

KEY DECISION? YES/NO

**2020/21 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) -
COVID-19 IMPACT**

SUMMARY:

Covid-19 is having a widespread impact on local authority budgets and has been particularly significant to Rushmoor with a loss of income from services. This report sets out the current forecast of the impact from Covid-19 on the 2020/21 budget.

RECOMMENDATIONS:

CABINET is recommended to:

- i. note the report and the forecast financial impact of Covid-19
- ii. approve the establishment of the Treasury Management reserve (paragraph 5.5)
- iii. Agree in principle to the deferment of interest on loans to Farnborough International Limited, subject to the completion of the due diligence outlined in the report (paragraph 3.12)

1. INTRODUCTION

- 1.1 Covid-19 is having a widespread impact on local authority budgets nationally and has been particularly significant for district and borough councils with a significant loss of income from services being a particular pressure. Government funding for Covid-19 was initially allocated to local authorities with social care responsibilities, with the second tranche of funding being more weighted to districts and boroughs.
- 1.2 This report provides members with an update on the likely impact on the Council's finances. However, the full financial impact on the Council will take time to come through and the position as forecast in this report will change.
- 1.3 The forecast focuses on the immediate financial pressures as they have been identified. Further analysis will be undertaken on the Medium Term Financial Strategy and Savings Plan.

2. REVENUE BUDGET 2020/21

- 2.1. The forecast of the financial impact of Covid-19 is shown in Table 1 below. As financial data only covers the first few weeks of the financial year, the full impact on the budget will not be known with any degree of certainty until later in the year.
- 2.2. Assumptions have been made around the extent of the lockdown, with recent guidance from Government [“Our Plan To Rebuild: The UK Government’s COVID-19 recovery strategy”](#) providing some indication of how and when restrictions may be lifted.

Table 1: C19 Financial Impact Summary

Service Area	Estimated Financial impact (£)
Income pressures	
Car Parking - Pay & Display income	580,000
Planning Fees (including pre-application)	268,000
Treasury Management - Investment Income	383,000
Waste & Recycling - MRF Income, Recycling Credits	0
Princes Hall	87,000
Other income from fees and charges	0
Subtotal	1,318,000
Expenditure pressures	
Staff Costs (Non C19 related impact of LGE pay negotiations)	145,000
IT Costs - Home working (Citrix licences, additional laptops)	65,000
Homelessness - additional cost of housing rough sleepers	40,000
Other (e.g. Local Response Centre)	42,000
Subtotal	292,000
TOTAL Income and Expenditure pressures	1,610,000
Government Funding	
Emergency Covid-19	(976,835)
Rough Sleepers	
Subtotal	(976,835)
Net Position	633,165
Variation as % of Net Revenue budget	5.61%

- 2.3. The net variation shown in the table of £0.633m is equivalent to 5.61% of the Council’s net revenue budget of £11.290m. As highlighted in paragraph 2.1, this is an initial assessment of the financial impact and will be subject to revision as further data emerges. It can be expected that other fees and charges likely to be under pressure, although the forecast above has considered the high-risk income and expenditure.

- 2.4. The forecast also assumes the recovery from Covid-19 is in line with the Government's plan highlighted in paragraph 2.2, but the financial impact could be felt for a longer period.
- 2.5. At this stage, no consideration has been given on the impact on the Council's Capital Programme and associated financing on the 2020/21 budget.

3. COMMERCIAL PROPERTY AND INVESTMENT INCOME

- 3.1. Commercial income is collected for quarters in advance on what are known as 'quarter days'. The last quarter day was in March and income has held up well for that quarter with the main pressure being from occupiers looking to spread payments monthly rather than paying the quarter up front. The tables below provide initial collection figures for this quarter for the Corporate Property portfolio and show strong performance for the March quarter day. However, the next quarter day is June when a loss of income for businesses as a result of closedown may have a greater impact.

Table 2: C19 Commercial Income (as at 18 May 2020)

Rents Demanded (gross rent as at 25/03/2020)	Rents Collected	Rents outstanding from 25/03/2020 Quarter	Quarter Day (BM:85% collected)	7 Days Post Quarter (BM:93% collected)	14 Days Post Quarter (BM:97% collected)
£1,277,119	£1,006,208	£270,911	28.17%	39.13%	56.84%

- 3.2. Reductions in income have been managed for the March quarter through proactive engagement with tenants. However, the next quarter day is June when a loss of income for businesses as a result of the lockdown may have a greater impact.
- 3.3. Treasury management income likely to be reduced in 2020/21 reflecting the uncertainty in global financial markets. As outlined in the Treasury Management Strategy, the Council invests its surplus balances generating an income return of over £1m per annum. The Strategy sets out that the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 3.4. The Council has two broad classes of investments – Money Markey Funds (where balances are held for short periods until required) and Pooled Funds.
- 3.5. The Bank of England cut the base rate on 11 March 2020 from 0.75% to 0.25%, and again on 19 March 2020 from 0.25% to 0.10%. Whilst the base rate cut will reduce investment income from Money Market Funds, it will not have a material impact on the Council's investment income.

