



Committee: BUDGET AND PERFORMANCE PANEL

Date: WEDNESDAY, 17TH JUNE 2020

Venue: THIS WILL BE A VIRTUAL MEETING

Time: 6.10 P.M.

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the party whip, which is prohibited under the Lancaster City Council Constitution.

A G E N D A

1. Apologies for Absence

2. Appointment of Vice-Chair

In accordance with Part 3, Section 3, Overview and Scrutiny Procedure Rules, of the Constitution, the holder of this appointment shall not be members of the largest political group, which has Councillors serving on the Cabinet.

3. Minutes

Minutes of the Meeting held on Tuesday, 18th February 2020 (previously circulated).

4. Items of Urgent Business authorised by the Chair

5. Declaration of Interests

To receive declarations by Councillors of interests in respect of items on this Agenda.

Councillors are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

In accordance with Part B Section 2 of the Code Of Conduct, Councillors are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

6. Covid 19 - Financial Impact (Pages 3 - 11)

Report to be considered at Cabinet on Tuesday, 9th June 2020 attached.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Adrian Duggan (Chair), Tim Dant, Roger Dennison, Debbie Jenkins, Mandy King, Jack O'Dwyer-Henry, David Whitworth, Jason Wood and Joanna Young

(ii) Substitute Membership

Councillors Gina Dowding, Colin Hartley, Tricia Heath, Cary Matthews and Stewart Scothern

(iii) Queries regarding this Agenda

Please contact Stephen Metcalfe, Democratic Services email sjmetcalfe@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support email democraticsupport@lancaster.gov.uk.

KIERAN KEANE,
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Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	9 June 2020		
Report of	Chief Finance Officer				
Title	Covid 19 Financial Impact				
Purpose of Report					
The COVID-19 pandemic has had a significant effect on the financial position of all Local Authorities. Given the high level of uncertainty around a number of key variables this report aims to provide Cabinet with an update on the current financial position in line with May's MHCLG submission and set out scenarios (worse and best case) and their potential implications for Council's finances in 2020/21.					
Key Decision	Y	Date of Notice	28.5.20	Exempt (Y/N)	N

Report Summary
The report provides Cabinet with an update on the current financial position in line with May's MHCLG submission and sets out scenarios (worse and best case) and their potential implications for Council's finances in 2020/21.

Recommendations of Councillors
That Cabinet <ol style="list-style-type: none"> (1) Considers the details of the report outlining the potential impact on the Council's finances resulting from the COVID-19 pandemic. (2) Endorse the proposed new monitoring arrangements.

Relationship to Policy Framework	
The Council's budget represents, in financial terms, what it is seeking to achieve through its Policy Framework. Any significant revisions or amendments to the budget as a result of the COVID-19 pandemic, or any other event may well impact how the Council delivers its services and achieves its stated outcomes and priorities	
Conclusion of Impact Assessment(s) where applicable	
Climate None undertaken	Wellbeing & Social Value None undertaken
Digital None undertaken	Health & Safety None undertaken
Equality None undertaken	Community Safety None undertaken
Details of Consultation	
No direct consultation has been undertaken	
Legal Implications	
Legal Services have been consulted, but at this stage there are no legal implications arising	
Financial Implications	
The Financial Implications are set out in the report	
Other Resource or Risk Implications	

None arising at this point

Section 151 Officer's Comments

The s151 Officer has written this report in his role as Chief Finance Officer

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no comments

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Links to Background Papers

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1.0 Introduction

- 1.1 Since Government's announcement on 23 March 2020 that the Country would be in lockdown, the Office for Budget Responsibility has predicted an unprecedented national economic contraction of up to 35% in the next quarter of the year, leaving an additional 2 million people unemployed. The National Institute of Economic and Social Research has estimated the total economic effects could be as high as £800 billion nationally over the next ten years.
- 1.2 Given the high level of uncertainty around a number of key variables this report aims to provide Cabinet with an update on the current financial position in line with the latest MHCLG submission (May 2020) and sets out scenarios (worse and best case) and the potential implications for Council's finances in 2020/21.

2.0 Government Funding

- 2.1 Government announced emergency funding of £3.2 billion to support Councils through the immediate pressures. This has been made available through two tranches of non-ring-fenced grant funding of £1.6bn.
- 2.2 The first funding announcement was 20 March and the Council was allocated £0.101M; the second was announced on 18 April with the individual allocations released on 29 April. The Council was allocated £1.443M, taking the total amount of emergency funding available to the Council up to £1.544M.
- 2.3 The initial funding £0.101M has been allocated to Housing to support their work with the homeless. The remaining £1.443M is currently being held in reserves and is being used to address the impact across the whole Council.

