

<b>Report to</b>	Cabinet
<b>Date of meeting</b>	26 <sup>th</sup> May 2020
<b>Lead Member / Officer</b>	Julian Thompson Hill
<b>Report author</b>	Steve Gadd, Head of Finance and Property
<b>Title</b>	Finance Report (Covid 19 Financial Strategy)

## **1. What is the report about?**

The report sets out the financial impact on the Council and the Council's response to mitigating that impact in the short and medium term.

## **2. What is the reason for making this report?**

To inform Cabinet of the financial impact of COVID19 on the Council's 2020/21 budget, which is a combination of additional costs as well as a significant loss in income and to propose a strategy for how the Council can respond to this crisis.

## **3. What are the Recommendations?**

3.1 Members note the forecasts around the financial impact of the Covid 19 pandemic on the Council.

3.2 Members consider and approve the Draft Financial Strategy outlined in this report.

## **4. Report details**

It has become increasingly clear that the impact of the Corona Virus Pandemic on the authority will be significant and that business as usual from a financial perspective is not possible if the Council is to respond to the crisis. This report will outline the financial impact

and the short and medium term response proposed (taking into account the impact on cash flow and base budget).

#### **4.1 Effects of COVID19 on the Income and Expenditure up to the end of June**

A net increase of £2.1 million in Council expenditure is anticipated for the quarter to the end of June as a result of the COVID19 impact, with additional expenditure of £2.8 million for the period up to the end of June, alongside a decrease in expenditure of £747k over the same period.

There is a more dramatic impact on the Council's income, with income losses of £6.3 million forecast for the same period, the largest impact of £2.22 million on Denbighshire Leisure Limited, £649k School Meals, £498k Parking and £403k for loss of income for industrial units etc.

The expectation is that we will receive funding from the Welsh Government to fund the additional expenditure, but there are no firm announcements yet in terms of funding the loss of income.

The Welsh Local Government Association (WLGA) has submitted information to the Finance Sub Group 30/04/2020, in order to help inform and influence the Welsh Government. This is under consideration by the Ministers and there is an expectation of announcements concerning funding before the end of May.

It should be noted that the figures above are projections and subject to change. The net impact of £8.3m per quarter, if not funded, would have a devastating impact on the Council finances if the lockdown continues for an extended period. Even when lockdown is relaxed, income levels in a number of areas will take a long time to recover.

The figures above do not include any impact on levels of Council Tax Reduction Scheme (CTRS) claimants or levels of payment of Council Tax itself (Council Tax Yield). Analysis suggests that for every 1% decrease in Council Tax Yield would have an impact of approximately £700k. Each individual CTRS claimant costs the Council on average £1,105. There are currently over 650 new cases being processed which would lead to an overspend of £718k. It is likely that as Universal Credit cases increase so too will CTRS claims. This information has also been fed back to WG.

## 4.2 Short Term Response Phase

4.2.1 DCC have worked in partnership with all Welsh Local Authorities, the WLGA and Welsh Government in order to help define the scale of the problem and develop solutions to how the public sector in Wales can work through the problems. Particular examples of this strategy working are:

- Initial concerns that Councils would 'run out of money' (the 'cash flow' problem) particularly as Council were asked to fund the Business Rates Relief and Small Business Grants schemes on behalf of WG. Following consultation with WG they agreed to a cash funding package which involved pre-paying funding for half the business grants and front loading Revenue Support Grant payments. DCC also undertook £15m of borrowing at exceptionally low interest rates in order to ensure the cash would not run out. This strategy has been successful and the concerns around cash flow have been allayed for now.
- An initial grant of £30m (for all Wales) was announced for direct costs associated with Covid 19 response – much of the direct additional costs identified in 4.1 will be eligible for this grant. However the £30m does not cover all the estimated costs identified by Local Authorities so it is important that WG keep the level of this grant under review. The grant is working well with monthly claims in arrears – March's funds have been received.
- £40m Social Care grant – still awaiting detailed guidance but will be administered as above.

4.2.2 Going forward the recommended strategy over the next few months to identify a way to ensure the financial stability of the Council for 2020/21 and beyond is set out below.

- The strategy for next few weeks is one of continuing to work in partnership with other LA's, WLGA and Welsh Government in order to try and achieve financial help to cover the overspend due to losses of income. A Supplementary Budget is due to be announced on 27<sup>th</sup> May which will hopefully help provide some certainty.
- DCC also needs to continue to identify and define the financial impact in order to achieve an increasingly more accurate picture. This will include a review of the saving plans put forward as part of the 2020/21 budget approved in January.

