

<b>Title of Report:</b>	<b>Officer Presenting: Lead Finance Officer</b>
<b>COVID Financial update</b>	<b>Author: Lead Finance Officer</b>

## 1 Purpose of Report/Recommendations

The purpose of this report is to update Members on the latest financial position for 2020/21 taking into account the significant impact of COVID 19 and to advise of current mitigation measures and next steps.

## 2 Background

Members will recall that the rates for the 2020/21 financial year were agreed at the beginning of February 2020. A gross expenditure budget was approved of £75.02m offset by £11.15m in income from services (£7m) and grant income (£4.15m) leaving a net expenditure budget of £63.87m to be funded as follows:-

	<b>£m</b>
Non-domestic rates income (including de-rating grant)	31.01
Domestic rates income	29.24
Rates Support Grant	2.81
Transferred Functions Grant	0.35
Reserves	0.45

Alongside the above, Council is forecasting to have a District Fund balance of £4.5m at 31<sup>st</sup> March 2020 of which Members will note that a sum of £450k is set aside to fund rates for 20/21 leaving a net balance of £4.05m. This represents 6.34% of forecast 20/21 net expenditure and is subject to the year-end outturn finalization for 2019/20 which will be presented to July Committee. DFC guidance sets out that this balance should be maintained at between 5% and 7.5% of net expenditure. In the event that Council's District Fund becomes depleted, this will place Council in an insolvent position.

As part of the rates process, under the Local Government Finance Act (NI) 2011, the Chief Financial Officer is required to sign a declaration that the rates estimates are robust and reserves are adequate to fund Council services for the year ahead. Council is also required under the Act to keep its financial position under review throughout the year. Furthermore, Part 1 para 7 of the Act stipulates that If in any financial year it appears to the Chief Financial Officer (CFO) of a Council that reserves are likely to be inadequate, the CFO shall report to Council on:

- The reasons for that situation; and
- The action which the CFO considers appropriate to prevent that reserve continuing to be inadequate in the next financial year

As a result of the significant financial impact of COVID 19, and as explained in further detail below, it is now a significant probability, certainly in the absence of continued significant Government support, that reserves are now likely to be inadequate to fund Council services for the 20/21 financial year. This report advises Members of that position and sets out the measures being undertaken to control and address this situation.

### **3 Key Issues**

An initial assessment of the financial loss has been made as follows. It will be noted at this early stage that this is subject to a number of planning assumptions and estimates which will be continuously reviewed and monitored.

Details	Estimated financial impact 20/21 (£000)
<p><b>Loss of income from services and facilities:-</b> Of the £7m detailed above, the key income generating areas and forecast impacts are as follows:-  <u>Leisure services</u> £2.62m per annum- this has ceased and is likely to continue to be for most if not all of the financial year.  <u>Planning &amp; Building Control</u> income £1.71m per annum- whilst not totally ceased, this has been very significantly impacted and is likely to take months and potentially years to be restored to forecast 20/21 levels.  <u>Off street car parking</u> £1.21m per annum- this has initially ceased and is likely to continue to be very significantly impacted for much of the financial year  <u>Tourism/ Arts/ Museums</u> eg Alley/ Tower/ Guildhall £0.284m per annum- this has ceased and is likely to continue to be for most if not all of the financial year.  <u>Other areas</u> eg commercial refuse, environmental health, licensing and fines, facilities rental (eg Brooke Park) will be impacted to varying degrees. In addition, income from burial fees (£156k per annum) has been waived for Quarter 1 with an estimated £40k financial impact.</p>	5,240
<p><b>Savings from closure of premises</b> eg heat and light and other overheads, Main savings relate to leisure, tourism and arts facilities as well as contract savings re off street car parking. Savings will also be realised as a result of Strabane Council offices closure for most of Q1.</p>	(780)
<p><b>Loss of income from grants:-</b> Of the £4.15m detailed above, the key areas of risk remain affordable warmth, PCSP and grounds maintenance and street cleansing grants.</p>	191
<p><b>Waste management costs:-</b> At £8.1m, waste contracts account for almost 11% of Council's overall gross expenditure budget. Changes in volume or price can therefore have a significant impact on Council's financial position. Whilst this is difficult to predict, immediate volume increases of up to 25% have been noted in both black bin and recycling tonnages as a result of people being at home. External contract prices have also been impacted- Council is currently incurring additional contract costs in respect of the waste transfer station of £22.5k per month and world markets are impacting on recycling income generated by contractors. Council is also incurring additional costs in respect of waste collection eg protective clothing, deep cleaning etc. to ensure staff safety and facilitate new ways of working.</p>	1,525
<p><b>Exceptional/ emergency costs re COVID-</b> IT costs, marketing, cemeteries, training, PPE, cleaning materials etc.</p>	250
<p><b>Other impacts- Rates Support Grant-</b> As noted above, Council budgeted for receiving £2.809m RSG in 20/21 on the assumption that a further 6% cut would be applied to the grant by DFC. This has not materialised and Council's allocation has now been confirmed at £2.989m.</p>	(179)
<p><b>Non-domestic rate-base impact-</b> as noted above, £31.01m, representing over 41% of Council's gross expenditure, is funded by non-domestic rates. Whilst all businesses have been provided with rates relief until July 2020 and tourism, airports, hospitality, childcare and most retail businesses have been provided with rates relief until March 2021, the pandemic is still likely to have a significant impact on Council's most significant and critical funding. source Whilst this is difficult to predict and engagement with LPS in relation to impact assessment and modelling is progressing, a planning assumption of 20% for 6 months has been made and will be kept under continuous</p>	3,000

