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CABINET

Tuesday, 5th May, 2020

S U P P L E M E N T A R Y P A C K

1.	INITIAL FINANCIAL IMPACT ON THE COUNCIL REVENUE BUDGET FOR 2020/21 ARISING FROM THE COVID 19 PANDEMIC
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To consider a report by the Head of Finance.

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CYNGOR SIR POWYS COUNTY COUNCIL**CABINET EXECUTIVE****5th May 2020****REPORT AUTHOR: Head of Finance (Section 151 Officer)****REPORT TITLE: Initial Financial Impact on the Council's Revenue budget for 2020/21 arising from the Covid 19 Pandemic**

REPORT FOR: Information and Discussion

1. Purpose

- 1.1 The purpose of this report is provide Cabinet with an early indication of the potential impact the Covid 19 pandemic could have on for the Council's revenue budget for 2020/21.

2. Background

- 2.1 The pandemic and the measures imposed by the Government at a UK and Welsh Government level are having a significant impact on the council.
- 2.2 The Council's response to the situation including the implementation of the Business Continuity Plan has seen the Council move away from business as usual in order to focus on Business critical activities and the implementation of specific plans in response to the emerging situation.
- 2.3 The situation has impacted on all service areas, increased demands on some, with the suspension and the parring back of others. Staff have been withdrawn from their usual duties and many are being redeployed as we react to demand and needs of the organisation.
- 2.4 The impact is also falling heavily on residents, communities and businesses in our County.
- 2.5 The changes we have seen both within and outside of the Council are having a significant financial impact and it is vital that we access how this will potentially impact on the Councils budget.
- 2.6 There are many unknowns and it is difficult to accurately reflect the impact with any certainty. Things constantly change and the projections provided within this report will need to be updated regularly to reflect the rapidly moving situation.
- 2.7 It is important to note that discussions continue with Welsh Government to highlight the financial position that Local Authorities now find themselves in. Ongoing discussions are taking place across Wales through forums such as the

Society of Welsh Treasurers (SWT), the Welsh Local Government Association (WLGA) and the Welsh Government (WG).

3. Impact on Revenue Budget

3.1 An assessment of the potential financial impact has been undertaken. It is difficult to make an accurate assessment when we are only three weeks into the financial year. In addition we do not know how the situation will develop or even for how long it will continue. We have however assessed the budget and categorised the main areas of potential impact.

3.2 **Additional Costs** - additional costs are already being incurred due to increased demand on some services, new costs incurred in response to virus or additional payments to support “at risk” providers.

3.3 **Income Loss** - Income Generation across the Council is now significantly affected, with services withdrawn, fees and charges are not being raised, and trading activity for some is suspended. The main areas identified include:-

- Leisure centres / sports facilities
- Cultural venues / events
- Car parking
- Industrial Units / other property
- Licenses
- Planning / Building Control Fees
- Garden / trade / bulky waste
- Schools including Delegated Budgets
- Catering / cleaning
- NMWTRA
- Bus revenue
- Chargeable to capital - Highways etc

3.4 **Council Tax and Non Domestic Business Rates** – It is too early to estimate the potential impact on the collection of Council Tax and Non Domestic Business Rates. We have already seen an increase in claimants eligible for the Council Tax reduction Scheme (CTRS) and the increase nationally in the number of claimants for universal credits will be reflected with increase payments for Housing Benefits and Discretionary Housing Payments (DHPs). The additional cost in CTRS and DHP's falls on the Council's budget together with the reduction in Council Tax collected in year which we have initially projected at -5%, reducing our normal collection rate of 97.5% to 92.5%. Welsh Government have awarded a years Business Rate relief for some businesses, but this has been supported by grant funding.

3.5 **Impact on the Delivery of savings** – the Council's budget includes cost reduction proposals of £10.7 million for delivery during 2020/21. The delivery of these savings is now at significant risk. Increased income, change activity, restructuring of teams and transformation work is in the main suspended.

Management of change processes rely on consultation with staff and this is difficult to undertaken when staff are working remotely or indeed not working.