- We will also need to keep under review those decisions that have led to decreases in income – for example rent holidays for industrial units or removal of parking charges.
- In order for the Council to have financial flexibility it is important that funds are available to both deal with any residual overspends and to allow the Council the flexibility to continue to deliver services as efficiently and effectively as possible. In particular the following detailed pieces of work needs to be undertaken so that we can quickly respond to the WG announcement at the end of May:
  1. **Identify current underspends** - Identify all reductions in expenditure that have occurred as a result of Covid 19 – although initial work has been undertaken this is an ongoing exercise.
  2. IF WG funding is not forthcoming, or partly forthcoming a **review of non-statutory services** will need to take place and we will need to be prepared to present an **in-year budget re-alignment** exercise.
  3. Following the closedown of the 2019/20 accounts a **full review of reserves and balances** will need to take place to ensure that the Council prioritises the response and recovery phases of the current crises. Initial figures show that the financial outturn for 19/20 is better than had been projected which will allow some flexibility going forward. Any re-allocation of reserves is likely to impact on future budget decisions as they will either need repaying or base budget pressures will need to be included due to the reduction in financial resilience.
  4. The option of **capitalisation** of revenue losses is currently being explored with Welsh Government and the UK Treasury. The advantage of this approach is that it gives certainty to LA's that they will be able to continue to operate financially and should reduce any need for emergency reductions in service provision. As with any use of reserves and balances it would have an impact on future budget setting as the repayments would need base budget pressure for a number of years.

### **4.3 Medium Term Response and Recovery Phase**

4.3.1 The details of the medium term response will very much depend on the outcome of the response phase. However it is hoped that this phase will see the Council able to build on the learning of the crisis to ensure that the opportunities for better and more resilient

ways of working are taken advantage of. This will involve the identification of new priorities, areas of ongoing savings and areas that require investment. In particular the following pieces of work will need to be completed over the coming months.

- **Medium Term Financial Strategy** – This is usually produced in the late spring following the setting of the current year budget and the closure of last year’s accounts. This usually ensures that the strategy is based on the best financial information available pending the Draft Settlement in the Autumn. The scale of the financial impact of the Covid 19 Pandemic means that this is not possible at this stage. It is hoped that a MTFS can be presented to cabinet before the summer recess when the financial position will hopefully become clearer.
- **Revenue Budget Setting Process and Timetable** – A timetable for how we can develop budget proposals for 2020/21 will be drawn up over the coming months and it is hoped a detailed process and timetable can be presented alongside the MTFS.
- **Review of Capital Priorities and Projects** – It is envisaged that the core priorities listed below will continue but other projects may need to be reviewed depending on availability of finances:
  - 21<sup>st</sup> Century Schools – dependent on WG funding
  - Investment in DCC assets (including buildings, highways etc) – the block allocations
  - Major flood defence works – dependent on WG funding
  - Major regeneration projects – Queens Market, Rhyl and Denbigh Hospital

## **5. How does the decision contribute to the Corporate Priorities?**

Effective management of the council’s revenue and capital budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

## **6. What will it cost and how will it affect other services?**

The financial impact is detailed in the body of the report (see Section 4).

## **7. What are the main conclusions of the Well-being Impact Assessment?**

No Well-being Impact Assessment has been undertaken for this strategy. Specific decisions resulting from this strategy are likely to require a WIA especially ones that impact on service delivery or future budget flexibility.

## **8. What consultations have been carried out with Scrutiny and others?**

No specific formal consultations have been undertaken. However the broad strategy has been verbally reported to informal Cabinet and SEMT in recent weeks.

## **9. Chief Finance Officer Statement**

Obviously the core focus at the moment is the financial response and recovery in recovery in relation to the Covid 19 pandemic. Although the pressures are very large the Council enters this period with the following advantages:

- A strong track record of financial management in response to over 10 years of real terms budget reductions. The systems and processes in place should help DCC in its response.
- The Council has relatively healthy financial reserves and balances of the Council.
- The Settlement and Budget set for 2020/21 allowed the Council to address a number of pressures in Social Care, Waste services, School Transport, Education and Schools. This does not mean that there are no ongoing business as usual pressures, however it does mean that we are in a better position than previous years.

The regular Finance Cabinet Report will keep members up to date and regular updates are provided to informal Cabinet.

**Please also note it is recognised that this is a fast changing situation and a summary update will be presented at Cabinet.**

## **10. What risks are there and is there anything we can do to reduce them?**

This is obviously the most challenging financial period DCC has faced. The proposed Financial Strategy in this report aims to mitigate the following risks (among others):

- Failure to have a robust funding strategy could impact on the financial stability and sustainability of the Council.
- Impact on ability for the Council to deliver core services.
- Impact on capacity of the Council to achieve its priorities.

## **11. Power to make the decision**

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.