review.	
<b>Domestic rate-base impact-</b> similar to above, £29.24m representing 39% of Council's gross expenditure is funded by domestic rates, an equally critical source of funding for Council services. No new domestic rates reliefs have been introduced as a result of COVID 19, although the existing supports for those on housing benefit, people with low incomes and pensioners will continue. Nonetheless, the pandemic is still likely to have a significant impact on ability to pay with potential for increased bad debt. Whilst again this is difficult to predict and will be closely monitored with LPS throughout the year, a planning assumption of 5% has been made for the year.	1,500
<b>Estimated financial loss 2020/21</b>	<b>10,747</b>

This is obviously a very concerning and challenging position and one which, in the absence of significant Government intervention, could have a significant impact on Council services both during 20/21 and into subsequent financial years, with significant challenges for the upcoming 21/22 rates process.

In line with the Local Government Finance Act, it is clear that as a result of COVID 19 and without significant Government support, that reserves would be inadequate to fund Council services for the 20/21 financial year and place Council in an insolvent position. The following proposed process and steps are now being progressed to control and alleviate this position.

- Stage 1- Engagement with Government for support re Quarter 1 financial losses
- Stage 2- Cessation of recruitment/ holding of vacancies/ initial reserves review/ overhead savings targets
- Stage 3- Continued engagement with Government for support for financial losses beyond Quarter 1
- Stage 4- Review of all discretionary and programme expenditure and other services

Should these steps not be sufficient to ensure adequacy of Council reserves, more difficult decisions will be required beyond the summer period and into next year's rates process. Further detail is provided on each of these steps below:-

#### Stage 1- Engagement with Government for support re Quarter 1 financial losses

As part of an overall regional bid co-ordinated through SOLACE and the regional finance officers association, Council submitted a bid of £2.7m for forecast losses incurred (excluding rate-base impact) in the period March 2020- June 2020. This comprised loss of income from services and facilities (net of savings from closure of associated premises), waste management costs and other exceptional/ emergency costs identified re COVID as detailed in the table above. Following this bid, the following Government support has been secured for the 11 Councils.

- £20.3m secured re financial losses and emergency expenditure (original claim £36m reduced by furlough expectation)
- £3.8m secured re waste management costs

- The SEFA scheme has been activated although impact will be minimal given that only costs incurred from 3<sup>rd</sup> April can be recouped and other costs such as PPE have been excluded.

Discussions are currently ongoing in relation to the apportionment of these funds between Councils. **It is anticipated that Derry City and Strabane District Council will be entitled to a £2m share** in this regard.

