

The Medium Term Financial Strategy and the projected financial impact of the COVID-19 Pandemic

Cabinet Member for Finance, Procurement, Customer Services, Revenues & Benefits

Date: 7 July 2020
Agenda Item: 3
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Key Decision? YES
Local Ward Members Full Council

Lichfield
district council
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Cabinet

1. Executive Summary

- 1.1. This report considers the projected impact of the COVID-19 pandemic on the Council's finances.

2. Recommendations

- 2.1. That Cabinet notes the information contained in this report regarding the projected financial impact of the COVID-19 pandemic on the Council's financial position.
- 2.2. That Cabinet notes the grant provided by the Government in 2020/21 of (£1,036,009) to be used to offset additional spend and income reductions and approves an update to the MTFs.
- 2.3. That Cabinet also notes the grant support for the Reopening of High Streets Safely of (£92,501), its intended use through a phased approach across the District and approves an update to the MTFs.

3. Background

The National Context

- 3.1. The ongoing COVID-19 pandemic has already had a significant impact on local council finances, the effects of which will continue through the current period of lockdown and beyond. The financial impact will be due to both unforeseen but necessary, expenditure and reduced income from fees and charges, Council Tax and Business Rates.
- 3.2. At this stage, we can only estimate the impact and there are very few ways we can really understand what the long term impact on our economy will be, which parts will be most affected and how the Council Tax and Business Rates will recover.
- 3.3. The additional spend and reduced income leads to two immediate financial concerns; the cash flow position of the Council and its ability to meet the 2020/21 budget and beyond.
- 3.4. **Cashflow concerns** (More Temporary in Nature):
 - Cash flow is focussed on having sufficient cash in the bank to enable all payments to be made when due.
 - Concerns about negative cashflows can be addressed via short term borrowing, but there is a cost to this and so, over the past few weeks, government has made a series of announcements designed to alleviate the pressure on councils' cashflow position. These include additional grant funding, the upfront payment of some grants that would usually have been paid in instalments and allowing councils to postpone business rates payments to government.
 - Cashflow issues may continue to emerge as the crisis continues, for example, if car parking income remains reduced over the coming months.
 - The risk to this Council is heightened along with all Districts and Unitary Authorities, because we collect Council Tax and Business Rates (a billing authority) on behalf of all precepting bodies.

3.5. **Budgetary concerns** (More Permanent in Nature):

- The second immediate issue is the council's ability to meet the agreed 2020/21 budget and beyond, where the pandemic has caused variations from budget, and whether it is still possible for the council to fulfil its overall legal duty to maintain a balanced budget going forward.
- Cash flow concerns can quickly become budgetary concerns. In terms of income, a delay in payment may be agreed with a business (cashflow) however should the business fail to make the agreed payments and cease being in business this becomes a budgetary issue.
- Across the sector, it is unlikely that the majority of transformation projects aimed at closing Funding Gaps will be achievable (between **5%** and **10%** of the budget in 2020/21 and up to **20%** of the budget in the medium to longer term).
- The approach taken at this Council with transformation projects, is that savings are not included in the MTF5 until they are delivered. As a consequence, there is currently no adverse impact on the MTF5 resulting from non-delivery of these type of projects.

