

South Lakeland District Council
Cabinet
Wednesday, 20 May 2020
Finance Update – Impact of Covid-19

Portfolio: Cllr Andrew Jarvis, Finance and Resources Portfolio Holder
Decision from: Helen Smith – Finance Lead Specialist (Section 151 Officer)
Report Author: Helen Smith – Finance Lead Specialist (Section 151 Officer)
Wards: All wards
Forward Plan: Budget and Policy Framework decision and emergency non executive decision will be required following Cabinet consideration.

1.0 Expected Outcome

1.1 Covid-19 is having a widespread impact on local authority spending throughout the country and has been particularly significant for district council's with much of the funding to date going to Counties in two tier levels. This report concludes that South Lakeland retains the ability to manage its financial response in a controlled way over the medium term.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

- (1) **Note the contents of this report .**
- (2) **Recommend the Chief Executive approves the budget amendments set out in section 3.9 as an Emergency Non-Executive Decision;**
- (3) **Endorses the decision to receive the right to buy receipts by the 30th June 2020;**
- (4) **Delegates to the Finance Lead Specialist to approve variation of income payment terms and any associated contractual variations, in consultation with the Monitoring Officer and the Finance and Resources Portfolio Holder outlined in Tables 1 and 2 and any in the future where the request is both below and over the key decision threshold but within the approved budget for the contract.**
- (5) **Delegates to the Finance Lead Specialist the increasing of the expenditure budget for the recently announced discretionary grant scheme for small businesses by the amount of grant allocated and for which we are awaiting the details.**
- (6) **Agrees that reserves are protected by not allowing carry forwards of underspend into this financial year except in exceptional circumstances.**

3.0 Background and Proposals

3.1 Background

3.1.1 Even before the announcement of lockdown on 23 March 2020 the Council had started incurring additional expenditure and seeing reductions in income. This report presents

the latest forecast of the impact of Covid-19 on the budget forecast for 2020/21 and other emerging pressures such as the pay award or any potential reductions in approved expenditure through delays to projects and possible reduced activity. The situation is summarised as at the start of May 2020 but it should be noted that situation is moving very quickly with new Government announcements daily. This report recognises the exceptional seriousness of the financial issues arising from the Covid19 and reports on the monitoring and management of the situation.

- 3.1.2 The Council's finances remain strong in the short term. This report attempts to take a prudent view of what the impact is likely to be, however, the full picture will only emerge in the next few months and the position will change. It is clear that, over the period of the current Medium Term Financial Strategy, the Council will need to take action to bring the longer term forecast back into line and South Lakeland retains the ability to manage its financial response in a controlled way over the medium term.
- 3.1.3 The first quarter monitoring report will be key in setting out a more complete picture of the impact of Covid-19 and, more importantly, a strategy for bringing the budget back in line over the medium term through the updated Medium Term Financial Plan.

3.2 Covid-19 Expenditure

- 3.2.1 The full impact of Covid-19 on the revenue budget will not be fully known until it is clear how long lockdown will be extended, the state of the economy as lockdown eases and the extent of Government funding. There has been relatively little financial impact to date arising from staff sickness with either staff redeployment covering gaps or temporary reductions in service (e.g. green waste collection). There is potential for future spikes in demand for services or levels of sickness which may require additional spend. The table below summarises the additional expenditure expected to date that we are aware of and assumes a period of three months before things return to normal.

Table 1: Projected additional costs relating to Covid-19

Service	Mar-20 £000	Apr-20 £000	Total Q1 2020/21 £000
Waste Collection	10	10	30
Homelessness	10	50	150
Leisure Services	0	120	120
Bereavement Services	10	50	50
Temporary Staff	0	75	75
Emergency Support To Charities	95	0	0
Training - Virtual Meetings	0	5	5
IT - Costs Incurred	10	10	10
IT - Additional Kit Requested	0	77	77
Processing Additional Benefit Claims	0	20	60
Total Projected Additional Costs	135	417	577
General Provision	5	0	250
Total Projected Additional Cost	140	417	827

- 3.2.2 It should be noted that the forecast above is for the first three months of 2020/21 only but the financial impact is likely to be felt for a longer period even if restrictions on movement are removed before the end of June 2020. The forecasts above also do not take into account any impact on capital budgets which may arise from delays in

expenditure, higher than expected expenditure, reductions in income or changes in interest rates.

