	0	
5% reduction to Business Rate Base		232	155	78	34	
Subtotal - Council Tax & Business Rates	336	343	230	113	34	
Fees and charges						
Car Parking Income	640	0	0	0	0	
Planning / Building Control / Land Searches	(80)	93	47	0	0	
Licensing	0	10	10	10	10	
Temporary Investments	99	100	100	50	25	
Commercial Rents		52	34	0	0	
Other Covid-19 Income shortfalls ****	141	0	0	0	0	
subtotal - Fees and Charges	800	255	191	60	35	
Contractual Pressure - Covid-19						
	200	300	300	300	300	
Legal Fees - H&S	100					
Contribution towards property maintenance	110					
Support for apprentice placements	51					
Other variances	(67)					
Subtotal - Other variances	394	300	300	300	300	
less Central Government Funding	(1,530)	0	0	0	0	
Movement from previous MTFS	0	898	721	473	369	
Revised MTFS	197	1,157	1,020	804	662	3,840

The key points to note are:

- The cumulative deficit over the MTFS rises from £1,379k to £3,840k; an increase of £2,461k.
- The impact of Covid-19 is projected to be felt far beyond the current financial year
- The projection assumes no further 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 now be fully utilised during 2022/23.



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 114 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.

6. IMPLICATIONS

Legal Implications

None

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 –21/08/2020

It is reassuring to see that the financial outlook for Torridge Council has improved since the last report to Community and Resources in June 2020. Clearly the Covid-19 still represents a great financial challenge to Torridge Council.

The longer term outlook is still very uncertain; the need for financial prudence during these difficult times is of paramount importance.

Councillor Claire Hodson, Lead Member for Finance



7. 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.

Whilst Torridge Council should be able to deliver a balanced budget for 2020/21, the position over the Medium Term is very uncertain. The vulnerability of the Council's income from fees and charges to another lockdown should be noted.

8. 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 wherever possible.
- b) Internal Overview and Scrutiny on the 18th August 2020 recommend the approve of two transfers to reserve of
 - a. £110k to contribute towards property maintenance
 - b. £51k to support apprentice placements

Members are requested to support the recommendation of Internal Overview and Scrutiny.

- c) Internal Overview and Scrutiny on the 7th July 2020 recommended that the surplus of £151k reported for the financial year 2019-20 be transferred to the Transition in Government Funding reserve to meet the financial pressures of Covid-19.

Members are requested to the support the recommendation of Internal Overview and Scrutiny.

SUPPORTING INFORMATION

Consultations: Date of Consultation – 19/08/20
Officers Consulted – Interim Head of Paid Service, Senior Solicitor and Monitoring Officer.

Contact Officer: David Heyes

Background Papers:

