

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 19 MAY 2020
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT &
CULTURAL SERVICES DIRECTOR)

COVID-19 – Impact On The Council's Finances

1 Executive Summary

- 1.1 Members received an update at 6 May Special Council meeting regarding the council's response to COVID-19. The report highlighted a number of challenges the council is facing, and the rapid responses that had to be deployed to ensure our core services are being delivered and that residents and businesses are continued to be supported during the difficult time.
- 1.2 COVID-19 is already having a significant adverse effect on the economy, it is also affecting the services that the council delivers. The council is faced with significant financial pressures in service areas such as homelessness and rough sleepers, at the same time there is a substantial reduction in income across our services. The estimated financial pressure amounts to £7m this year and the scale of the impact on the economy and public finances resulting from COVID-19 in the medium-to long-term is unknown.
- 1.3 In March 2020, the government announced a £1.6 billion funding package to local authorities to help them respond to COVID-19 pressures across all services they deliver, however Welwyn Hatfield only received £51k. Since this announcement, officers have been working with the Society of District Treasurers to present evidence and case studies on the spending pressures that local authorities are facing, and the Local Government Association has also been working hard to lobby the government for more funding. In April 2020, the government announced a further £1.6 billion to local authorities and the council has been allocated £1.23m of un-ringfenced funding. Although the additional funding is a step in the right direction, it falls short of the £7m budget pressure that the council is facing, and officers will continue to contribute to the work of Society of District Treasurers to lobby the government for more funding.
- 1.4 This report provides details of the impact on the council's finances as a result of COVID-19. Over the next few months, officers will be reviewing the Medium Term Financial Strategy, taking into account the 2019/20 final outturn. Work will also commence on the Financial Resilience Recovery project, and this will also play a fundamental part of the 2021/22 budget setting process.
- 1.5 The Cross Party Finance Lead members have been meeting since the start of the current crisis and will continue to meet on a regular basis.

2 Recommendation(s)

- 2.1 That Cabinet agrees to:

- 2.1.1 Delegate authority to Corporate Director (Resources, Environment and Cultural Services) and Chief Executive in consultation with the Leader and Executive Member for Resources to determine the allocation of the £1.28m of un-ringfenced funding in line with the budget pressures set out in section 3 of this report.
- 2.1.2 Delegate authority to Corporate Director (Resources, Environment and Cultural Services) and Chief Executive in consultation with the Leader, Executive Member (Resources) and Executive Member (Regeneration, Economic Development and Partnerships) to determine the distribution of support using funding from Central Government to businesses and council tax payers as set out in paragraphs 3.10 and 3.11.
- 2.1.3 Note the letter shown in Appendix A from the Leader of the council sent to the Secretary of State seeking his commitment to provide further funding for local authorities to alleviate COVID-19 related income and expenditure pressures.
- 2.1.4 Note the estimated financial impact outlined in this report and this is subject to change as the government make further policy announcements.

3 Explanation

- 3.1 The financial impacts in this section are based on best estimate and some of the income losses highlighted are the amounts that are **at risk**, as it is difficult to predict what the actual losses are likely to be at this stage. The finance team will continue to monitor the situation as part of budget monitoring.

High Risk Expenditure areas

3.2 Homelessness

- 3.2.1 The Council has made huge efforts to ensure all homeless people and families have safe places to stay and self-isolate if needed. This has included relocating the existing Hatfield night shelter to the Jim McDonald Centre and negotiating with local hotels. The council continues to deliver food parcels and essential supplies to residents in temporary accommodation. The financial pressure to the council is about £300k, about £100k of this is covered by the homelessness grant.

3.3 Public Health burials and Lawn Cemetery increase in burial space

- 3.3.1 In the past few weeks, the council has already received 5 requests for public health burials (normally it would range between 5-10 a year). The council is likely to exceed the budget available by at least £10k and there is also likely to be a need to increase in burial space at the lawn cemetery, which is likely to cost £20k.

3.4 Support to contractors and suppliers

- 3.4.1 The Cabinet Office issued Procurement Policy Note in March relating to Supplier Relief - Procurement Policy Note 02/20: Supplier relief due to COVID-19. While the advice is mandatory for central government and advisory for Local Authorities, it is considered good practice and endorsed by the Local Government Association. This note aims to guide public sector bodies to provide

support to suppliers and contractors, which includes making advanced payments and enter into open book accounting.

3.4.2 On Fri 20th March, the Prime Minister announced that all leisure facilities must be closed. Our leisure provider, Greenwich Leisure Limited (GLL), has approached the council for financial assistance, in particular they have asked for the management fees to be reset in accordance to the following:

- Period 1 – Covid-19 period - From March until end of June
- Period 2 – Business rebuild period – Estimated 12 months

Period 1

3.4.3 Our leisure contractor has asked for an open book approach, which will re-set the fee profile to reflect the net cost of the service as there is no trading income for this period (unless any of the centres are able to reopen before the end of June).

3.4.4 There are expectations from Central Government that local authorities should provide financial support to the leisure contractors; these are evident in:

Cabinet Office

- Their guidance indicates that local authorities need to support their suppliers/contractors and should agree to act on an open book basis.

Sports England

- Sports Partners have essential role to play to reconnect with communities and bring people together once current lockdown measures are lifted. Local authorities should do what we can to provide financial support.
- In their letter to Chief Executives of local authorities on 6th April, it was stated that:

“The Ministry of Housing, Communities and Local Government’s guidance on these measures and reassurances that financial support will be forthcoming to cover additional strains on Local Authority’s finances are critical. Following direct representation from us, Sport England understands that the Sports Minister will be addressing the matter with colleagues across government departments as a matter of urgency. We also hope that you will join us to take a pragmatic and consistent approach to provide sufficient support that ensures Leisure Trusts and Operators can survive.”

LGA guidance on Options for Councils in supporting leisure providers through COVID-19

- The guidance mentions the significant financial pressures that the leisure industry is under and ways that local authorities could provide support.
- It also recognises that where possible, councils are doing their best to help by introducing a range of emergency measures including relaxing monitoring and outcomes requirements, advance payments, waiving management fees and in some cases offering direct financial support.

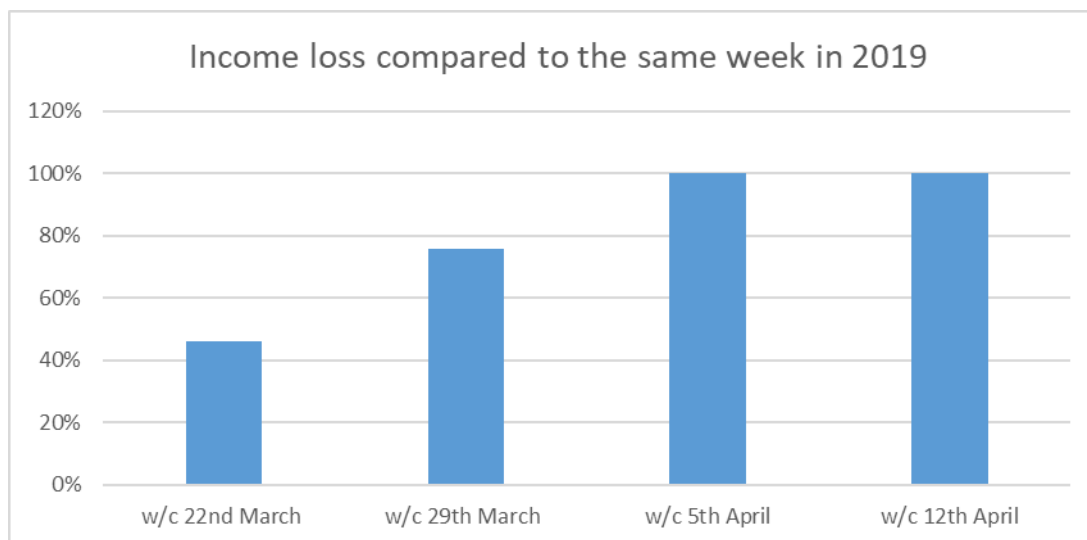
3.4.5 The Council has negotiated with GLL and that whilst the open book approach would be embraced on a large number of expenditure areas for period 1, where appropriate a maximum cap has also been set and that any major items of

expenditure by GLL would require approval from the council. No agreement has been decided for period 2 and will be agreed with GLL once the timescale on the lifting of lockdown measures is clear. The financial impact is uncertain but the total savings of £245k built into the 20/21 budget is at risk.

Major income areas

3.5 Parking income

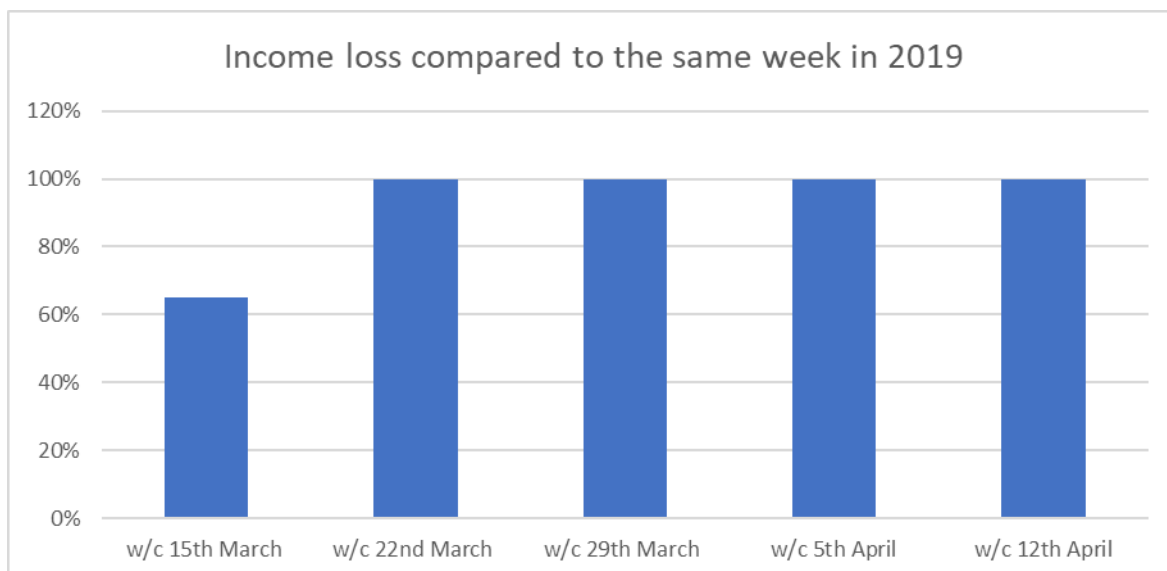
- 3.5.1 The lockdown measures were introduced on 23rd March and the chart below compares the weekly income levels to the same period in 2019:



- 3.5.2 The council has followed the government guidance to offer free car parking to all NHS workers and social care staff during the coronavirus outbreak since 25th March, as it is not proved to be feasible to easily identify which cars belong to key workers (e.g. the council were contacted by a number of NHS staff that they do not wish to leave anything on the dashboard to identify that they work for the NHS), as a result we have suspended parking charges in all of our car parks from 31st March. The council is also not enforcing resident permit/voucher schemes and single yellow lines until further notice.
- 3.5.3 Our parking income and parking enforcement income included in the 20/21 budget totalled to about £1.6m and it is estimated that about £530k of this income (equivalent to 4 months) may not be achievable.

3.6 Campus West

- 3.6.1 Following the Prime Minister's announcement to urge the public to stay clear of cinema and theatre, Campus West has been closed from 18th March until further notice.
- 3.6.2 The chart below compares the weekly income levels to the same period in 2019:



3.6.3 The total 2020/21 income budget for our entertainment venue is £2.3m and it is estimated that about £770k of the income (equivalent to 4 months) could be at risk.

3.7 Property rental income

3.7.1 The council owns a number of properties, neighbourhood shopping parades in the borough, some of these properties are linked to our town centre regeneration schemes.

3.7.2 The annual rental income is about £3m and based on the last quarter invoice sent out at the end of March 30% had been paid in full to date, a large number of tenants had also contacted the council (equivalent to 43% of the rental income) asking for a revised payment plan. It is probable that around £450k of the income would need to be deferred to future years.

3.7.3 The council also owns a number of garages across the borough and generates income of £2.3m to the general fund, it is estimated that the occupancy rate will drop once normal service resumes and £230k of income could be at risk.

3.7.4 The Weltech business centre is also likely to experience a drop in occupancy rate and the income could drop by 10% (£44k).

3.7.5 The council also had to close all of our community centres, the income loss amounts to £69k if they are closed for 4 months.

3.8 Other income areas

3.8.1 The following budget areas are also at risk and the precise impact is difficult to quantify at this stage but it is probable that about 30% of the income could be at risk.

Other at risk budget areas	Impact unknown (20/21 budget is
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	shown below)
Reduction in pre-application advice fees and planning fees	£830,000
Local Land Charges Income- reduction in income	£95,000
Reduction in licensing fees	£110,000
Reduction in Hackney Carriage Fees (ring-fenced)	£162,000
Reduction in requests for Food Hygiene Revisits	£13,600
Reduction in Council Tax fines from Magistrates	£280,000
Total	£1,490,600

3.9 Council Tax and Business Rates Collection

3.9.1 The Council Tax and business rates collection rates for 2019/20 are shown below:

	<u>Target (in year)</u>	<u>2019/20</u>	<u>2018/19</u>
Council Tax	97.70%	97.54%	97.71%
NNDR	99.10%	99.32%	98.41%

3.9.2 Although the impact to 20/21 is too early to judge, both the council tax and business rates teams have received large number of calls requesting for new payment plan to be agreed. If the collection rate of council tax drops by about 5%, Welwyn Hatfield's share of the cost would be about £500k. Welwyn Hatfield is in a business rates pool for 20/21 and it is estimated that about £1.5m of the income is at risk due to closure of businesses. More detailed analysis will be carried out in the coming months.

3.10 Specific support for council tax support claimants

3.10.1 The government has allocated the council with £826k of funding to help council tax support claimants. This is not a cash payment to working age Council Tax support claimants but it is used as a direct payment to the claimants' council tax account with the effect of reducing their 2020/21 council tax bill by up to £150.

3.10.2 It could be the case that further support could be announced by the government and therefore delegated authority is sought to enable the distribution of funding could be done in a timely manner.

3.11 Specific supports for Businesses

3.11.1 The following package of supports have been announced by the government and the delivery of which will be done by local authorities.

- Business Rates relief - 12-month business rates holiday for all retail, hospitality and leisure businesses (now extended to Estate agents, lettings agencies, betting shops and bingo halls). The amount of the relief totals to about £17.3m and 569 businesses were eligible for it.
- Business grant funding of £10k to small businesses and £25k for retail, hospitality and leisure businesses with a rateable value between £15k - £51k. As of 4 May, the council has paid out £12.8m of grant, equivalent to 79% of eligible businesses.
- On 2 May, a new grant was announced by the government aiming to benefit small businesses previously outside the scope of the business grant funds scheme. The allocation of funding will be at the discretion of local authorities. At the time of writing this report, the detailed guidance has not been published by the government. This report is seeking delegated authority to enable the distribution of funding to businesses (including any future funding from the government) at the earliest opportunity.

3.12 Cashflow and Treasury management

3.12.1 The finance team monitors the cashflow on a daily basis and track all the key income and expenditure areas. The deferral of the central government's portion of business rates income for the three months helps with our cashflow. There are no immediate significant concerns at this stage but it will continue to be closely monitored.

3.12.2 The council has one long term investment, which is the £4m CCLA fund that has been generating an average of 4% interest income to the council. As the fund is mainly property based, it is likely that the interest income receivable in the future may drop.

Housing Revenue Account (HRA)

3.13 Impact on Rent Collection

3.13.1 The rental income from our housing stock tenants amounts to £49.1m, in the past few weeks, there has been an increase in the number of Universal Credit claimants and will have an impact on the rent collection. However, as this is very early in the financial year, the exact impact is difficult to predict at this stage. The arrears as of mid-April were at a similar level as last year and the income management team is keeping a close eye on this every week. A provision for bad debt of £490k was built into the 20/21 budget (equivalent to about 1% of income) and this will be monitored throughout the year to see any increases are required. The collection rate was at 99.92% in 2019/20.