- 3.2.3 This projection is based on the Council's current levels of service and costs incurred to date. It does not include any specific additional costs of providing additional support, for example additional grants to voluntary groups or cultural organisations beyond £95k already approved by Cabinet on 25 March 2020 for those assisting with the most vulnerable and a general provision of £250k.
- 3.2.4 The Government is encouraging local authorities to support contractors, for example through payment on account for services to be provided later in the year where there is a recurring service provided. The figures above assume any such support will be offset but lower payments later in the year so there will be no overall impact on the 2020/21 budgets. The table above includes the impact of the request, reported elsewhere on this agenda, for additional support to the Council's leisure provider.
- 3.2.5 There have been additional challenges regarding procurement exercises with some suppliers having furloughed staff and where contractors have been unable to visit sites. As a result there is a possibility that procurement exercises do not achieve best value at this time due to the possibility of fewer tender responses and may need to be postponed or re-run. The Council's procurement team are considering the impacts this may have on procurement exercises.

3.3 Income (excluding Council Tax and NNDR)

- 3.3.1 The Council is currently charging for the majority of goods and services as normal. The exception is car parking where charging has been suspended until at least the 7 May 2020 with a corresponding reduction in charges for permits. However, there are still reductions in income expected due to an immediate fall in demand for services where payment is made up-front (e.g. outdoor markets, land charges) or in services where charges are invoiced but may not be paid. A fall in demand in the future is also likely, for example planning and building control services.
- 3.3.2 The table below summarises the reduction in income expected to date, that we are aware of, and assumes a period of three months before things return to normal. This is a much greater impact than the additional expenditure.

Table 2: Potential reduced income arising from Covid-19

Potential Reduced Income:	Mar-20	Apr-20	Total Q1 2020/21
	£000	£000	£000
Car Parking	110	402	1,152
Building Control	0	29	86
Development Control	0	46	138
Land Charges	0	21	63
Licensing	0	26	77
Lake Charges	0	13	38
Caravan Site	0	43	130
Markets	0	11	33
Public Halls	0	8	24
Water Sampling	0	6	18
Bulky Waste	0.0	3	10
Lake (Commercial & non-commercial) and other	0.0	127	381
Commercial Rents			
Recycling Credits	0.0	65	130
Total Projected Reduced Income	186	800	2,280

- 3.3.3 The majority of the Council's income is taken directly to the revenue budget so any reduction will be an immediate pressure on the budget and, without offsetting action, reserves. Where invoices are issued (e.g. rents) there may be a longer than usual delay in payment. All invoices are being issued with additional narrative asking debtors to contact the Council as soon as possible if they expect to struggle to pay the invoice on time. Whilst to date income has held up well, with the only impact being a handful of requests from smaller tenants to spread payments monthly rather than quarterly, it is generally accepted that the payments due in May and June will be a more significant test of the market.
- 3.3.4. The Council has been approached to vary the terms of agreements to permit delays in payments of sums due to the Council, including the Council's share of income under preserve right to buy sales. Paragraph 21.1 of the Financial Procedure Rules within the Constitution requires the Chief Finance Officer to supervise all systems and procedures involved in the assessment, collection, receipt and recovery of all income due to the Council. There is not explicit delegation around amending the timing of receipts. Where a contract exists which includes income, then it is controlled by the Contract Procedure Rules which require that every variation in payment be authorised in writing, include an estimate of the increase or reduction in cost arising from that variation of the contract, must be within the scope of the contract and must be reported as soon as possible to the Cabinet or relevant Committee of the Council where the value exceed certain limits. Payment of £1.15m of right to buy receipts was due on 30 April 2020 and will now be received on 30 June 2020.

3.4 Capital Programme

- 3.4.1 The Council approved an ambitious capital programme of £18.9m for 2020/21. Delivery of this programme must now be in doubt. Whilst this may have a beneficial impact on capital financing charges it should be noted that there are a number of schemes that contribute directly to income. The viability of some capital projects may be effected by Covid-19. Other schemes are funded through time-limited grant offers: the Government has been approached to relax the time-limit on these schemes to ensure delivery.

Table 3: Capital Programme 2020/21 Approved February 2020

Project	£000	Comments
Grange Lido, Grange Prom and Coastal Communities Fund (includes £1.1 million for Grange Promenade)	5,107.2	Tender closes 8 May 2020: extension to funding deadline requested
Kendal Town Hall/South Lakeland House	3,789.9	Work on site expected to commence July 2020
Housing Investment Fund: Loans to Housing Associations	3,000.0	Agreement to be signed. Revise in light of development programmes moving forward post lockdown.
ERDF funded flood defence works	2,670.0	Some delay expected to works programme: extension to funding deadline requested from MHCLG
Vehicle & Plant Programme (inc bins and boxes)	2,346.0	Some delay due to vehicle manufacturers being closed.
Disabled Facilities Grants	661.0	On hold - mainly working on properties of vulnerable people who have been advised to shield
Affordable & Empty Homes, Town Centre Properties.	260.0	No outstanding commitments
New Ulverston Leisure Centre	250.0	On hold. Recommence when we have clearer view of the impact of Covid-19on leisure provision.

