

**COVID-19 IMPACT ON COUNCIL FINANCES**

Committee: Full Council

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[V]

1 **ISSUE**

1.1 The impact of Covid-19 on the Council's finances in 2020/21 and the potential impact on the Medium Term Financial Strategy.

2 **RECOMMENDATIONS**

2.1 Members are requested to:

- (i) Note the current assessment of Covid-19 on the Council's finances detailed in the report;
- (ii) Instruct the Finance Manager to update the Finance & Assets Committee, when appropriate, on revisions to the Medium Term Financial Strategy to take into account Covid-19 and the 2019/20 budget out turn;
- (iii) Request the Finance Manager and Director, Commercial in consultation with the Chairman of Finance & Assets Committee, to negotiate with GLL;
- (iv) Approve new loan facilities for East Cambs Trading Company from 31<sup>st</sup> March 2021, specifically:
  - original £5m loan (due to be repaid by 31<sup>st</sup> March 2021) – a new loan with a final repayment date of 31<sup>st</sup> July 2023 and with a reduced interest rate of 3.50% per annum, this compared to 5.22% for the original loan;
  - MOD loan (due to be repaid by 31 March 2021) – a new loan with a final repayment date of 31<sup>st</sup> March 2023 and with a reduced interest rate of 3.50% per annum, this compared to 5.22% for the original loan;
- (v) Approve an increase in management fee of £91,000 to East Cambs Street Scene, to cover the first six months additional costs of the waste and recycling service.

3 **BACKGROUND**

3.1 Council at its meeting on the 21<sup>st</sup> May 2020 resolved to instruct officers to provide July Council with an up-date on the impact of Covid-19 on the Council's Medium Term Financial Strategy, including specific recommendations arising from the revision to the ECTC and ECSS Business Plans 2020/21. This report, meets that request.

3.2 The coronavirus outbreak and associated lockdown ordered by Government, has had major financial implications on both the public and private sectors. Whilst we seem to be coming through the first phase of the pandemic, there still remains considerable

concern that the virus has not gone away, and so a further outbreak remains a possibility.

3.3 This report therefore reflects the current position, but it must be emphasised that any further outbreak would have a major impact on the figures quoted below.

#### 4 FUNDING

4.1 The Council has received a number of grants from Government, both to support the running of the Council, and also to passport through to companies and residents that have been impacted by the pandemic. This report will concentrate on the direct impacts on the Council, but it will make mention of the other grants here.

4.2 The Council has received two tranches of un-ringfenced grant from the Government. This funding is to support the Council during the pandemic, and compensate the Council for the additional expenditure it has incurred, and to a lesser extent the income it has lost, during this period. East Cambridgeshire received:

- Tranche 1 - £43,432
- Tranche 2 - £894,826
- Total - £938,258

On the 2<sup>nd</sup> July Government announced a third tranche of funding to support councils with their additional expenditure as a consequence of the pandemic and launched a scheme to meet a proportion of any shortfall in income that councils may be suffering from during the same period. However, at the time of writing, the finer details of these schemes had not been published, although it appeared as if the income scheme would cover sales, fees and charges, so commercial rents, such as we get from E-space, would not be covered.

#### 4.3 Council Tax Hardship Fund

The Council received £429,851 of Council Tax Hardship funding, which is available to assist Council Tax payers who are already, or during the course of 2020/21, will receive support via the Local Council Tax Reduction Scheme. This allows the Council to provide up to an additional £150 of support per claimant. At the time of writing, we had allocated £230,865 of this grant to pre-existing claimants, with the remainder being held to support the expected increase in claimants as the impact of the pandemic becomes clearer.

#### 4.4 Business Support Grants

The Government announced three grant schemes to support businesses during the pandemic; the Small Business Grant Fund, the Retail, Hospitality and Leisure Grant Fund and more recently the Local Authority Discretionary Fund. The Council initially received £15,808,000 for the first two schemes, but this was later increased by a further £752,000 making the total funding we have available for these schemes £16,560,000. We have also received £828,000 for the discretionary scheme.

At the time of writing we had awarded and paid out £13,750,000 in relation to the initial schemes and £766,000 in relation to the discretionary scheme. Great efforts have been made to contact all the companies entitled to this grant, but similar to

many other local authorities, it has proved incredibly difficult to make contact with some of them and then get the necessary paperwork from them particularly in relation to the Small Business Scheme., efforts in this area continue.

#### 4.5 Business Rate Relief

Government also awarded retail, hospitality and leisure business and non-local authority child care providers a Business Rates holiday in 2020/21. Government have agreed to provide additional funding to local authorities during the remainder of 2020/21 to compensate for this, with a full reconciliation then taking place when we submit our Business Rates return to Government at the end of the financial year.