3.0 Ministry for Homes Community & Local Government (MHCLG) Data Submission

- 3.1 All local authorities are now required to provide MHCLG with monthly information. The submission covers a range of areas such as additional expenditure and loss of income from a range of sources. The aim is to help departments across Central Government understand the financial impact, both direct and indirect, that the COVID-19 pandemic is having on all local authorities.
- 3.2 The Council's financial modelling discussed later in the report has been undertaken to reflect the full year impact and reflects the values submitted to MHCLG.
- 3.3 All budget holders are asked to submit their estimates for 1, 3 and 6 months based on professional judgement and experience in their service. These are reviewed and extrapolated forward to provide full year values.

4.0 Financial Implications

4.1 Financial implications can be categorised into 3 different areas:

- New costs that arise simply as a result of the emergency for example the setting up and operation of the emergency foodbank hub at Salt Ayre Leisure Centre.
- Increase in some service costs that were not budgeted at the 'new' level due to the emergency, for example increase in temporary accommodation need, additional work by the Council's facilities management team and the purchase of additional Personal Protective Equipment (PPE).
- Loss of income that would otherwise have been received by the Council in 'normal' times (e.g. car parking, other fees and charges, investment income, council tax and business rates receipts)

Total Expenditure

4.2 We estimate the total costs incurred to date by the Council in addressing the pandemic to be in the region of £0.580M (March £0.150M, April £0.253M & May £0.177M est). Members will need to note that this remains an estimate as we are still closing our accounts for 2019/20 and so these figures may vary. Details of significant areas of cost and loss of income for May are provided below.

New Costs

4.3 Emergency Foodbank Hub

The most significant area of expenditure for the Council is the provision of the emergency foodbank hub at Salt Ayre Leisure Centre. At a cost of approximately £0.136M (April £0.148M) it has provided approximately 12,300 emergency food boxes to the vulnerable and in need as well as servicing over 6,000 households in April and May. The current full year cost estimates would suggest a value of c.£1.5M. However, given the easing of lockdown restrictions, demand is likely to reduce going forward and be revised in June's estimates. There is also the potential to fund some of these on-going costs from the Council's £1M Vulnerable People Reserve commitment.

Increased Service Costs

4.4 Honoraria and Overtime Payments

In March the Council decided to award all Front Line Tier 1 staff £100 honoraria to reflect their hard work and commitment. The cost of this together with COVID related overtime is £67K (April £32K & May £35K). This arrangement is only limited and so is expected to end within the coming months.

Loss of Income

4.5 Changes to District Council funding over the years has resulted in less dependence on Central Government grants but is now more highly geared to other forms of income such as Fees & Charges, Commercial Rents etc. As a result the exposure to the loss of fees and charges income is felt disproportionately hard by District Councils.

4.6 The actual reduction in income for Period 1 (April 20) was £0.914M against budget. Key areas of loss are around the closure, or reduced activity of the Council's key income areas such as

- Salt Ayre Leisure Centre
- Car Parks
- Cafeterias, and;
- Markets

Savings

4.7 Whilst many of the Council's facilities remain closed, or are operating at reduced capacity, savings such as reduction in stock purchase for resale, casual staff and utilities costs are generated.

5.0 Financial Modelling and Scenarios

5.1 Predicting what the final impact of COVID-19 on the Council's finances might be is **extremely** difficult as it is dependent on a number of factors and variables such as how long restrictions will last for and how quick, or slow the recovery will be. There is also the longer term impact on how the lockdown has changed people's habits around shopping, transport and exercise etc. and how these are to be reflected.

5.2 Table 1 summarises our current estimates of the impact of COVID on the Council's General Fund budget. At this stage, it is based on the best estimates from budget holders. Best and worst case scenarios have been developed and these will be monitored over the next few months and, as more information becomes available, the range between these estimates is expected to narrow.