- 3.6. The Council holds a more significant element of its surplus balances in Pooled Funds. In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout has been sharp and large. Market reaction has been extreme with the large falls in equities, corporate bond markets and, to some extent, property markets reflecting the lockdown restrictions.
- 3.7. Against a very uncertain economic outlook, the Council should be prepared for lower income from bond, equity income, multi-asset and property funds. Initial forecasts from the Council's Treasury Management advisors suggest a prudent forecast position is to recognise downward adjustments of
- Bond funds and property funds: 20% lower income
 - Multi-asset funds: 25% lower
 - Equity income funds: 50% lower
- 3.8. The assumption made in Table 1 is for a 30% reduction in income across the Council's diversified portfolio.
- 3.9. An element of Commercial Property Income and Treasury Management income will be deferred to provide longer-term financial stability. As set out in the Treasury Management Strategy, the Council is a funding partner in the Farnborough International Exhibition Centre and has provided loan finance to support the expansion of exhibition and conferencing facilities. It is likely that the Council will need to defer interest payment on these loans and an element of commercial property income to future financial years.
- 3.10. The Council, along with the other funding consortium partners (Barclays, Hampshire County Council, Enterprise M3 LEP) have been approached by Farnborough International Limited (FIL) to defer interest payments on loans to provide cashflow support to FIL following the cancellation of the 2020 Airshow.
- 3.11. Barclays, as the lead funding partner, has commissioned Grant Thornton to undertake a review of the financial forecasts and recovery assumptions from FIL and will be shared with the funding consortium. Any deferral of interest would be covered by way of a supplemental legal agreement and amendment to the Funding Agreement.
- 3.12. Subject to the completion of the due diligence outlined above, it is proposed that the Council defers interest payments for up to a 21-month period to assist in maintaining the long-term future of the Airshow and financial standing of FIL. Interest due to Rushmoor is £0.290m per annum.
- 3.13. As this is a timing difference on the receipt of income due to the Council, it is proposed that the impact is mitigated through the Commercial Reserve (for commercial property income) and by establishing a Treasury Management Reserve (funded from a transfer from the Stability and Resilience Reserve). The estimated level of deferred income is shown in the table below.

Table 3: Deferred income summary

Service Area	Estimated Financial impact (£)
Commercial Property - Rent deferrals	tbc
Treasury Management - Service Loan (Interest deferrals)	290,000
Subtotal	290,000
Funded by:	
Commercial Reserve (Rent Deferrals)	tbc
Stability and Resilience/Treasury Reserve	(290,000)
Subtotal	(290,000)

4. COUNCIL TAX AND BUSINESS RATES

- 4.1. Covid-19 has a number of implications for the Council's Council Tax and Business Rate income.
- 4.2. The Government has provided funding to support individuals who may struggle to meet council tax payments due to fluctuations in household incomes. Through the Covid-19 Hardship Fund allocation (£0.542m), the Council has provided additional support to recipients of working age local council tax support by way of a credit to their council tax account.
- 4.3. Further applications for council tax support are expected during the year, which will reduce the amount of Council Tax income.
- 4.4. At the time of writing this report, Council Tax collection rates are around 1.1% lower than the previous year – equivalent to £0.603m in cash terms. This position may improve during the course of the year as part of the reduced collection rate is due to council taxpayers re-profiling their payments to later in the year. However, it can be expected that the level of arrears and bad debt is likely to increase as collection may be more difficult than in previous years.
- 4.5. Any reduced level of Council Tax collection is dealt with through the Collection Fund. If the level of Council Tax collected in the year is lower than budgeted, this gives rise to a deficit on the collection fund and will impact on the following year's budget. Any deficit is shared between Rushmoor and the precepting authorities (Hampshire County Council, Police and Crime Commissioner for Hampshire, and Hampshire Fire and Rescue Authority).
- 4.6. Additional business rates reliefs were announced by the Government in the Budget in March, which were extended in response to Covid-19. The Retail and Hospitality and Leisure reliefs awarded to local businesses total £23.5m, with the Government fully funding the reduction in business rates income through section 31 grant. It has been more difficult to predict the likely impact on business rates income due to the relief changes. The level

of business rates forecast for 2020/21 already assumed a reduction in the business rates base in part due to the regeneration of Aldershot and Farnborough town centres.