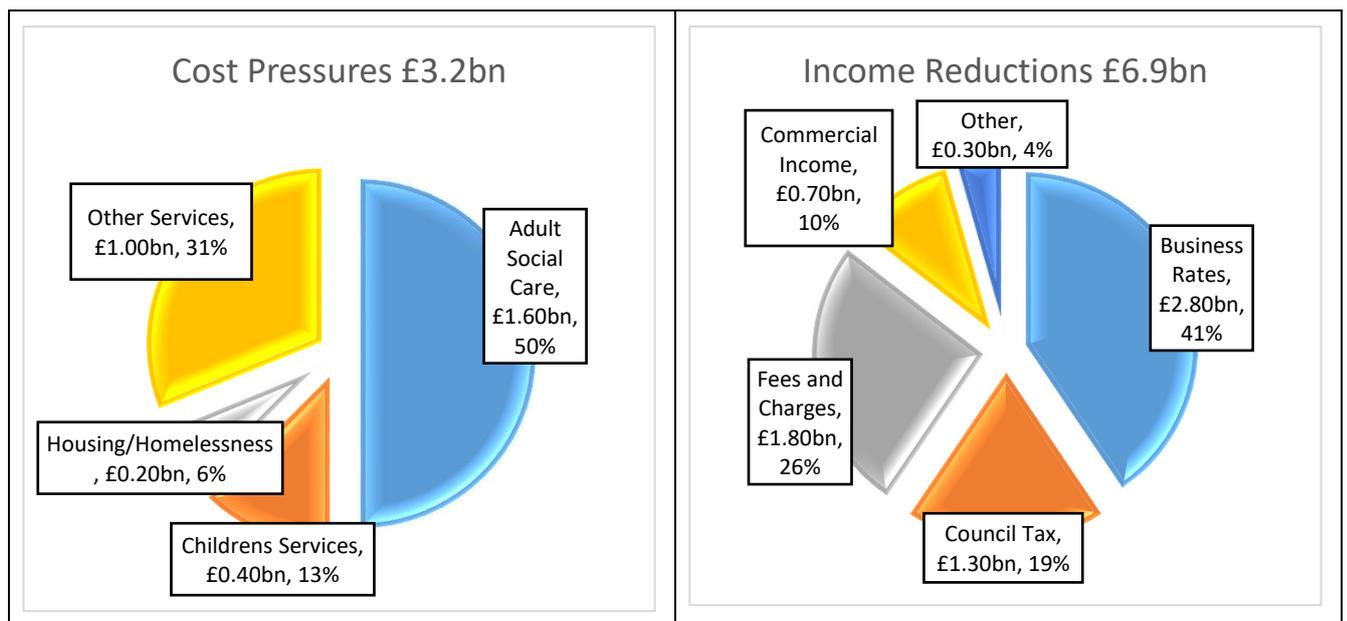
3.6. It should be noted that councils still have a legal duty to deliver best value and so will need to ensure that public money is spent wisely in its response to the pandemic and that the council does not incur additional costs that could reasonably be avoided. However, the scale of the crisis means that budget deficits are likely to be impossible to avoid and are also likely to increase in the event of only a gradual relaxation of public health measures such as social distancing.

3.7. If the government does not fully reimburse councils for their full losses, councils will find that their reserves will be depleted, or even exhausted, and ongoing savings will be required to refresh them to desired levels. Should the council be unable to balance its budget at the year end, any overspend will need to be met by reserves.

The Government Response

3.8. To assist the Government in understanding the financial impact, all local authorities were requested to complete a financial return to the Ministry of Housing, Communities and Local Government (MHCLG) on 15 April 2020 using best estimates.

3.9. The results of this data collection exercise for all local authorities that responded are shown below:



3.10. It can be seen that income reductions at **£6.9bn** were more than double cost pressures at **£3.2bn**.

3.11. This ratio is likely to be significantly higher in District Councils who do not have responsibility for demand led services such as Adult Social Care and Children's Services and are more reliant on income from fees and charges.

- 3.12. To provide an updated assessment of the financial impact, all local authorities were requested to complete a second financial return to the MHCLG on 15 May 2020, again using best estimates up to the 31 July 2020.
- 3.13. Government guidance and funding is still evolving, and definitive answers are not yet available, but ministers have made a series of undertakings to compensate councils in full for their additional costs as they respond to the crisis.
- 3.14. Additional funding of **£3.2bn** (£3.8bn if you include £0.6bn support specifically for the care sector) has been made available, though this is unlikely to be sufficient as the crisis continues. The sector is arguing for the government to provide additional grant funding to all councils to enable them to respond to the crisis and emerge from it with the capacity to resume local services and rebuild local economies. Additional financial freedoms and flexibilities would also enable councils to respond appropriately to their own local circumstances and local needs.