Project	£000	Comments
Homeless Accommodation for Families	230.7	Works have been stopped on site at Grange but following lockdown restrictions being eased, works will commence.
Grange Regeneration	157.3	Tender closes 8 May 2020: extension to funding deadline requested
Schemes below £100K	402.6	Procurement, tenders still progressing.
Total Capital Programme	18,874.7	

3.5 Council Tax and Non Domestic Rates

- 3.5.1 There will be a number of implications for the Council's council tax and non-domestic rate income due to changes in reliefs, additional grants and potential increased bad debts.
- 3.5.2 The Government has made funding available for additional Retail, Hospitality and Leisure reliefs and Nursery reliefs given to business rate payers.

Table 4: Change in business rates due 2020/21 arising from Covid-19

Business rates base		£000
Gross Rates 2020/21		61,436
Less:	Transitional Arrangements	-320
	Small Business Rate Relief	-10,229
	Charitable Relief	-3,380
	Retail Relief	-2,476
	Other Reliefs	-693
Net Rates Payable: January 2020		44,338
Additional relief granted April 2020:		
	Expanded Retail Discount	-26,967
	Local Newspaper Relief	-2
	Nursery Discount	-43
Net Rates Payable: April 2020		17,326

- 3.5.3 The total amount of rates expected to be collected in 2020/21 has been reduced by over 60% from £44m to under £20m. The Government will reimburse the Council for the additional relief granted, although the timing of the grant has not yet been announced. This relief gives a very significant financial boost to eligible businesses and will cushion the Council's financial impact for 2020/21. While the reliefs were being processed the direct debit payments for April were deferred: new bills were issued to all businesses who received grant or needed a new instalment plan from May onwards. The longer term impact on business rate income is harder to predict.
- 3.5.4 The current business rate projection assumes £5m of business rate growth and £0.95m receipts from the business rates pool. A 5% reduction in residual business rate income would equate to £0.8m in the revenue account, with the majority of this reduction in income falling in 2021/22 due to statutory accounting rules.
- 3.5.5 The Government has also made a Small Business Grant Scheme and a Retail, Hospitality and Leisure Grant Scheme available. This was announced by the Government in March 2020 and the Council's participation, and budgets for the receipt and payment of grant, were approved in the Emergency Delegated Executive Decisions and Emergency Non-Executive Decisions 001 on 30 March 2020. The Council received £74.8m of grant on 1 April 2020 and has paid to date (as at 30/4/20) 3,920 grants totalling £46.9m. Officers are contacting eligible businesses to

encourage them to apply for the grants. This government funding is earmarked for these grants: anything not spent will need to be repaid.

- 3.5.6 On 1 May 2020 the Government announced a discretionary grant scheme for small businesses who do not pay rates but have fixed property costs and have seen a reduction in income, for example bed and breakfast businesses who pay Council Tax instead of rates. If the amount of grant has not been announced by the Cabinet meeting then delegation is requested to the Finance Lead Specialist to increase the expenditure budget by the amount of grant allocated, offset by an increase in grant budgets.
- 3.5.7 The Government announced additional support to all those in receipt of council tax support through the Council Tax Reduction Scheme (CTRS). South Lakeland District Council's share of this fund is £487,092 and the expectation is that the majority of this fund will be used to provide council tax relief alongside existing local council tax support schemes. In addition, it is expected that the Council may also want to use some of this funding to deliver increased financial assistance having considered local circumstances. Emergency Non-Executive Decision 007 approved that all recipients of working age CTRS during the financial year 2020/21 will receive a further reduction in their annual council tax bill of £300 and where a taxpayer's liability for 2020/21 is, following the application of council tax support, less than £300, then their liability would be reduced to nil. A report elsewhere on this agenda proposes a wider Council Tax discretionary relief scheme to help those still experiencing hardship in paying Council tax.
- 3.5.8 While this Government grant will assist with the costs of additional support to claimants, there is currently no Government support promised for the cost of the current SLDC scheme if there are a significant number of additional claims. The current cost of £2.745m of working-age claims is split between Cumbria County Council, Cumbria Police, SLDC and parishes based on their relative share of Council tax.

Table 5: Split of Council Tax Reduction Scheme costs between preceptors

	Band D Council Taxes £	Share of Council Tax Reduction Scheme cost £
South Lakeland District Council	199.54	281,753
Average Parish Council	39.05	55,139
Cumbria County Council	1,440.56	2,034,089
Cumbria Police & Crime Commissioner	265.59	375,017
Total Average Council Tax	1,944.74	2,745,998

This impact will feed through the Collection Fund to hit financially in 2021/22, as will any impacts of non-collection during 2020/21 and any impacts on the underlying Council and NDR taxbases.