Table 1: Scenarios

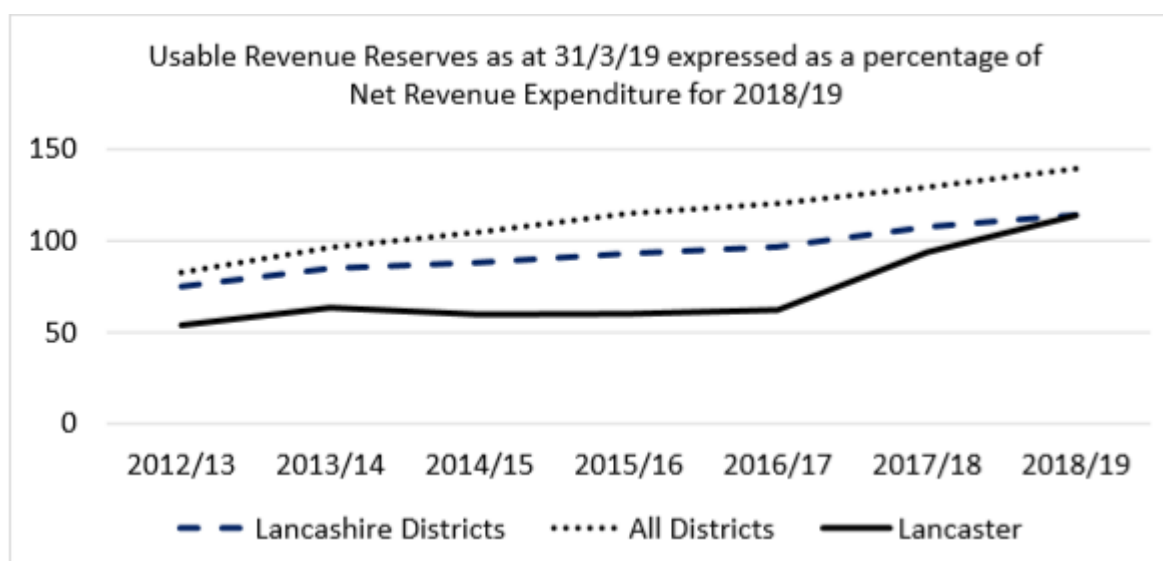
	Worst Case	Best Case	Best Case Notes
Budget Efficiencies not delivered	297	276	
Income losses	6,939	5,040	Most incomes 25% better than worst case. Planning, Building Control and Land Charges 50% better. Museums and Platform at worst case.
Savings	-1,264	-1,140	
Additional Expenditure	1,834	320	Assumed that food bank expenditure to utilise vulnerable funding and reserve commitment.
Reserves Commitments	2,165	2,165	

Council Tax Losses	242	242	Assuming 2.5% loss as best case.
Business Rates Losses	803	201	Assuming 2.5% loss at best case.
Government COVID funding	-1,614	-1,614	Includes carry forward from first tranche received in 19/20 as well as second tranche and re-opening high street funding.
Changes from deferring reserve expenditures	0	-641	A number of projects delayed by six months therefore requiring only half the budget.
Remove contribution to GF balances	-226	-226	
Total COVID Impact on Overspend	9,176	4,623	

5.3 The analysis focusses predominantly on 2020/21 but it is anticipated that COVID-19 will have a longer lasting impact on the Lancaster district and this will have to be reflected in medium term financial modelling. There is a likelihood that incomes may not recover and COVID-19 related expenditure may extend into future years. In the longer term, it is recommended that the Council undertake an outcomes based budgeting exercise to refocus budgets around the Council's COVID recovery priorities.

6.0 Impact on Reserves

6.1 Analysis was undertaken as part of the Council's Medium Term Financial Strategy to compare ourselves to other Councils both nationally and regionally. This work has shown that over the recent years the Council's level of usable reserves increased significantly, as a result of increases Business Rates Retention Reserve. As a result the Council is more financially resilient than many of its neighbours.



- 6.2 Table 2 below shows how the impact of the scenarios outlined above impact on the Council's level of reserves

Table 2: Reserves

	Scenarios	
	Worst Case	Best Case
Forecast Reserves at 31/03/2021	16,142,200	
Less Unusable Reserves	-2,465,400	
Forecast Usable Reserves at 31/03/2021 prior to COVID 2020/21 impact	13,676,800	
COVID Impact	- 9,348,100	- 4,622,270
Usable Reserves after COVID Impact	4,328,700	9,054,530

- 6.3 The above analysis covers the position up to 31 March 2021 but significantly there remain existing calls on reserves for 2021/22 and beyond. Initial modelling on the impact on reserves covering the next 18-36 months will commence shortly.