- 3.6 **Cost Reductions/Underspends** - reduced levels of activity and the suspension of some services will result in some budgets not being spent. Materials and resources will not be purchased, sub contractors will not be engaged, additional agency staff will not be needed, and although some suppliers will be supported by the supplier relief arrangements, this may not be at the full level, eg. Transport providers 75%. We also expect to see a reduced impact on the Capital Charges and borrowing budgets as projects included in the Capital Programme are delayed.
- 3.7 **Specific Grant Support** – The response from the Welsh Government has seen the allocation of some additional funding to support the additional cost pressures being incurred due to Covid 19.
- 3.8 **Other Grants** - Under usual circumstance the Council is heavily supported but specific Grant funding and we do not yet have sufficient information for all funding streams to know which grants will be maintained and which will be redirected to fund other Covid activity. Individual grant information is being received daily and our projections will be updated as more information becomes available.
- 3.9 The summary below projects the potential impact on budgets for the first 3 months of 2020/21. Appendix A shows this broken down across each service area.

	£000's
2020/21 Base Budget	67,360
Cost Pressures	3,377
COVID Grant Funding	(2,044)
Budget Underspends	(2,356)
Savings Delivery Shortfall	2,356
Loss of Income	6,395
Revised Budget Forecast	75,087
Budget Variance - Deficit	(7,728)
Council Tax, DHP,CTRS impact	(2,310)
Total Projected Deficit	(10,038)

- 3.10 A deficit of £3.35 million per month is currently calculated. This equates to a deficit of £10.038 million to the end of June 2020.
- 3.11 This assessment and the financial projections will undoubtedly change as we move through the weeks and months ahead. Areas for further consideration emerge daily, we will be reviewing and updating the projections on an ongoing basis.

4. Reserves

- 4.1 Any shortfall against budget would be met from the Councils reserves. The table below shows the revenue reserves position reported at the end of February 2020.

Summary	Opening Balance (1st April 19) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 20) Surplus/ (Deficit)
	£'000	£'000	£'000	£'000
General Fund	9,065	(87)	620	9,598
	9,065	(87)	620	9,598
Ringfenced & Specific Reserves				
Specific Reserves	7,909	(832)	(37)	7,040
Budget Management Reserve	3,584	0		3,584
Transport & Equipment Funding Reserve	6,493	(330)		6,163
Sub-Total	17,986	(1,162)	(37)	16,787
Schools Delegated Reserves	78	(2,621)	89	(2,454)
School Loans & Other Items	(371)	7		(364)
Net School Delegated Reserves	(293)	(2,614)	89	(2,818)
Total Ringfenced & Specific Reserves	17,693	(3,776)	52	13,969
Housing Revenue Account	1,111	2,168	116	3,395
	1,111	2,168	116	3,395
Total Revenue Reserves	27,869	(1,695)	788	26,962

- 4.2 The General Fund Reserve and the Budget Management Reserve total £13.182 million, this would provide funding to offset the anticipated shortfall for approximately 4 months.
- 4.3 Other reserves identified as Specific, including those set aside to fund the replacement of vehicles and equipment, total £13.2 million, a full review of these is required together with the activity that these are supporting to assess if these could be released to support the deficit.
- 4.4 It is clear that the reserves held will not be sufficient to cover the potential deficit incurred by the Council should the current situation continue for a period of more than a few months. The depleting of our reserves would also have a critical impact on the Council's future financial resilience.

5. Further consideration and next steps

- 5.1 Key areas that need further consideration in order to understand the potential impact on the budget position include Schools Delegated Budgets, School Hubs, Child Care settings, HRA and Grant funded activity.
- 5.2 Work is underway to review these areas and discussions continue at a national level for guidance as to how to proceed on some elements.