- 3.5.9 Council tax collection rates to date are 0.61% lower than last year, equivalent to £0.54m in cash. Some of this may recover during the year if taxpayers have merely re-profiled expenditure, however the level of bad debt is likely to increase. Reductions in council tax collection rates feed through into the collection fund and hit the general fund through a deficit in the collection fund in the following year, this is shared between ourselves and the precepting authorities. Initially there is potentially a cashflow impact for the District Council if collection rates fall but Cumbria County Council and the Cumbria Police and Crime Commissioner as major preceptors expect South Lakeland to pay over their full shares of council tax income as originally

scheduled. Cumbria Chief Finance Officers are discussing measures to manage this cashflow impact, should it arise.

3.6 Government Funding

- 3.6.1 The level of funding that Government will make available to the Council is at present uncertain. Excluding the support for business rates and council tax, to date we have received £39k from local governments initial £1.6bn of funding and £1,040k from the second allocation of £1.6bn. The funding is provided as a non-ring-fenced grant. The District Council element of grant is also to cover any additional costs incurred by parish and town Councils. It is proposed that £40k of the current funding is ring-fenced for such costs.
- 3.6.2 The government has given indications that it will meet direct expenditure in relation to Covid-19 but has specifically excluded any promises around lost income and have indicated that they feel that local government should share the financial burden. Councils have been asked to provide updated estimates of lost income and additional costs to Government to support further requests for grant.

3.7 Reserves

- 3.7.1 The Council's working balance at 1 April 2019 was £1.5m. Working balances are used to help cushion the organisation against uneven cash-flows and avoid unnecessary borrowing. The Council also holds a General Reserve of monies set aside to form a buffer against future financial risks in the medium term and to enable the Council to progress major organisational and transformational changes by providing resources to fund the initial costs of these developments. The table below summarises the elements which contribute to how the appropriate level of reserve was calculated. More detail is given in Appendix 1.

Table 6: Summary and value of risks 2020/21 financial year

Potential Risk	£000
Potential Additional Costs (excluding pay)	668
Pay, vacancies and pensions	237
Savings not achieved	651
Changes to existing government funding regimes	1,990
Other Loss of Income	498
Risk Management	500
Emergency Contingency	1,000
Recommended Risk Base Reserve Balances	5,544

This recommended risk-based reserve balance is then compared to the projected balance on reserves to assess if the overall level of general reserve is appropriate. At February 2020 the projected level of general reserves were:

Table 7: Projected balance on general reserves at March 21 based on risks

Projected Level of Reserves at March 2021	£000
- General Fund Working Balance	1,500
- General Reserve	4,589
Projected Level of Reserves (General Fund)	6,089

This calculation suggested at the time that the overall projected balance on general reserves was slightly higher than necessary. The risk assessment did not factor in the potential of a national lock-down due to pandemic.

- 3.7.2 The current forecast shows that general fund reserves will fall below the recommended minimum level based on the following scenario, with the Working

Balance being completely depleted. Further savings will be required throughout the Medium Term Financial Plan period in order to balance the budget and rebuild reserves.

Assumptions:

- a) The lock down lasts no more than three months and there is not a second wave;
- b) Car park and property income takes a hit in Q1 but then recovers (given the economic outlook there may be a longer term impact);
- c) No further Government funding is received to cover direct costs;
- d) Collection rates for council tax take a hit in 2020/21 but then recover and the hit can be contained within the collection fund;
- e) The loss in growth in business rates in 2020/21 is not recovered;
- f) Council Tax Relief Support returns to normal levels by the end of 2021/22;
- g) Other income levels return to projected levels after lock down.

3.7.3 The Council holds a number of other reserves for various reasons, including funding capital expenditure or specific projects. The estimated balance on all reserves, as approved by Council in February 2020, were:

Table 8: Summary of reserves by type

	31/03/2019 £000	31/03/2020 £000	31/03/2021 £000
General Reserves	(7,710)	(4,807)	(5,011)
Capital Reserves	(2,661)	(1,528)	(69)
Earmarked Reserves	(4,535)	(5,183)	(5,192)
Total Reserves	(14,906)	(11,517)	(10,272)
Working Balance	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	(16,406)	(13,017)	(11,772)

Full details of all reserves, their use and expected balance were reported to Council as part of the Budget report.

At the moment it is not considered necessary to consider using these reserves to balance the revenue budget. This may become necessary if the impact is greater than modelled above.

3.8 Treasury Management

3.8.1 Council approved the Treasury Management Strategy for 2020/21 – 2024/25 and the Capital Strategy for 2020/21 -2033/34 on 25 February 2020. These strategies reflected the 2020/21 budget and capital programme being considered as part of this agenda and included the Investment Strategy which set out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

3.8.2 On 1 April 2020 the Government paid the Council a grant of £74.5m to fund the costs of grants to businesses who pay rates (see para 3.5.5 above). This was too high for the treasury management counterparties both available for use and approved in February 2020 for the 2020/21 financial year. The Emergency Non-Executive Decision Treasury Management Strategy – Investment Counterparties Update was approved on 30 March 2020 and approved higher counterparty limits for Money Market Funds (from £5m to £10m) and that the grant funding from government to be redistributed in relation to Covid-19 will be disregarded when applying the counterparty limit with the Councils own bankers (Nat West).

3.8.3 Since the start of the pandemic the Bank of England has twice cut interest rates down to 0.10% from 0.75%, these have seen investment returns fall as they are reflected in the money market. Due to the need for increased flexibility and liquidity in

our cash flows, this has led to investments being refocused into the very short term end of the market resulting in increased use of instant access accounts and limited short term deposits.

- 3.8.4 As a result of the global pandemic, all major economies have slipped into recessions with unprecedented financial support packages being announced by central banks and fiscal measures by the government leading to higher national debt. Rating agencies have responded to this by reassess the ratings of nations and individual financial institutions, putting many on negative watch or outlook. This and further actions has affected SLDC's lending list, reducing counterparties we can transact with and the limits at which we can invest. The potential impact of this will be included in the MTFP and Quarter 1 monitoring in July 2020 both in terms of interest rate receipts and the cost of borrowing, which may have an impact on the viability of capital projects.

3.9 Summary of Budget Amendments required

- 3.9.1 In order to balance the budget for 2020/21 it is proposed that up to £2.026m of General Reserve and Working Balance is used to offset the potential shortfall in income of £2.3m, potential additional costs of £0.8m, and the grant from the Government of £1.1m. The following table details the budget amendments required:

Table 9: Budget amendments requested May 2020

Description	Decision Ref	Decision Date	Budget Amendment £000	Approved Budget February 2020 £000	Amended Budget May 2020 £000
Expenditure					
Employee Costs					
Projected Additional Costs Q1: Temporary Staff			75.0	13,737.3	13,872.3
Projected Additional Costs Q1: Processing Additional Benefit Claims			60.0		
Running Costs					
Projected Additional Costs Q1: Waste Collection			30.0	9,768.9	85,812.0
Projected Additional Costs Q1: Homelessness			150.0		
Projected Additional Costs Q1: Leisure Services			120.0		
Projected Additional Costs Q1: Bereavemt Serv			50.0		
Projected Additional Costs Q1: Training Virtual Meetings			5.0		
Projected Additional Costs Q1: IT - Costs Incurred			10.0		
Projected Additional Costs Q1: IT - Additional Kit Requested			77.0		
GTH45 General Provision			250.0		
GFT02 Council Tax COVID-19 Hardship Fund	EDD007	29/04/2020	487.1		
GTH53/4 Business Rate: Grant scheme, estimated based on SLDC projections of use	EDD001	30/03/2020	60,000.0		
GTH53/4 Business Rate: Grant scheme, additional budget to Government allocation			14,844.0		
GHT56 Kendal Leisure Centre - Recovery Centre	EDD004	17/04/2020	20.0		
GTH57 Discretionary Business Rate Grant Scheme (delegate to Finance Lead Specialist)			tbc		
Customer Connect				0.0	0.0
Total Service Expenditure			76,178.1	23,506.2	99,684.3
Income					
Car Parking Income					
Projected Reduced Income Q1: Car Parking			1,152.0	(4,609.7)	(3,457.7)
Contributions from other Local Authorities and Public Bodies					
GHT56 Kendal Leisure Centre - Recovery Centre	EDD004	17/04/2020	(20.0)	(16.7)	(36.7)
General Income					
Projected Reduced Income Q1: Building Control			86.0	(3,990.6)	(3,030.6)
Projected Reduced Income Q1: Developmt Ctl			138.0		
Projected Reduced Income Q1: Land Charges			63.0		
Projected Reduced Income Q1: Licensing			77.0		
Projected Reduced Income Q1: Caravan Site			130.0		