3.14 Other HRA income

3.14.1 A number of other income areas have also been adversely impacted by COVID-19, this include suspension of Community buses, Jim McDonald centre rental income, and reduction in hostel income due to social distancing. It is estimated that £200k of income could be at risk.

3.15 Affordable Housing programme - Right to Buy receipts

3.15.1 There is currently a restriction placed by the government that the retained right to buy receipts must be spent within 13 quarters. With the slow down of the housing market, which will impact on the open market purchase and also a number of construction sites have experienced much reduced activities means the council may not be able to spend the required amount, potentially causing the return of some of the right to buy receipts along with interest to MHCLG. Around £1.6m of this is at risk and direct lobbying has been made to MHCLG and through Society of District Treasurers urging for the relaxation of the time restriction to spend the retained right to buy receipts under the current circumstances.

3.16 Summary of budget pressures

3.16.1 The table below summarises the budget pressure faced by the council.

	Potential impact
	£
Reduction in income	
Parking and enforcement income	530,000
Campus West	770,000
Property rental income	450,000
Garages	230,000
Weltech	44,000
Community Centres	69,000
Other income areas (30% at risk)	447,180
Increase in expenditure	
Leisure contract savings at risk	245,000
Homelessness	300,000
Public Health burial and costs associated to increase number of burial space	30,000
Council tax income at risk	500,000
Business rates income at risk	1,500,000
General Fund impact	5,115,180
HRA Potential returned RTB receipts and interest penalty due to not hitting required 141 spend	1,600,000
Potential loss of other HRA income	200,000
Financial impact	6,915,180

3.17 £3.2 billion funding package to local government

- 3.17.1 Out of the £3.2 billion, the council has been allocated a total of £1.28m. When this is compared to the estimated £7m funding pressures, there is a gap of £5.7m
- 3.17.2 Officers will continue to work with the Society of District Treasurers and the LGA to lobby the government to provide more funding for the local government sector.
- 3.17.3 The Leader of the council has also sent a letter to the Secretary of State (appendix A) seeking his commitment to provide further funding to the local government sector to alleviate COVID-19 related income and expenditure pressures.

3.18 Reserves

- 3.18.1 The opening balance of the un-ringfenced General Fund reserve is about £8.6m at the start of 2020/21, it would have some capacity to absorb some of the financial impact, but not all. A robust financial plan will be required to ensure the sustainability of the council's finances are maintained and this will form a substantial part of the financial resilience recovery work.

4 Legal Implication(s)

- 4.1 The council is a Category 1 responder for the purposes of the Civil Contingencies Act 2004 meaning the council has a duty to work with partners to plan for and recover from emergencies, and also to keep critical services going.

5 Financial Implication(s)

- 5.1 This is set out in the report.

6 Risk Management Implications

- 6.1 A strategic risk is in place covering the impacts of Covid-19. Managers are also addressing Covid-19 impacts within their operational risk registers.

7 Security & Terrorism Implication(s)

- 7.1 There are no known security or terrorism implications arising from the matters in this report.

8 Procurement Implication(s)

- 8.1 Support to the council's suppliers and contractors in light of the challenges they are facing resulting from COVID-19 have been introduced in accordance with Cabinet Office guidelines. The support includes revising some contracts to an open book basis.

9 Climate Change Implication(s)

- 9.1 There are no climate change implications directly linked to the recommendations set out in this report.

10 Health and Wellbeing Implication(s)

10.1 There are no direct health and wellbeing implications directly linked to the recommendations set out in this report.

11 Link to Corporate Priorities

11.1 The subject of this report is linked to the delivery of all the Council's Corporate Priorities.

12 Communications Plan

12.1 The corporate communications team are coordinating all Covid-19 communication activity across the council.

13 Equality and Diversity

13.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals as there are no equalities or diversities issues arising from the report.

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