- 5.3 Other factors now need to be explored to mitigate the financial loss to the Council.
- 5.4 **Furloughing of Council Staff** - We have not considered furloughing of staff to date as we were advised initially that it did not apply to the public sector, however in recent days the Local Government Minister, Julie James, has indicated that furloughing is an option that councils should consider to mitigate the loss of income. We have asked Heads of Service to begin the process of collecting the data for income generating activity in order to fully assess the situation.
- 5.5 **Delivery of Budgeted Cost Reductions** – Head of Service have been requested to undertake a more detailed review of the proposals and to identify those proposals that can be taken forward, if appropriate the priority areas identified can be amend to focus on the areas that maximise savings.
- 5.6 **Limit expenditure** – to freeze expenditure on all but business critical activity.
- 5.7 **Supplier relief** – PPN2-20 sets the framework for supporting the cashflow of at risk suppliers/contractors to ensure they remain viable through this period. Services will approve payments as appropriate and necessary under this scheme. But services must ensure that they do not pay for goods or services to which this does not apply in order to achieve savings from the reduced expenditure.
- 5.8 **Capital Programme** – An assessment of the Capital Programme is required to better understand the impact on the delivery of projects. The availability of Contractors, sub-contractors and the sourcing of materials will all affect project delivery. This includes a review of the sale of assets and the impact on anticipated capital receipts. Projects that have not yet started may have to be re considered.
- 5.9 **Reserves** – to review the Council's reserves held to assess which could be released to support the projected deficit.

6. Conclusion

- 6.1 Based on this initial assessment it is clear that the impact of the virus will have an unprecedented detrimental financial impact on the Council and depending of the length of time restrictions will apply or indeed change, without further government support the Council may not be able to financially sustain itself for the current financial year.
- 6.2 The impact of the situation on the Council is not unique to Powys, every Council is facing the same financial difficulty. Individual circumstances will differ, the level of reserves held, the extent of commercial activity and the impact on the wider business and resident communities will be difference, but all are concerned as to their financial sustainability.

6.3 The Council, along with every other Local Authority, has completed a survey which is being collated by the WLGA. This survey includes details of the potential financial impact of revenue cost pressures, area of underspend, loss of income and capital pressures arising from the impact of Covid 19 and the measures in place. The information was submitted on the 24th April and will be used to inform discussions at a ministerial meeting on the 30th April.

6.4 The Council must act now to take every opportunity to reduce costs and limit the financial impact on its budget.

7. Legal implications

7.1 The Monitoring Officer has no specific concerns with this report.

8. Recommendation

8.1 That Cabinet note the contents of the report and agree that the actions outlined in section 5 are progressed.

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	Q1 FORECAST (AS AT 24th APRIL 2020)						
		Add	Less	Less	Add	Add	Revised
£'000	2020/21 Base Budget	Cost Pressures	COVID Grant	Cost Underspends	Savings Shortfall	Lost/Gained Income	Forecast
Adult Services	15,997	1,757	- 1,719			645	16,679
Childrens Services	6,494	20	- 20				6,494
Commissioning	786		-				786
Education	5,636	109	- 100	- 840		4	4,809
Highways Transport & Recycling + Director	8,472	67	20	- 403		3,391	11,547
Property, Planning & Public Protection	1,948	303	19	- 34		654	2,889
Regeneration	227		-				227
Housing & Community Development	1,176	369	313	- 492		1,276	2,642
Digital & Communication Services	1,177	23	- 23				1,177
Strategy, Performance & Transformation	380	38	- 38	- 6			374
Workforce & OD	464	-		- 15			449
Legal & Democratic Services	805	4	4	- 36		- 70	707
Finance	1,548	39		- 30			1,557
Corporate Activities	3,294	148					3,442
borrowing	-	-		- 500			- 500
Savings not delivered across all services					2,356		2,356
Total	48,401	2,877	- 1,544	- 2,356	2,356	5,900	55,633
							-
Housing Revenue Account	-						-
Schools Delegated	18,959	500	- 500			496	19,454
Total	18,959	500	- 500	-	-	496	19,454
Total	67,360	3,377	- 2,044	- 2,356	2,356	6,395	75,087
Variance							7,728
Council Tax (DHP/CTRS/Collection)	-	2,310					2,310
OVERALL COST PRESSURE							10,038

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