The Projected Financial Impact on the Council

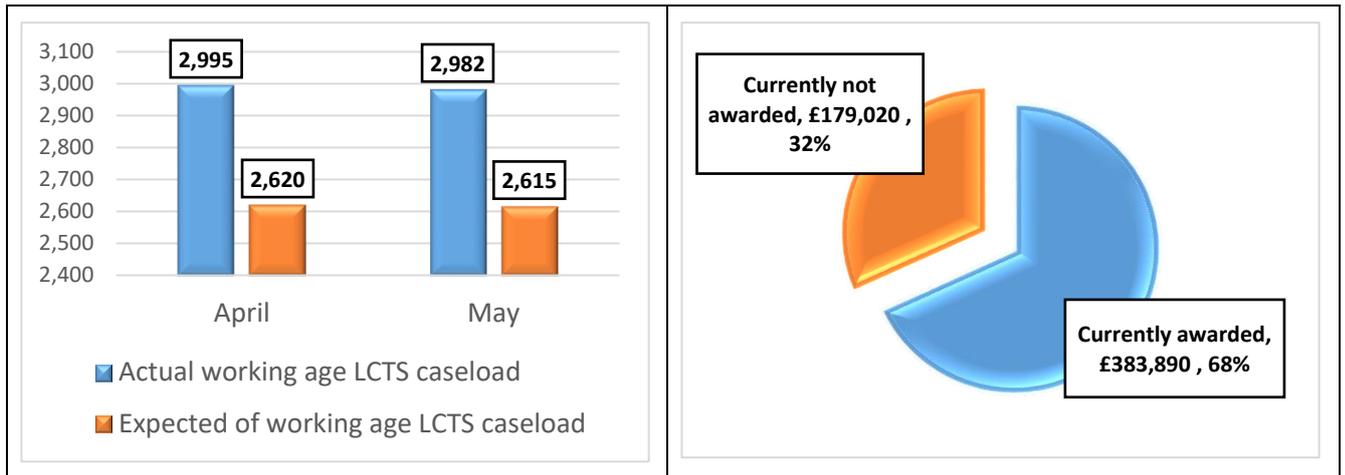
- 3.15. The overall impact is very difficult to predict especially identifying which financial impacts are cash flow (temporary) and which are budgetary (permanent) in nature. Therefore at this early stage, the financial impacts related to income are assumed to be those of a budgetary nature.
- 3.16. The impact will also vary by area, dependent on factors such as geography, demographics, services delivered and the nature of the local economy. However to a large extent, it will depend on how quickly the national and local economies return to normal levels of activity.
- 3.17. A full list of policy announcements we have received either to offset the financial impact to the Council or to passport to businesses and individuals is shown at **APPENDIX A**.
- 3.18. The annual income budgets contained in the MTFs approved by Council on 18 February 2020 (including the Council Tax and Business Rates Collection Fund) are shown below:

	Collection Fund Annual Budget
Council Tax	(£71,410,668)
Net Business Rates Payable	(£36,755,000)
Total Income	(£108,165,668)

	This Council Annual Budget	May Variance
Total - Sales, Fees and Charges	(£9,561,140)	£212,954
Council Tax (LDC and Parish @ 13%)	(£9,026,124)	£16,858
Net Business Rates Payable (LDC @ 40%)	(£14,702,000)	(£102,929)
Total Income	(£33,289,264)	£126,883

- 3.19. The year to date performance for this Council's income streams up to the end of May 2020 is shown in more detail at **APPENDIX A**.
- 3.20. The government announced a significant increase in Business Rate Reliefs, and this has therefore reduced the Net Business Rates payable by **c£13m** in 2020/21.
- 3.21. We have also received (**£562,910**) from the government to provide hardship payments of up to £150 to all working age Council Tax Support claimants and this has reduced the amount of Collectible Council Tax.

3.22. The two charts below show the actual claimant numbers in April and May compared to the expected level (+14%) and the amount of Hardship payments that have been awarded to date:



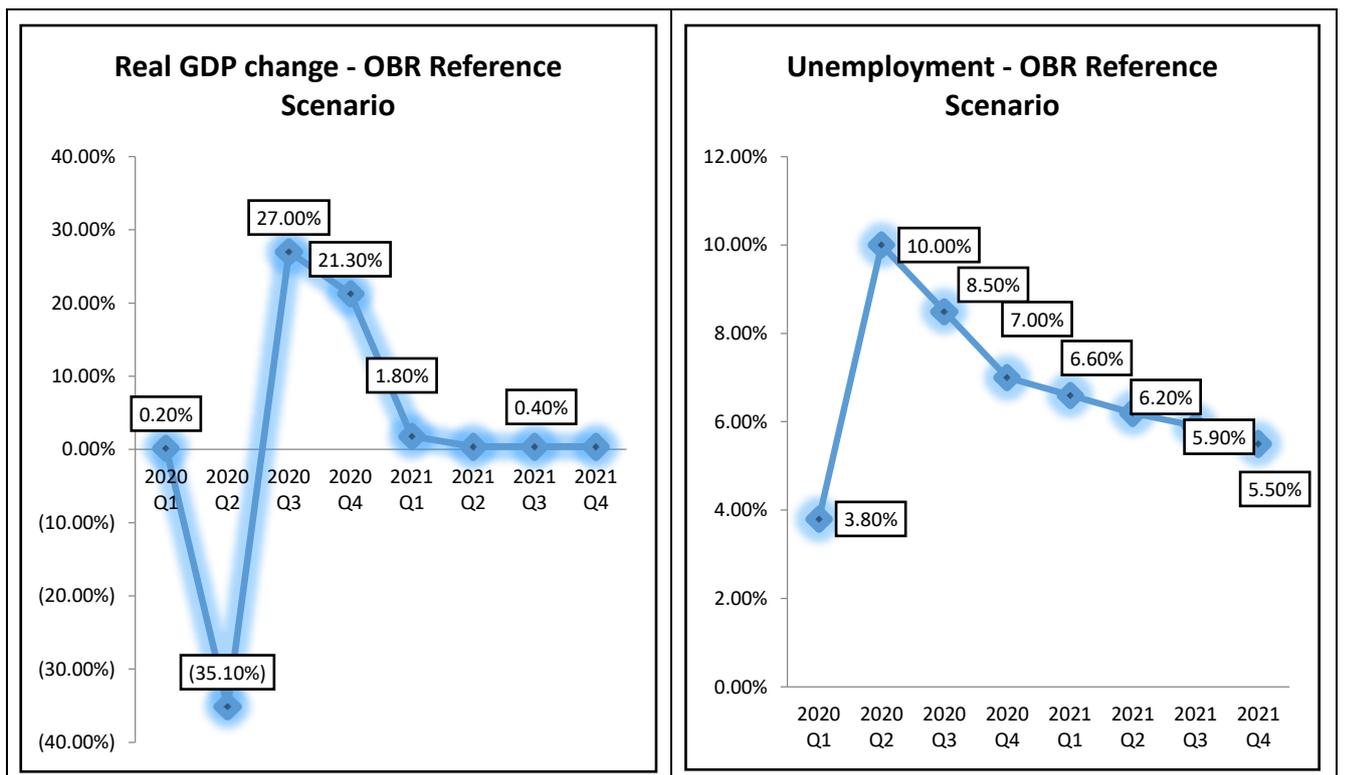
3.23. Local unemployment has increased by **64%** from March to April, and the claimant numbers we are continuing to receive mean it is likely that the hardship funding awarded will be fully utilised and potentially exceeded.

3.24. The additional Local Council Tax Support cases could also have a longer term impact on future tax base growth assumptions together with a slowdown in housebuilding contained in the MTF5.

3.25. The Council has also received grant payments totalling (**£1,073,289**) to offset both cost pressures and income reductions. This consisted of a relative needs award of (**£37,280**) in 2019/20 and (**£1,036,009**) using a per capita based award (in two tier areas split 35% Districts and 65% Counties) in 2020/21.

3.26. To inform the income projections used in the Government financial returns we used economic projections provided by the Office for Budget Responsibility (OBR) coronavirus reference scenario produced on 14 April 2020 and the Resolution Foundation "Doing more of what it takes Next steps in the economic response to coronavirus Report" produced in April 2020.

3.27. The OBR reference scenario related to Real Gross Domestic Product (GDP) and unemployment assumes a three month lockdown and a slow recovery throughout the remainder of the financial year and is shown in the charts below:



- 3.28. The Money Matters Report to Cabinet on 2 June 2020 identified cost pressures of **£12,550** and income reductions of **£50,000** related to the COVID-19 pandemic in 2019/20.
- 3.29. The grant received in 2019/20 of **(£37,280)** was used to offset the cost pressures and therefore **(£24,730)** was transferred to an earmarked reserve for use in later years.
- 3.30. The Council has incurred additional costs and has seen a reduction in income from some fees and charges such as car parking and can also expect losses on Business Rates and Council Tax collection.
- 3.31. The projected financial impact informed by the OBR reference scenario and using the most recent information for 2020/21 only is:

Details	Impact (£)	Comments
Support for Leisure Partner	£104,000	Current agreement is to support for 3 months (the What if scenarios below, project the impact of longer periods of support based on LDC estimates)
Housing and Homelessness Support	£95,000	
Additional Hardship / Discretionary Housing Payments	£103,000	Impact is unlikely to manifest until later in the year when rent and furlough protections are withdrawn.
Additional costs of Waste Collection	£85,000	
ICT Support Costs for Remote Working	£32,000	Current agreement for support covers 3 months.
Additional Personal Protective Equipment (PPE), Building Cleaning and Other Costs	£12,000	
Bank Charges for Grant Processing	£3,000	
Transport for food deliveries	£6,000	
Project costs	£23,000	Delays in some projects result in additional costs.
Other costs	£125,000	Includes potential costs for overtime, agency/casual and overtime for essential workers.
Total additional Costs	£588,000	
Reduced Sales, Fees and Charges	£859,000	Based on OBR Projections for GDP with Car Parking income assessed as the highest risk.
Total excluding What if Scenarios	£1,447,000	

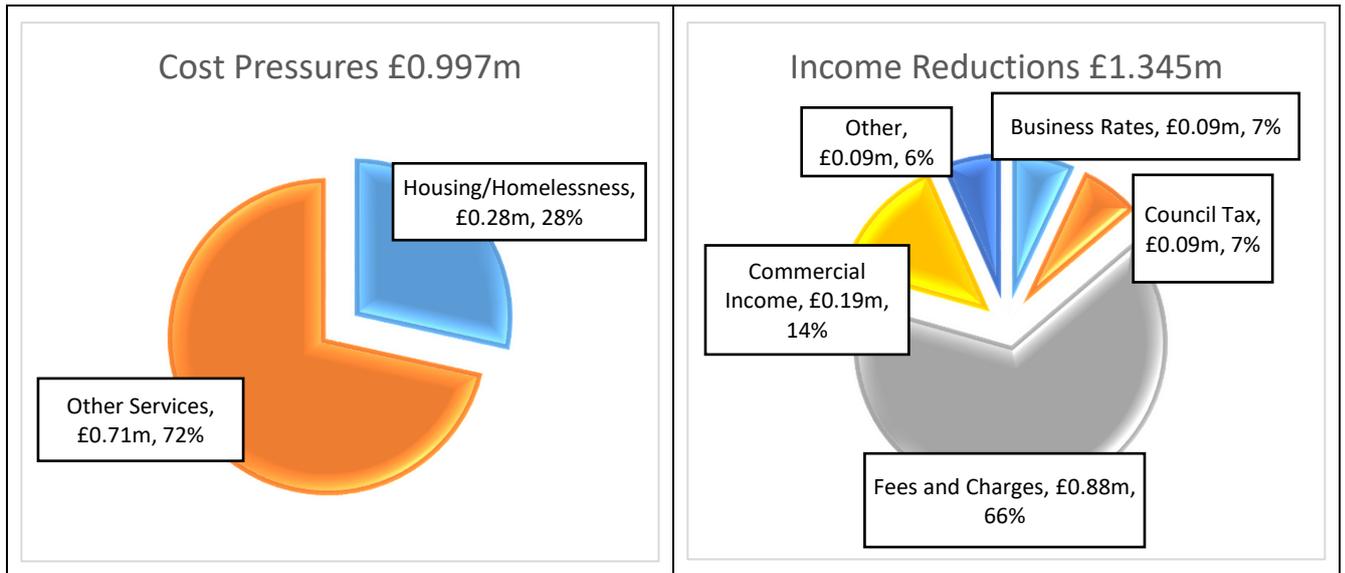
What if scenarios:	A	B	C
	Reduction in Collection Rates		
	1%	5%	10%
Projected reductions in Council Tax ¹ (LDC & Parishes 13%) included (will impact in 2021/22)	£92,000	£461,000	£921,000
Projected reductions in Business Rates ² (LDC 40%) included (will impact in 2021/22)	£93,000	£464,000	£928,000
	Other Time Based Assumptions		
Car parking income remains reduced for 6,9,12 months in line with April and May	£301,000	£884,000	£1,310,000
Hardship / Discretionary Housing Payments extend for 6,9,12 months	£86,000	£140,000	£186,000
Additional support for the Leisure Partner extends for 6, 9 12 months	£323,000	£593,000	£810,000
Total of What if scenarios	£895,000	£2,542,000	£4,155,000
Total including What if Scenarios	£2,342,000	£3,989,000	£5,602,000
Government Support in 2020/21 + Earmarked Reserve	(£1,060,740)	(£1,060,740)	(£1,060,740)

Total potential financial impact (assuming the inclusion of all What if scenarios)	£1,281,260	£2,928,260	£4,541,260
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¹ There is also £25,800 available in the Council Tax Collection Fund from 2019/20 to assist with reduced LDC income.