5. GOVERNMENT FUNDING AND RESERVES

5.1. The Government has provided £3.2bn of emergency funding in two tranches to Local Government recognising the cost and income pressures facing councils. The first tranche of funding (£1.6bn) was announced on 19 March 2020, with the second tranche (£1.594bn) announced on 18 April 2020.

5.2. Rushmoor has received £0.977m of funding, with the table below providing further detail on the split of funding across local government.

Table 4: Covid-19 emergency funding to local authorities

Local Authority Type	First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Total Covid-19 Additional Funding	% of First Tranche	% of Second Tranche	% Total
Shire Districts	£9,742,549	£214,031,274	£223,773,823	0.61%	13.43%	7.01%
Shire Counties	£542,183,542	£385,168,828	£927,352,370	33.89%	24.16%	29.03%
Unitary Authorities	£382,824,870	£379,566,167	£762,391,037	23.93%	23.81%	23.87%
Metropolitan Districts	£395,191,207	£332,519,830	£727,711,037	24.70%	20.86%	22.78%
Outer London Boroughs	£144,049,448	£154,462,258	£298,511,706	9.00%	9.69%	9.35%
Inner London Boroughs	£110,166,778	£90,502,560	£200,669,338	6.89%	5.68%	6.28%
Greater London Authority	£9,302,766	£9,249,974	£18,552,740	0.58%	0.58%	0.58%
Combined Authorities	£564,220	£2,107,898	£2,672,118	0.04%	0.13%	0.08%
Fire Authorities	£5,974,620	£26,391,211	£32,365,831	0.37%	1.66%	1.01%
	£1,600,000,000	£1,594,000,000	£3,194,000,000			

Local Authority	First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Total Covid-19 Additional Funding	% of First Tranche	% of Second Tranche	% Total
Basingstoke And Deane	£53,754	£1,744,410	£1,798,164	0.003%	0.109%	0.056%
East Hampshire	£33,387	£1,210,873	£1,244,260	0.002%	0.076%	0.039%
Eastleigh	£45,502	£1,326,468	£1,371,970	0.003%	0.083%	0.043%
Fareham	£33,966	£1,156,628	£1,190,594	0.002%	0.073%	0.037%
Gosport	£44,116	£841,471	£885,587	0.003%	0.053%	0.028%
Guildford	£51,577	£1,471,476	£1,523,053	0.003%	0.092%	0.048%
Hampshire	£29,654,341	£24,313,635	£53,967,976	1.853%	1.525%	1.690%
Hampshire Fire	£256,552	£1,379,361	£1,635,913	0.016%	0.087%	0.051%
Hart	£24,340	£963,234	£987,574	0.002%	0.060%	0.031%
Havant	£58,961	£1,262,535	£1,321,496	0.004%	0.079%	0.041%
New Forest	£70,401	£1,783,127	£1,853,528	0.004%	0.112%	0.058%
Rushmoor	£41,933	£934,902	£976,835	0.003%	0.059%	0.031%
Surrey Heath	£27,622	£879,135	£906,757	0.002%	0.055%	0.028%
Test Valley	£41,939	£1,258,912	£1,300,851	0.003%	0.079%	0.041%
Waverley	£35,270	£1,246,227	£1,281,497	0.002%	0.078%	0.040%
Winchester	£39,275	£1,242,881	£1,282,156	0.002%	0.078%	0.040%

- 5.3. Funding for the second tranche of funding was more favourable to Districts and Boroughs and was allocated on a per-capita bases and across two-tier areas on a 65:35 split
- 5.4. As Table 1 showed, the additional funding provided by Government does not cover all the income and expenditure pressures forecast. The Council will need to consider an appropriate range of options to ensure any shortfall is managed. It is assumed that for the purposes of this report, the net variation of £0.633m would be funded from the Stability and Resilience Reserve.
- 5.5. The table below shows the forecast of the Stability and Resilience and Commercial reserves included within the Medium-Term Financial Strategy approved by Council in February 2020. It then shows the potential impact of Covid-19 shown in the forecasts within the report on these reserves, and the proposed establishment of the Treasury Management reserve.