7.0 Capital Programme

- 7.1 Feedback from budget holders has only highlighted one scheme which may face additional financial pressures as a result of COVID 19.

Caton Road Flood Defence Works

The Caton Rd Flood defence works have continued on site during the pandemic. This has meant that the contractor has had to comply with Govt requirements on social distancing, safe working practices and staff furloughing which has impacted on the contractors working practices in order to comply with new regulations. The contractor has indicated that these additional costs may become the subject of a future contractual claim. At this stage the contractors estimates of additional costs are within the range of £500k-£1.1M.

Should the contractor submit a claim under the terms of the engineering contract, at some future date, it will be assessed and subjected to close legal scrutiny by the Council, MHCLG and Environment Agency.

- 7.2 A number of Capital projects have been accelerated, or brought forward as a result of the Council's response to the pandemic. These are detailed below.

ICT Laptop Replacement

- 7.3 To allow staff to work safely from home the purchase of 90 laptop computers was brought forward: £100K. The facilitation of home working may well have a significant impact in how our staff work in the “new normal”.

Microsoft Teams Contact Centre

- 7.4 Subject to approval the decision has been made to move as much of the Council as possible to Microsoft Teams to enable staff to work from home and be able to work effectively. Whilst originally included within the Capital Programme the costs are predominantly revenue and, if approved, an initial amount of £165K will be funded from Council’s Corporate Priorities Reserve.

8.0 Business Rates & Council Tax

- 8.1 The collection rates for April’s Business Rates and Council Tax are detailed in the table 3 below.

Table 3: Business Rates & Council Tax Collection Rates

	Business Rates	Council Tax
Net Collectable Debit	51,080,228	81,035,849
Forecast for April	4,801,541	8,670,750
Actual for April	4,241,235	8,279,387
(Surplus)/Shortfall	560,306	391,363
% (Surplus)/Shortfall	11.67	4.51
% Collected	88.33	95.49
LCC Approximate "Share"	40%	12%
Impact	224,122	46,964

Small Business Grants

- 8.2 Following the receipt of £36M from Central Government, the Economic Regeneration Team with the support of the Business Rates and Finance Teams have been tracking down eligible businesses, getting them to provide necessary details in order to process the grant funding, undertaking checks to verify the claims and getting the grants to businesses as expediently as possible. This has been a considerable undertaking and team effort, and has involved getting messaging out via the website, social media, as well as using extensive internet searches to track down contact details of individuals and businesses in order to contact them directly and encourage them to apply.
- 8.3 To date we have successfully distributed 80% of the grant money and work is ongoing to track down eligible businesses that have yet to apply. Members should also be aware that ahead of receipt of Government Funding the Council made 558 prepayments totalling £1.4M to eligible businesses.

Discretionary Grants

- 8.5 We have also started initial work on preparing for the recently announced discretionary top-up grant funding which is aimed at small businesses (fewer than 50 employees) that missed out on the existing grant offer. Guidance has been received from Government and this funding is to be steered towards businesses in shared space, regular market traders, small charity property (that would meet the criteria for Small Business Rate Relief) and Bed & Breakfast establishments. There has already been a high level of interest in this scheme from local businesses.

9.0 Monitoring Arrangements

- 9.1 To ensure that Members are kept up to date with developments, we are also introducing a number of processes
- Monthly update reporting to Cabinet and Budget & Performance Panel
 - Financial modelling updated with the latest estimates and forecasts aligned to MHCLG returns
 - Worst and best case scenarios updated to take account of latest information and forecasts

10.0 The New Normal

- 10.1 Recently the Government announced a phased approach to cautious relaxation of restrictions to aid economic recovery however, we cannot predict how long recovery may take. We should not assume that the world, our district, or our Council can, or should, return to “business as usual”. There have been many new initiatives and new ways of working identified during the past few months which will become a “new normal”. The Council should take this opportunity to position themselves to manage this transition.

11.0 Conclusion

- 11.1 Unless further significant tranches of Government funding are provided which meet the expected shortfalls as set out above, Members should expect to see significant balances wiped from our reserves.
- 11.2 Looking forward it is important that key financial decisions are made based on good intelligence. Over the next couple of months we will be able to provide sharper forecasts for COVID expenditure and income loss as well as knowing the likelihood of any further Government compensation.
- 11.3 Cabinet has started to consider how Council may look in recovery and will look at the opportunities to refocus Council and its finances around a ‘new normal’.