² There is also £950,453 available in the Business Rate Collection Fund from 2019/20 to assist with reduced LDC income.

3.32. The total (including what if scenarios and excluding Government Support) of **£2,342,000** using assumptions at the more optimistic end of the spectrum is:



Managing any residual impact and recovery

3.33. To manage the projected implications of planned changes in the Local Government Finance regime, the Council had been increasing the level of its reserves and this has proven to be beneficial in managing the financial implications of the pandemic.

3.34. It is important to remember that the reasons for increasing general reserves as a result of the risks presented by increased Business Rate retention and the Fair Funding Review, still remain present although these reviews have been delayed by a further year.

3.35. As detailed previously, in the event government does not fully reimburse councils for their full losses, reserves will need to be utilised. This will have two further consequences:

- The ability to support the recovery phase will be limited or curtailed and;
- Ongoing savings will be required to refresh general reserves back to desired levels.

3.36. The Approved Budget for total general reserves include the minimum approved level of **£1,600,000** plus a contribution from the Revenue Budget of **£579,310** in 2020/21 and New Homes Bonus above the 'cap' of **£411,000** in 2021/22 and **£280,000** in 2022/23.

3.37. The contribution from the Revenue Budget and New Homes Bonus contributions are not confirmed, and therefore, a projection excluding these sums is also provided.

3.38. The total projected general reserves taking account of the what if scenarios at 3.31 is shown in detail at **APPENDIX A** and in summary at 31 March 2025 below:

What If Scenario Green = in excess of the £1,600,000 approved minimum level and red is below.	Total Projected General Reserves 31/03/2025	
	Approved Budget £	Confirmed Only £
Total Projected General Reserves at 31 March 2021 (pre covid-19)	8,141,954	7,562,644
A – Total potential financial impact of £1,281,260	3,019,484	1,749,174
B – Total potential financial impact of £2,928,260	1,372,484	102,174
C – Total potential financial impact of £4,541,260	(240,516)	(1,510,826)

3.39. It should be noted that the Funding Gaps identified in the approved MTFs assume a contribution from Investment in Property and savings from the ICT Cloud project. The income/savings are currently at risk and therefore they will need to be reviewed as part of the refresh of the MTFs.

The Potential longer term impact on the Council's Financial Position

- 3.40. It is essential that the Council focus on the likely impact that the crisis, and its aftermath, will have on income levels both now and potentially into the future.
- 3.41. The COVID-19 crisis is likely to be long-lasting and far reaching, affecting more than one financial year. It could be difficult for councils to reduce their spending back to pre-crisis levels and income streams will not necessarily bounce back quickly, especially if the local economy is in recession.
- 3.42. This means that the assumptions underlying later years in the MTFS will almost certainly need to change, making the 'funding gap' for 2021/22 and beyond larger and are likely to include:
- Strategic partnerships where the funding levels agreed by the Council were based on assumptions made prior to the COVID-19 pandemic.
 - Business Rates income projections due to collection rates, growth, appeals, empty properties relief and other reliefs.
 - Council Tax income projections due to collection rates, growth and Local Council Tax Support.
 - Income projections for sales, fees and charges including car parking and property rentals.
 - Planning obligations (Section 106 and Community Infrastructure Levy).
 - Investment returns from treasury and property.
 - Transformation and savings projects especially where they are focussed on income generation.
- 3.43. The Resolution Foundation has projected a reduction in long run GDP compared to the trend of between **3%** (3 months) and **7%** (12 months) depending on the length of the lockdown.
- 3.44. The application of these scenarios to the sales, fees and charges budget in 2020/21 (excluding investment income) would result in a reduction in income of **£250,000** or **£600,000** per annum.

