

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET ON 29 APRIL 2020

SUBJECT: Update on the Financial Consequences of the Coronavirus pandemic

REPORT AUTHOR: Alan Peach, Group Head of Corporate Support

DATE: April 2020

EXTN: 37558

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The coronavirus pandemic is a public health emergency as well as an economic emergency. The Council has a significant role in supporting those affected in the District, in addition to the effect on the Council's financial position. The purpose of the report is to raise awareness of the issues and to inform members of the actions taken to date, whilst starting to evaluate the potential financial consequences.

RECOMMENDATIONS:

Cabinet is requested to **note**:

- i. The actions taken and likely financial consequences contained in the report; and
- ii. To endorse the continued lobbying of Central Government for additional funding.

1. BACKGROUND:

The outbreak of the coronavirus was identified in Wuhan, China in December 2019 and recognised as a pandemic by the World Health Organisation on 11 March 2020. The speed of the pandemic has led to unprecedented socioeconomic disruption globally. The UK went into lock down on 20 March 2020. The Office for Budget Responsibility (OBR) has predicted that the economy could shrink by 13% if the lock down continues for 3 months, and this could increase to 35% if the lock down continues for a further 3 months.

The conditions that the Council are facing are unprecedented and has resulted in direct financial consequences as in the loss of income, additional expenditure and there have been significant cash flow implications including the receipt of Government support for businesses which the Council is distributing.

The Council has only received £64k of the £1.6b covid-19 emergency grant funding made available by central government.

2. PROPOSAL(S):

The report focuses on the direct financial implications of the pandemic, focusing on service income reductions, additional expenditure, and the cashflow implications.

Service income reductions

Income from fees, charges and rents amounts to an overall financing of £5.053 million in the budget for 2020/21. Income is a key risk area to the budget as it is predominantly externally influenced, without a direct link to service cost and each source is unique. Service income is anticipated to reduce significantly due to the lock down in the first quarter to the end of June. Uncertainty increases even more for the medium term as there may be a partial catch up or services may be further affected by the economic downturn. The Council stopped charging for car parking on 1 April 2020 and most other income streams are affected at different levels. The estimated effect of C19 on income for March, April and to the end of the year is summarised in Appendix 1. It has not been possible to calculate the effect of C19 on HRA rents as the information on which to base a reasonable estimate is currently unavailable.

Additional Expenditure

The social distancing with government guidance to only go to work when absolutely necessary has resulted in significant additional IT costs to provide staff with the equipment (laptops) to work from home, the Council has also made health and safety adaptations to protect front line staff in the reception areas as well as increased cleaning. Significant additional costs have also been incurred to provide accommodation for rough sleepers during the emergency and to provide showers at sheltered housing.

The anticipated additional expenditure due to C19 for March and April and the first quarter of 2020/21 is summarised in Appendix 1.

Support for Suppliers

The emergency actions taken by the Group Head of Corporate Support to pay suppliers immediately on receipt of invoice during the C19 pandemic is included in the previous report on this agenda. This action was taken to maintain the cashflow in the supply chain and thereby alleviate the severe cashflow difficulties that many of the Council's suppliers are experiencing. Cabinet Office guidance issued in March has requested that Councils behave in a flexible manner, where possible, to protect suppliers and jobs. This action has cashflow implications for the Council which are further explored in the section on cashflow below. Additional actions taken in relation to key suppliers are also included in the previous report and include support like interest free loans to cover the payroll for furloughed employees to be repaid when government reimbursement is received, deferring of income and shared of costs. These costs are included under additional expenditure and loss of income in the summary in Appendix 1.

Cashflow

The Council currently foresees no immediate cashflow problems as £3.511m of s31 grants funding was received from the Government on 27 March 2020 to help Local Authorities with their cashflow. This funding would normally have been received in instalments during the year. £39.380m was received on 3 April 2020 to fund the Business Support grants that the Council is administering on behalf of the Government. The Council also received £945k Covid-19 Hardship grant on 3 April 2020, which is to be used to support council tax payers using the Local Council Tax Support scheme. These grants have contributed to a positive cashflow, however, the effect will be reduced dramatically as the grants are paid to businesses and the effect of reduced Business Rate income is starting to be felt. The Council has not been notified when the £18m in s31 grants will be received to compensate the Council for the loss of business rates due to the cancellation of Business rates for a significant proportion of Business Rate payers.

It has not been possible, due to the limited information available to date, to accurately forecast the effect of potential increases in Council Tax and HRA rent arrears on the cashflow.

The significant additional temporary cash has meant that in order to diversify the risk of holding these balances lower than normal return have been accepted.

The CCLA property fund has been frozen and the Council will not be able to access these funds in the foreseeable future. However, dividends are still expected.

3. OPTIONS:

n/a

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓

Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

A summary of the anticipated short to medium term financial effect of the C19 is included in Appendix 1 which will be circulated separately to this report. It should be stressed that this is an initial assessment and will be subject to change as the forecast is heavily dependant upon assumptions around the length of the lock down and what will happen when the lock down is relaxed. This includes the severity of the predicted down-turn in the economy and collection rates etc. This document will be continually updated to provide the best possible information at any given point in time.

7. REASON FOR THE DECISION:

To ensure that the council has an initial understanding of the extremely volatile financial position it faces 2020/21.

8. EFFECTIVE DATE OF THE DECISION: 11 May 2020

9. BACKGROUND PAPERS:

Correspondence from the MHCLG (Ministry of Housing Communities and Local Government)

Cabinet Office Procurement Policy Note – Supplier Relief due to COVID19 March 2020

Office for Budget Responsibility (OBR) coronavirus analysis 14 April 2020