Description	Decision Ref	Decision Date	Budget Amendment	Approved Budget	Amended Budget
			£000	February 2020 £000	May 2020 £000
Projected Reduced Income Q1: Markets			33.0		
Projected Reduced Income Q1: Public Halls			24.0		
Projected Reduced Income Q1: Water Sampling			18.0		
Projected Reduced Income Q1: Bulky Waste			10.0		
Projected Reduced Income Q1: Other Rents			381.0		
Government Grants				(669.1)	(77,080.7)
GTH53/4 Business Rate: Grant scheme, estimated based on SLDC projections of use	EDD001	30/03/2020	(60,000.0)		
GTH53/4 Business Rate: Grant scheme, increase budget to Government allocation			(14,844.0)		
GTH57 Discretionary Business Rate Grant Scheme (delegate to Finance Lead Specialist)			tbc		
GFT02 Council Tax COVID-19 Hardship Fund	EDD007	29/04/2020	(487.1)		
GTH55 Covid-19 Support			(1,080.5)		
New Homes Bonus				(338.0)	(338.0)
Lake Income				(1,492.6)	(1,454.6)
Projected Reduced Income Q1: Lake Charges (rents included above in general income)			38.0		
Recycling Credits				(1,438.1)	(1,308.1)
Temporary Suspension of Green Waste Collections April 20	EDD002	03/04/2020	65.0		
Projected Reduced Income Q1: Recycling Credits: monthly collections May/June			65.0		
Total Service Income			(74,151.6)	(12,554.8)	(86,706.4)
Net Service Budget before Capital Charges			2,026.5	10,951.4	12,977.9
Capital Charges			0.0	11,795.6	11,795.6
Net Service Budget after Capital Charges			2,026.5	22,747.0	24,773.5
Corporate items					
Net Interest				586.8	586.8
Capital Charges, Minimum Revenue Provision and Capital Programme Funding				(10,597.9)	(10,597.9)
Other Government Grants				(433.0)	(433.0)
Income from Council Tax (net of Parish Precept)				(9,121.4)	(9,121.4)
Parish Grant				92.0	92.0
Collection Fund surplus/deficit				85.1	85.1
Retained Business Rates				(5,512.8)	(5,512.8)
VGR44 Additional Retail, Hospitality and Leisure Relief and Nursery Relief schemes - cost of relief awarded			27,012.0		
VGR44 Additional Retail, Hospitality and Leisure Relief and Nursery Relief schemes - additional Government grant			(27,012.0)		
Contribution to Pool Reserve				947.9	947.9
Transfers to/from Reserves				1,206.3	(820.2)
Use of Reserves to fund Q1 net cost of Covid-19			(2,026.5)		
Total Corporate Items			(2,026.5)	(22,747.0)	(24,773.5)
(Surplus)/Deficit			0.0	(0.0)	(0.0)

3.10 2019/20 Year-End

- 3.10.1 Staff are still preparing the 2019/20 final accounts. It is planned to bring the 2019/20 Outturn report to Cabinet and Council in June 2020. The Account and Audit Regulations have now confirmed the deadline for preparation of the accounts has been pushed back from 31st May to 31st August 2020 with the deadline for audited accounts to be approved by Audit Committee pushed back from 31st July to 30th November 2020. It is expected the Council's accounts will be completed by 15th June 2020 and the audit is expected to be complete to be reported to Audit Committee in September 2020.
- 3.10.2 There is greater uncertainty than usual in assessing the value of assets, both property related and financial assets, for example the value of the Council's pension assets. The accounts will need to be reviewed for post-balance sheet events which may have a material impact on the financial position.

3.11 Longer Term Outlook

3.11.1 The reserves position above is predicated on what we can reasonably forecast at present in terms of the financial impact of Covid-19. Of greater concern is the impact of the projected economic downturn on public expenditure and local government finances. A need to bring down public debt is going to come into play alongside an economic contraction unprecedented in modern times. This will not only place additional pressure on government funding but is also likely to have considerable impact on the Council's ability to raise additional income. We are in uncharted territory as never before have Governments deliberately halted economic output for a sustained period.

3.11.2 The Budget approved on 25 February 2020 projected a balanced budget for 2020/21 but budget deficits from 1 April 2021. The balanced budget for 2020/21 has been largely been achieved through the implementation of the Customer Connect programme which has re-focused the Council's business to enabling customers to self-serve. The changes to staffing were largely implemented from January 2020 but there has been some disruption to the implementation of the remaining programme but work is continuing on the digital programme.

The projected deficits, at February, for future years were:

Table 10: Summary of MTFP projections February 2020

Summary Medium Term Financial Plan, February 2020	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Service expenditure	23,506.2	23,201.9	23,500.5	23,689.4	24,304.6
Service income	(12,554.8)	(12,412.5)	(12,720.7)	(12,882.2)	(13,133.8)
Net Service Budget	10,951.4	10,789.4	10,779.8	10,807.2	11,170.8
Net Interest Payable	586.9	928.5	1,022.1	1,074.7	1,132.6
Income from Council Tax (net of Parish Precept)	(8,944.3)	(9,309.2)	(9,591.4)	(9,876.1)	(10,163.3)
Retained Business Rates	(5,512.8)	(2,977.8)	(2,541.8)	(2,107.2)	(1,672.0)
Contribution to pool Reserve	947.9	0.0	0.0	0.0	0.0
Other Government Grants	(433.0)	0.0	0.0	0.0	0.0
Direct Revenue Financing of Capital Programme	413.0	113.0	84.0	63.0	40.0
Minimum Revenue Provision	784.7	1,250.4	1,357.0	1,552.8	1,675.1
Transfers to/from Reserves	1,206.3	261.0	334.3	332.2	390.1
Net Projected Deficit (Surplus) February 2020	0.0	1,055.3	1,444.0	1,846.6	2,573.3