Alternative Options	<p>In addition to the use of general reserves, there are also alternative options available to mitigate or manage the projected impact:</p> <ul style="list-style-type: none"> • The potential redirection of earmarked reserves to support the response and recovery phases. • The consideration of alternative approaches and options to reduce or eliminate projected reductions in income and additional costs. 																				
Consultation	<p>The financial impact of the COVID-19 pandemic will be reflected in the update of the MTFS that will begin to be considered from September 2020 onwards by Cabinet, Strategic (Overview and Scrutiny) Committee and Audit and Member Standards Committee.</p>																				
Financial Implications	<p>The Council currently has three strategic investments and their value has been impacted by the COVID-19 pandemic:</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Original Investment</th> <th>Value 31 March</th> <th>Value 30 April</th> <th>Value 31 May</th> </tr> </thead> <tbody> <tr> <td>CCLA Property Fund</td> <td>£2,000,000</td> <td>£1,859,135</td> <td>£1,827,527</td> <td>£1,801,411</td> </tr> <tr> <td>CCLA Diversified Income Fund</td> <td>£2,000,000</td> <td>£1,773,174</td> <td>£1,837,322</td> <td>£1,876,539</td> </tr> <tr> <td>Ninety One Diversified Income Fund</td> <td>£2,000,000</td> <td>£1,823,558</td> <td>£1,883,863</td> <td>£1,910,515</td> </tr> </tbody> </table> <p>The Council has established earmarked reserves to manage the risk of falls in value. There is also a statutory arrangement until 31 March 2023 that means any falls in value, in excess of the earmarked reserves, do not impact on general reserves.</p>	Details	Original Investment	Value 31 March	Value 30 April	Value 31 May	CCLA Property Fund	£2,000,000	£1,859,135	£1,827,527	£1,801,411	CCLA Diversified Income Fund	£2,000,000	£1,773,174	£1,837,322	£1,876,539	Ninety One Diversified Income Fund	£2,000,000	£1,823,558	£1,883,863	£1,910,515
Details	Original Investment	Value 31 March	Value 30 April	Value 31 May																	
CCLA Property Fund	£2,000,000	£1,859,135	£1,827,527	£1,801,411																	
CCLA Diversified Income Fund	£2,000,000	£1,773,174	£1,837,322	£1,876,539																	
Ninety One Diversified Income Fund	£2,000,000	£1,823,558	£1,883,863	£1,910,515																	

In the event the statutory arrangement is not extended and the earmarked reserves are insufficient, then residual falls in value would need to be offset through the use of general reserves.

There were key assumptions related to funding included in the MTFs, and a number of these have subsequently been delayed or will require update:

- The review of the New Homes Bonus during 2020/21 for implementation from 2021/22 will be delayed.
- The increased level of the Business Rates retained by Local Government from 50% to 75% from 2021/22 (offset by reductions in other Government Grants) will be delayed.
- The Business Rates Revaluation planned for 1 April 2021 will be delayed.
- The level of Local Government funding and how funding is distributed to each Local Authority through a Fair Funding Review from 2021/22 will be delayed.
- However at this stage, it is unclear whether the Business Rates reset element of the reviews will be implemented for 2021/22 (any growth currently retained above the Government Set Baseline is redistributed within Local Government as reflected in the MTFs).

Contribution to the Delivery of the Strategic Plan

It is important to note that the MTFs is not only based on assumptions on the state of the national and local economies over the next four years but is also the financial expression of the council's policy. Therefore, every council is likely to have to fundamentally evaluate its Delivery Plans and MTFs in light of the pandemic.

The pandemic has not been totally without some positive outcomes for the Council in terms of delivery of the Strategic Plan, for example:

- We have demonstrated the ability to respond and change at pace where needed, something that can be further develop in the future to adapt and deliver change across the Council and its communities.
- The Council's staff have shown the ability to rapidly change mind-set and culture, thereby demonstrating we can deliver services successfully through a virtual front-door and work both flexibly and remotely.
- The pandemic has highlighted the current position in regards to the resilience and integrity of our ICT infrastructure, whilst also demonstrating areas for future attention in order to optimise the new normal.
- It has shown the need for a modern office design, providing the catalyst to make changes which people are accepting of, without the normal change curve and inherent tensions.
- Finally it has shown our ability to communicate with emotion and personality, and the positive impact this can have for our communities, for example, the positive response to our bin tag and social media campaign to assure our residents and businesses.