### 5 SPENDING PRESSURES

5.1 As with many district councils, the pressures of Covid-19 have been more about reductions in income, rather than increases in expenditure. However, the Council has needed to consider increased expenditure in a number of areas.

#### 5.2 IT Costs for Remote Working

With the need for the vast majority of staff to work from home, the Council has incurred additional costs providing hardware to staff and setting up the necessary functionality to allow this to happen. To date this has cost around £50,000 and further enhancements are being considered, which may incur further costs, depending on decisions on future working arrangements and whether working from home (at least some of the time) becomes the new norm for the many staff.

#### 5.3 The Hive Leisure Centre

In line with lockdown requirements the East Cambs Leisure Centre has been closed throughout the lockdown period, during which time the income earned by GLL, the operator of the site, has dramatically reduced. And at the time of writing, there was no indication as to when the restrictions on leisure centres would be lifted.

When a decision is made as to when the site can reopen, revised financials will need to be prepared to reflect the money lost during the shutdown period and compare this with income flows and expenditure for the remainder of the financial year. Even after reopening, income levels are expected to be far lower than in the original business plan, as the site adapts to the new normal, which is expected to have reduced access, at least in the short-term, while social distancing remains in place.

The latest modelling prepared by GLL (which was based on a 6<sup>th</sup> July opening date, which was did not happen) suggested that the site will make a net loss for the year. This will not only prevent GLL being able to pay the management fee due to the Council for 2020/21, but will also lead to them making a request to the Council for additional funding. In line with the recommendation above, Council is asked to approve that the Finance Manager and Director, Commercial, in consultation with

the Chairman of Finance and Assets Committee, negotiate with GLL to reach agreement on the amount of support to be offered.

The Council has also agreed to defer the 2019/20 Management Fee due from GLL until March 2021, this to assist them with their short-term cashflow issues during the pandemic. Just for clarity this is a deferral of payment, the full amount of £340,918 remains due in March 2021.

#### 5.4 East Cambs Street Scene (ECSS) / Waste

ECSS have maintained a full service throughout the pandemic. However, in order to do this, when a number of staff have been either shielding or self-isolating, additional agency staff have been employed resulting in additional costs being incurred. ECSS has requested that the Council reimburse it for these additional costs, this via an initial increase in management fee for the first six months of 2020/21 of £91,000. This will be reviewed over the remainder of the financial year and then at yearend, to determine a final amount of additional funding, although clearly this will be influenced by future cases, especially if there is an outbreak within the ECSS workforce.

The resolution passed by the ECSS Board on the 3<sup>rd</sup> July read:

- *To approve a request to the Council for an increase in management fee for the first six months of 2020/21 (only) of £91,000 to cover the additional costs of agency staff during the Covid-19 pandemic. These additional costs are needed for the continuation of service during this period.*
- *To approve that a further recommendation is made to Council, that these costs, as with all costs within the ECSS cost base, be monitored through the remainder of the year, with the intention to adjust the additional payment to reflect the true position at yearend.*

#### 5.5 Other

The Council has also incurred direct costs, although relatively small, in relation to printing and postage, contacting residents, particularly those in the shielding group and businesses in relation to grant payments.

### 6 LOSS OF INCOME COUNCIL TAX AND BUSINESS RATES

6.1 Because of the way that Council Tax and Business Rates are reflected in the Council's budget, these will only have a cashflow impact on the Council this year. Larger implications are expected to be felt in future years, as the number of Council Tax and Business Rate payers potentially reduces, see section 8 below.

6.2 In year, the Council and all the other preceptors determine as part of their budget preparations how much they will take out of the Collection Funds and set their Council Tax level to reflect this. In year, this Council (as the collection authority) will pay across to the other preceptors and indeed ourselves, the budgeted value from the Collection Funds, this for both Council Tax and Business Rates. However, clearly if cash has not been collected to the anticipated level during the year, this

can result in the Collection Funds being in cash deficit, which has to be managed through the Council's cash balance and potentially borrowing.

### 6.3 Council Tax

In these difficult times for residents, it was decided not to send out formal reminders to anybody who failed to pay their first or second instalment of Council Tax immediately, but instead offer support and revised payment terms. For example paying from June until March, rather than April to January, to try to assist people through any short-term cashflow issues they may have. These measures along with non-payers have resulted in shortfalls of Council Tax being collected against the original target, with ARP calculating the shortfall to be £462,000 in April, rising to £499,000 in May.

These amounts remain due for payment, but as the year progresses we will need to make a distinction between those choosing not to pay and those no longer being required to pay. There is an expectation that as unemployment potentially increases and more residents seek Universal Credit the number of residents also claiming Local Council Tax Support will also increase (those no longer being required to pay). In this scenario the Council's tax-base will reduce resulting in a shortfall in the Collection Fund at the end of the year.