The projections assume full realisation of savings from the Customer Connect programme and the Government implementing changes to funding of local government. Officers are monitoring announcements and changes to the assumptions to incorporate into an update of the MTFP in July 2020.

3.11.3 The government has confirmed that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021/22 to allow councils to focus on meeting the immediate public health challenge posed by the pandemic. The government have said they will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth, potentially including a reset of the business rate base, and the approach to the 2021/22 local government finance settlement. This will be combined with the impact of business closures as a result of Covid-19. The Government has also announced the revaluation of business rates will no longer take place in 2021. Legislation had been introduced to bring the next revaluation forward by one year from 2022 to 2021, but ministers want to ensure businesses have more certainty during this difficult time. The fundamental review of Business Rates announced in the Queen's Speech last year will still go ahead as planned.

- 3.11.4 The future financial assumptions also assume an annual staff pay award of 2% from 1 April 2020. National pay negotiations are ongoing but the latest offer of 2.75% for 2020/21 has been rejected by unions.
- 3.11.5 The Council is preparing a recovery plan with partner organisations to consider how the Council can contribute to a strategic response in line with the Council Plan objectives. As details are developed this will be reported to Members.
- 3.11.6 Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer, in consultation with the Council's Monitoring Officer, to report to all the authority's members if there is, or is likely to be, an unbalanced budget. In practice, this is most likely to be required in a situation in which reserves have become depleted and it is forecast that the council will not have the resources to meet its expenditure in a particular financial year. A full council meeting must then take place within 21 days to consider the notice. In the meantime, no new agreements involving spending can be entered into. Section 114 notices are normally very rare, alarming and controversial. At the moment, as Section 151 Officer, I feel that it is unlikely the Council will need to issue a Section 114 notice based on the Council's expenditure to date, the current rate of income loss, the level of reserves and the Government funding to date. Ministers are aware of the seriousness of the impact of the pandemic on local government finances and have asked any Council heading to a Section 114 notice to discuss matters with Ministers as soon as possible.

3.12 Next Steps

- 3.12.1 The Council's Medium Term Financial Plan is due to be updated in July 2020 alongside the 2019/20 outturn report. By this time the Covid-19 figures should become clearer. It is recommended that reserves are protected by not allowing carry forwards of underspend into this financial year except in exceptional circumstances. Also as part of planning for recovery it will be necessary to consider options for replenishing reserves and balancing the budget in the future.
- 3.12.2 Officers will continue to review the financial impact and will report as part of the quarterly corporate financial update process. The 2019/20 Outturn and Treasury Management Annual Report will be reported to Cabinet and Council in June 2020. The Medium Term Financial Plan will be updated and reported to Overview and Scrutiny Committee and Cabinet in July 2020.
- 3.12.3 Officers will continue to represent the Council in meetings with MHCLG, BEIS and the District Council Network and through professional bodies such as the Society of District Council Treasurers, Cumbria Chief Finance Officers and Cumbria Monitoring Officers.

4.0 Consultation

- 4.1 Portfolio holders and the Council's Leadership Team.
- 4.2 Advice from the Local Government Association, the Society of District Treasurers, the District Council Network and notifications from MHCLG and BEIS have informed this report.

5.0 Alternative Options

- 5.1 This report presents proposals for a response to the potential budget pressures arising from the pandemic. The proposals together meet the Council's statutory duty to set a balanced budget for 2020/21 and to monitor the budget during the year. . An alternative option would be to reject some of the proposals; this would then require further work to ensure the budget can be balanced.

6.0 Links to Council Priorities

- 6.1 This report sets out proposals that provide resources to implement the Council Plan alongside responding to the pandemic. Budget monitoring forms part of the corporate governance arrangements that support all Council priorities.

7.0 Implications

Financial, Resources and Procurement

- 7.1.1 Included within the report.

Human Resources

- 7.2.1 There are no direct human resources implications of this report.