Table 5: Impact on Reserves

Balances and Reserves	2019/20 (£'000) [Note 1]	Proposed Transfer (£'000)	Forecast Impact of C19 (£'000)	2020/21 Estimated Balance (£'000)
General Fund Balance	2,000			2,000
Stability & Resilience Reserve	4,869	(580)	(633)	3,656
Treasury Management Reserve	0	580	(290)	290
Commercial Reserve	2,000			2,000

Note 1: Balance as reported to Council in February 2020. This does not take into account any transfers arising from 2019/20 outturn.

- 5.6. As highlighted in paragraph 2.1, the forecasts are based on assumptions which will be subject to change and revision over the coming months. A fuller picture will become clearer and considered alongside the Q1 budget monitoring report. For clarity, the key assumptions are listed below:
- Lockdown/Restrictions remain largely in place until the end of June with slight easing thereafter. No second wave
 - Commercial Property – any shortfall in 2020/21 funded from Commercial Reserve. Any longer-term impact dealt with through budget setting process
 - CT & NNDR collection shortfalls contained within the collection fund but will need to be incorporated into the 2021/22 budget
 - Cost of additional council tax support cases managed within the remaining balance of Hardship allocation (around £0.200m)
 - Recovery of income post-lockdown in line with budget (with exception of Car Parks and Planning fees where the forecast is for a slower recovery)
- 5.7. The forecast and impact on reserves does not take into account any change that may be required to the Council's Savings Plan. Members are reminded

that the 2020/21 budget is predicated on savings of £1.436m being delivered during the year, with further savings due in subsequent years.

- 5.8. The Savings Plan will be reviewed in the light of Covid-19 and is likely to result in a rephasing of savings. Any reduction in the level of savings planned for 2020/21 will increase the adverse variance currently forecast. The Table below is helpful in illustrating the level of savings assumed in the February 2020 MTFS.

Table 6: Savings Plan and MTFS assumptions (February 2020)

Item	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)
Net Revenue Budget (February 2020)	11,290	11,444	12,330	12,216	11,962
Funding	11,637	10,044	9,987	10,065	10,150
Core Surplus / (Deficit)	347	(1,400)	(2,343)	(2,152)	(1,812)
Savings (assumed in NRB)	(1,436)	(3,567)	(5,196)	(6,201)	(7,298)

- 5.9. The forecast for the financial year and proposed use of reserves will need to be kept under review. The Council will need to evaluate what further options to consider when reviewing the Budget Strategy for 2021/22. An updated MTFS and Budget Strategy will be presented to Cabinet in October 2020. This will also take into account recent announcements concerning the further delay in the implementation of the Fair Funding Review and introduction of 75% Business Rates Retention.

6. RISKS

- 6.1. The over-riding risk is that Rushmoor (as a Borough and/or as a Council) does not recover from the impact of Covid-19. This would lead to
- a weakening of the local economy
 - longer-term impact on the financial sustainability of the Council
 - reduce the ability for the Council to meet the needs of residents and businesses, and to fulfil the Council's statutory obligations.
- 6.2. A Recovery Plan has been agreed with a number of objectives around supporting the local economy and housing market in achieving restoration and growth, improving capacity in the voluntary sector, and restoring public services. These objectives are consistent with those of the Local Resilience Forum (LRF) but recognises the local nature of recovery within the Borough. The plan has a number of workstreams and are led by a senior officer.

7. LEGAL IMPLICATIONS

- 7.1. No additional legal implications arise from this report.

8. FINANCE AND RESOURCE IMPLICATIONS

- 8.1. The finance and resource implications from the impact of Covid-19 are set out within this report
- 8.2. Any additional financial implications will be addressed through normal Council procedures and processes. The Q1 Budget Monitoring reports and will set out any further resource implications.
- 8.3. The Council will also need to carefully consider the financial impact of spending decisions and ensure that any unnecessary expenditure is avoided where possible.

9. CONCLUSIONS

- 9.1. The forecast variation of £0.633m can be funded from reserves in the short term. It is important that the Council considers an appropriate range of options to ensure any shortfall is managed. Any utilisation of reserves in 2020/21 will need to be addressed in the budget strategy to ensure balances and reserves remain adequate.
- 9.2. Over the MTFS period, declines in Council Tax and Business Rates income may put additional pressure on the Council's financial position. The achievement of the Savings Plan is integral to the MTFS forecast and will need to be reviewed in terms of savings profile and whether the savings can be delivered in the current economic climate. It is likely that further savings will be required over the MTFS period in order to balance the budget.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

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