Where payment has not been received, but the amount is still owed, this only impacts on the Collection Fund in cash terms, but the value of arrears will be significantly increased.

One further consideration on Council Tax is that house building has slowed during the pandemic. Our Council Tax base in the MTFs is based on an assumed small increase each year on the number of properties in the District, so if this doesn't happen, the Collection Fund will be further in deficit at the end of the year.

### 6.4 Business Rates

As detailed in 3.5 Government have provided a number of businesses with a Business Rate holiday in 2020/21 which has clearly impacted on collection rates, but it is expected that Government will compensate Council for this reduction.

There will however, be other businesses that don't, and indeed are unable to, pay (potentially as businesses fail) during the year, which will have a negative impact on the Collection Fund in 2020/21 and potentially into future years. It is very difficult to get a feel for this at this stage, as many business have benefitted in the short-term from the various funding being offered by Government. It will only be once this starts to be withdrawn that the full impact of the pandemic will be seen and it is thought that sadly more business will fail.

## 7 LOSS OF INCOME FEES AND CHARGES

### 7.1 The Hive Leisure Centre

As detailed in 5.3 above the Hive is now expected to make a cash deficit in 2020/21 so the Council will not be receiving any of the anticipated management fee for this year, this was budgeted as £595,000.

## 7.2 Car Parking

Usage of the Council's commuter car parks has reduced by around 90% during the pandemic, as more people work from home and avoid public transport. This has resulted in lost income of around £20,000 per month during April and May, but the annual loss, as with many of the figures in this report will be dependent upon the speed of the recovery and in this case, how quickly people resume commuting by rail. A very rough estimate of the Council annual loss of income could be around £133,000 this financial year.

## 7.3 Commercial Rents - E-Space Buildings

With many of the businesses within the E-space buildings not using the facilities during the early weeks of lockdown, a decision was made to provide them with a rent free month during May, which resulted in reduced income of £23,000. However, rents were reintroduced for June, although these were reviewed on a case by case basis, so the shortfall in income (as measured by accounts raised) was £5,000. The forecast annual loss of income is considered to be in the region of £85,000.

## 7.4 Fees and Charges

The Council also collects considerable fees and charges for services provided in relation to Planning, Building Control, Land Charges, Licencing etc. In an average month, these would collectively bring in an income of approximately £142,000. Income for these services is very much driven by applications, which unsurprisingly, reduced during the initial stages of the pandemic. As stated elsewhere the full magnitude of the losses of income won't be known for some time, but an initial estimate for the annual loss is considered around £373,000.

## 8 FORECAST IMPACT IN 2020/21

- 8.1 The main changes are therefore those mentioned in sections 3, 4 and 6 above. As already detailed, these are very provisional figures at this point, but to give an overall feel of the implications for this Council in 2020/21:

	£000
Additional Government grant received to-date	(938)
Potential additional costs	305
Possible reduced income	1,186
Net Position- Additional burden on the Council	553

## 9 POTENTIAL IMPACT ON THE MTFS – FUTURE YEARS

- 9.1 It is very difficult at this time to forecast the longer term implications of the pandemic on the Council's finances, but the two major implications are likely to be around Council Tax and Business Rate receipts and the forthcoming Fair Funding Review for Local Government
- 9.2 On the later, Government have announced that this will be delayed for a further year at least. Members will remember that it should have happened in April 2020,

but was delayed by a year until April 2021 because of Brexit and it has now been delayed by at least a further year because of Covid 19. As a district council with high Business Rate growth in the past few years, we believe that the full base reset of Business Rates, expected to be part of the above processes, was going to be bad news for us, so the delay will potentially provide us with some up-side in 2021/22.

9.3 However, the Council (as all Councils) is expecting to suffer significant reductions in Council Tax and Business Rate receipts in future years as businesses potentially fail following the pandemic and associated unemployment results in more residents being entitled to local Council Tax support, in turn reducing the amount of Council Tax collected. It is almost impossible to calculate either of these figures yet, and will only become clear as businesses return to the new normal in the months to come. However our advisers in this area, Pixel Financial Management, are suggesting that there could be around 5% reductions in both funds.

9.4 The Finance Manager will update the Finance & Assets Committee, when appropriate, on revisions to the Medium Term Financial Strategy to take into account the implications of Covid-19 and the 2019/20 out turn position.

## 10 EAST CAMBS TRADING COMPANY (ECTC)

10.1 ECTC has assessed the financial implications arising from COVID 19 with the largest impact arising in property development. On 30<sup>th</sup> June 2020, ECTC Board resolved to request that ECDC and Cambridgeshire and Peterborough Combined Authority (CPCA) to vary the revised terms of existing loans or provide new loan funding.