Legal

- 7.3.1 Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer, in consultation with the council's Monitoring Officer, to report to all the authority's members if there is, or is likely to be, an unbalanced budget. This report outlines the Council's current financial position with recommendations. An emergency non executive decision will be required to make changes to the Council's Budget and Policy framework following Cabinet's consideration of the report. This being due to the fact the next Council meeting is on the 30th June 2020.
- 7.3.2 The Council's Legal, Governance and Democracy team has established a focused Covid Contact review workstream working with all service areas so we can anticipate requests and follow the latest Government advice while protecting the Council's financial and contractual position. It is important that any changes to contractual arrangements are formalised as variations to contracts and risks to the Council are minimised.

Health, Social, Economic and Environmental

- 7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No.
- 7.5 If you have not completed an Impact Assessment, please explain your reasons: This report provides an over view of Budget proposals and Health, Social, Economic and Environmental issues will need to be specifically considered before any changes to existing service levels are introduced.

Equality and Diversity

- 7.7 Have you completed an Equality Impact Analysis? No
- 7.8 If you have not completed an Impact Assessment, please explain your reasons: This report provides an over view of Budget proposals and equalities issues will need to be specifically considered before any changes to existing service levels are introduced.

Risk

Risk	Consequence	Controls required
South Lakeland as a place and as a council does not recover from the impact of the incident	<p>Serious impact on the economy and vibrancy of the district.</p> <p>Reduction in the ability of the council to deliver the requirements of residents and businesses and fulfil its statutory obligations.</p> <p>Impact on long term financial sustainability of the Council</p>	<p>Leadership team and Cabinet working together to ensure that plans are put in place as early as possible with action taken as early as possible and to ensure the decision-making during the incident is cognisant of Recovery.</p> <p>The recovery planning to have a focus on financial as well as economic recovery.</p> <p>An updated Medium Term Financial Plan to be presented in July 2020 alongside Q1 Budget Monitoring</p>

Further detail of risks and opportunities around items included in this report can be found at Section 6 of the Budget Book approved by Cabinet on 25 February 2020. A link to this document is included in the background documents below.

Contact Officers

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Risk assessment of Reserves, February 2020

Background Documents Available

Name of Background document	Where it is available
2020/21 to 2024/25 Budget report to Council 25 February 2020	https://tinyurl.com/y74z8xwr
Emergency Decisions	https://tinyurl.com/y8m25r3t

Tracking Information

Signed off by	Date sent
Legal Services	07/05/20
Section 151 Officer	07/05/20
Monitoring Officer	07/05/20
CMT	07/05/20

Circulated to	Date sent
Director	07/05/20
Human Resources Manager	N/A

Circulated to	Date sent
Communications Team	07/05/20
Leader	07/05/20
Committee Chairman	07/05/20
Portfolio Holder	07/05/20
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	07/05/20
Council	30/06/20

Appendix 1

Risk Assessment of Reserves

Potential Risk	£000	Comment (Basis of Financial Exposure)
Base Budget Contingency for inflation or other unanticipated rise.	177	Assumed at 1% of Gross Revenue Budget for 2020/21
Underachievement of Charges Income targets and spending exceeds budgets	254	Estimate of 5% Customer Receipts Income forecasts for 2020/21
Underachievement of Investment Income	130	1% of exposure of average balance of £13m
Insurance Excesses	24	Based on 10% of insurance premia payments
Potential costs of legal challenges	350	Based on estimated cost of a public enquiry or legal challenge
Savings not achieved	651	Savings target at 31/3/25
Vacancy target not delivered	110	Staff vacancy target top sliced from salary budgets
Pay increase	70	2% allowance made in budget for pay increase from April 2020. Impact of additional 1% pay award
Increase in pension contributions	57	Allowance for 1.0% increase in pension fund contributions at next triennial revaluation
Changes to existing government funding regimes	1,486	25% of Total of RSG/transitional grant/Rural Services grant/NNDR retained funding, based on 2020/21 final settlement (on top of reduction already reflected in budgets)
Changes to existing external grants and contributions	504	50% of total revenue grants and contributions received, excluding benefit subsidy and formula grant (based on 2019/20 excluding New Homes Bonus)
Impact of introduction of Universal Credit	50	Increase in homelessness, changes in administration arrangements, reduction in collection rate etc
Changes to Homelessness requirements	50	Changes in requirements for homelessness
Reduction in business rate income	114	SLDC share, based on 5% reduction in rateable values, based on 2017 list
Council tax reduction scheme	17	SLDC share, based on 10% increase in claims based on 2020/21 estimate
Risk Management	500	Monies set aside to meet the one-off costs of risk management
Emergency Contingency	1,000	Emergency contingency fund - Council practice to allocate £1m for any unforeseen emergencies. Bellwin scheme cuts in at 0.2% of net budget and provides for up to 85% of eligible costs.
Recommended Risk Base Reserve Balances	5,544	