Equality, Diversity and Human Rights Implications	No direct implications.
Crime & Safety Issues	No direct implications.
Environmental Impact	No direct implications.
GDPR/Privacy Impact Assessment	No direct implications.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The financial impact is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	The use of general and earmarked reserves to fund any shortfall	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	The Council cannot achieve its approved Delivery Plan for 2020/21	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the impact of the pandemic.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	The MTFS will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
D	Government and Regulatory Bodies introduce significant changes to the operating environment	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour	Likelihood : Green Impact : Yellow Severity of Risk : Yellow

Background documents

Medium Term Financial Strategy – Council 18 February 2020

Money Matters 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 2 June 2020

Returns submitted to MHCLG on 15 April 2020 and 15 May 2020 and associated working papers

Relevant web links

Lichfield District Council
Policy Announcements

Funding	When Announced	Allocation	Notes
Additional Funding 1 st Tranche £1.6bn	19 March	£37,280	Relative Needs Based Grant.
Additional Funding 2 nd Tranche £1.6bn	18 April	£1,036,009	Per Capita based Grant 35% Districts and 65% Counties in two tier areas.
Hardship Fund - £0.5bn	24 March	£562,910	Based on working age claimant numbers
Business Improvement Districts - £6.1m	1 May	TBD	
Homelessness Funding - £3.2m	17 March	£1,650	
Additional Business Rates Relief	Various Dates	£13,429,306	Council 40% share £5,372,000.
Small Business Grant Funding and Retail, Hospitality and Leisure Grant Fund	11 March, 17 March and 2 May	£19,396,000	Councils used to passport to eligible businesses in their area.
Cashflow measures	16 April	N/a	Early payment of grants and deferral of Government share of Business Rates for three months.
Discretionary Grant Fund	4 May	£951,000	The grant calculation is based on 5% of the funding that was paid to businesses under the Small Business Grant Fund and the Retail, Leisure and Hospitality Grant Fund, as at 4 th May 2020.
Reopening High Street Safely Funding	24 May	£92,501	

Year to Date Performance of Income Streams in 2020/21
(Compared to the Updated Budget)

Lichfield District Council			
	Year to Date		
	Actual	Budget	Variance
Total - Sales, Fees and Charges	(£2,676,096)	(£2,889,050)	£212,954
Council Tax (LDC and Parish @ 13%)	(£1,699,084)	(£1,715,942)	£16,858
Net Business Rates Payable (LDC @ 40%)	(£472,269)	(£369,340)	(£102,929)
Total Income	(£4,847,449)	(£4,974,332)	£126,883

General Reserves Projections

Approved Budget					
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Total General Reserves Year Start	6,391,644	8,141,954	8,046,414	7,477,134	6,083,194
New Homes Bonus in excess of the 'Cap'	1,171,000	411,000	280,000		
Contributions from Revenue Budget / (Funding Gap)	579,310	(506,540)	(849,280)	(1,393,940)	(1,782,450)
Total General Reserves Year End	8,141,954	8,046,414	7,477,134	6,083,194	4,300,744
COVID-19 What if Scenarios					
A	(1,096,260)	(185,000)			
B	(2,003,260)	(925,000)			
C	(2,692,260)	(1,849,000)			
Total Projected General Reserves Scenario A	7,045,694	6,765,154	6,195,874	4,801,934	3,019,484
Total Projected General Reserves Scenario B	6,138,694	5,118,154	4,548,874	3,154,934	1,372,484
Total Projected General Reserves Scenario C	5,449,694	3,505,154	2,935,874	1,541,934	(240,516)

Green = in excess of the £1,600,000 approved minimum level and red is below.

Confirmed Only					
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Total General Reserves Year Start	6,391,644	7,562,644	7,056,104	6,206,824	4,812,884
New Homes Bonus in excess of the 'Cap'	1,171,000				
Contributions from Revenue Budget / (Funding Gap)		(506,540)	(849,280)	(1,393,940)	(1,782,450)
Total General Reserves Year End	7,562,644	7,056,104	6,206,824	4,812,884	3,030,434
COVID-19 What if Scenarios					
A	(1,096,260)	(185,000)			
B	(2,003,260)	(925,000)			
C	(2,692,260)	(1,849,000)			
Total Projected General Reserves Scenario A	6,466,384	5,774,844	4,925,564	3,531,624	1,749,174
Total Projected General Reserves Scenario B	5,559,384	4,127,844	3,278,564	1,884,624	102,174
Total Projected General Reserves Scenario C	4,870,384	2,514,844	1,665,564	271,624	(1,510,826)

Green = in excess of the £1,600,000 approved minimum level and red is below.