### 10.2 Grounds maintenance / Parks & Open Spaces

No impact so far.

### 10.3 Markets

The Market closed in late March so no revenue was received in either April or May, but then re-opened in June, but with a lower number of stalls.

The Markets have benefited from a £25,000 Retail, Hospitality & Leisure grant from the Government and Business Rates relief has been provided in 2020-21 which will offset some of the loss of income. Work continues assessing what this will mean in terms of total revenues for the year but the latest forecast is for an annual loss of £16,000, compared to a Business Plan profit of £44,000.

### 10.4 Palace Green Homes

Work stopped completely at Haddenham and Ely, MoD sites for a number of weeks. Both sites are now open but with a vastly reduced workforce due to social distancing rules. One property at the MoD site has been reserved and in total nine have now been agreed for rental, which is ahead of the revised schedule.

Initially, seven members of staff were furloughed but this is now reduced to two following the re-opening of the site and the ability to start showing homes to

prospective buyers. Grants from HMRC totalling £20,000 have been received so far from the job retention scheme.

In carrying out the assessment of the financial implications of Covid-19 various assumptions have been made, including the impact on the housing market; accounting for how the housing market may recover from the pandemic (utilising the most up-to-date economic data available), specific impact on the two sites at Haddenham and Ely; impact of shutdown and re-opening under strict government guidelines for social distancing, and how these factors affect the current arrangements with the two lenders; ECDC and CPCA.

For Haddenham and Ely (Phase 1 MoD), ECTC borrowed from CPCA. A formal request has been submitted to CPCA requesting:

- a) Haddenham  
Extend the loan until March 2023 (current balance £2.8 million)  
An interest free period of twenty-two months between April 2020 and March 2022  
Remove the restrictions on the number of drawdowns (currently twelve, of which we have made eight)
  
- b) Ely, MoD  
Extend the loan until March 2023 (current balance £24 million)  
A six month interest free period between July 2020 and December 2020  
Remove the restrictions on the number of drawdowns (currently twelve, of which we have made eight)

The rationale behind this is that although work has recommenced at both sites, the pace of work will be at only 50% for the next six months or so and sales in the post-lockdown period will be at a lower rate than previously forecasted, so on both schemes the last properties are now not forecast to be sold until March 2023. Assuming the CPCA agrees to the requests, this would ensure that the Haddenham site continues to break-even and return the MoD site to a similar level of profit to that in the Business Plan. The additional interest on the MoD site is offset by rental income over the period of around eighteen months.

## 10.5 Overall company position

As it now stands, ECTC will not be in a position to repay either of the loans due to be repaid to the Council in March 2021. (The initial £5 million facility and the additional £1.5 million for the MoD site.) ECTC has requested further funding from the Council to replace these loans from March 2021. The request will ask for these new loan facilities to be a maximum of £3.6 million to replace the original facility and £1.3 million to replace the facility for the MoD site and be charged at an interest rate of 3.5%.

If ECDC agrees to the request from the ECTC for a new facility in March 2021 to clear the existing loans and the CPCA approves the requests detailed above, then this new facility would be repaid by July 2023.



## 10.6 Implications for the Council

The Council has been asked to provide further loan funding to ECTC for a period of up to 30 months, starting in March 2021.

In order to approve this funding, the Council would need to be assured about the Company's financial strength and the robustness of the revised post-Covid Business Plan. The Finance Manager (S151 Officer) has been in contact with the Financial Manager at ECTC to ensure that this is the case, as will Finance Officers at the Combined Authority. In addition Price Bailey as ECTC's external auditors, will be agreeing a Going Concern statement with the Company for inclusion in their statutory accounts for 2020/21 and it is hoped that assurance will also be able to be gained from this.

If the additional loan is granted, the impact on the Council would actually be positive. With a further loan being awarded, the interest gained from this would benefit the Council in future years as at present, the MTFs makes no assumption about interest receipts from ECTC after March 2021. The 3.5% interest quoted above relates to an approximate PWLB rate of 3% with then the Council charging a 0.5% administration fee on top of this.

## 11 APPENDICES

### 11.1 None

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<b><u>Background Documents</u></b>	<b><u>Location</u></b>	<b><u>Contact Officer</u></b>
Council meeting 21 <sup>st</sup> May 2020, Agenda item 16	Room 104 The Grange Ely	Ian Smith Finance Manager (01353) 616470 E-mail: <a href="mailto:ian.smith@eastcambbs.gov.uk">ian.smith@eastcambbs.gov.uk</a>
CONFIDENTIAL ECTC Board Report- 30 June 2020.		
CONFIDENTIAL ECSS Board Report- 3 July 2020		