As noted above, the overall funding made available has been reduced in expectation that Councils will make maximum use of the furlough scheme. Councils were advised in early May that the furlough scheme could be accessed for employees from income generating services as opposed to publicly funded services and Council has since proceeded to furlough circa 250 staff. The current scheme will run until the end of July 2020 and will then continue until the end of October 2020 with employers being asked to share the burden during this second period- exact details are awaiting confirmation. **Overall, it is anticipated that Council will be able to recoup £1.25m through this scheme.**

In addition to the above, it is also pleasing to report that funding of up to £1.05m has been secured from UK and NI Government towards operating costs for City of Derry Airport from April 2020 to June 2020. This is on top of additional PSO funding for the London connection for the period to June 2020. This means that CODA costs are now fully covered through external funding for the period to June 2020 which will ensure no additional Council budgetary pressures for this period. Discussions are continuing in relation to funding beyond this point.

**The mitigations within this Stage 1 will hopefully result in £3.25m of funding to offset the overall financial loss forecast position of £10.747m identified above.**

Stage 2- cessation of recruitment/ discretionary spend/ holding of vacancies/ initial reserves review and overhead savings targets

As previously advised during recent Members briefings, all discretionary spend has been ceased along with external recruitment except in critical cases. These, along with additional steps around overhead savings targets, reserves review and holding of vacancies are summarized in the table below:-

Details	Proposed savings/ reserves identified 20/21 (£000)
<p><b>Initial reserves review-</b> Council sets aside funds for designated capital and other projects and purposes in designated reserves mainly as part of year-end outturns or re-designation of in-year capital budget savings. The main reserves in this regard are Council's Capital Fund, Repairs &amp; Renewals Reserve and Economic Development Reserve. These have been reviewed in detail to identify specific reserves that could be made available given the current emergency financial situation or reserves that have not been fully utilised for their original intended purpose. A sum of £2.2m has been identified from this review, the key element of which (£1.7m) relates to funds set aside as contingency against non-domestic revaluation appeals following the revaluation of non-domestic properties in 2015. Whilst it would be ideal to retain this reserve given that there are some 2015 appeals which remain outstanding and likely to be further appeals from the recent 2020 revaluation, the current financial emergency is considered more urgent.</p>	2,200
<p><b>In year capital savings</b> - The main source of financing for Council capital projects is loan charge financing. Members will be aware that Council has ring-fenced loan charge funding for a range of capital projects which have either not yet commenced or completed. This gives rise to in-year capital savings which are generally utilised to progress other capital projects following consideration by this Committee. It is proposed that these are instead reallocated for 20/21 to alleviate the wider financial pressures after accounting for a number of commitments that have already been ring-fenced including £246k Local Development Plan, £200k for ESF skills match funding and £300K for repairs and renewals. It is also considered prudent to set aside a further £200K for interest on additional potential borrowing to alleviate cashflow pressures should the need arise giving a revised net saving of £1.95m.</p>	1,950
<p>In addition to cessation of external recruitment except in critical cases and furloughing of staff, all <b>current vacant posts</b> within Council have been reviewed. In year savings of £235k can be captured in this regard across Health &amp; Community support services, Environment &amp; Regeneration technical, Corporate communications, Democratic Services business support and NISRA secondment costs. These are currently in-year proposals and will be re-considered later in the year.</p>	235
<p>In addition to cessation of discretionary spend, targeted <b>overhead savings</b> (Training/ Travel/ Advertising/ Conferences) have been set- 50% proposed savings target across organisation excluding front line and funded services</p>	350
<p><b>Total proposed savings/ reserves identified 20/21</b></p>	<p><b>4,735</b></p>

These proposed measures will be subject to ongoing review as circumstances develop.

**The proposed mitigations within this Stage 2 will result in further funding of £4.735m to offset the overall financial loss forecast position. This is in addition to the £3.25m identified under Stage 1 above, bringing total proposed savings to £7.985m. This compares to an overall forecast financial loss of £10.747m and leaves Council with a remaining estimated deficit of £2.762m.**

### Stage 3- Continued engagement with Government for support for financial losses beyond Quarter 1

Despite the proposed measures above, Council's financial position remains critical and the risk of insolvency remains. At a minimum, the financial challenges could see total depletion of Council's usable reserves and District Fund- as noted above, this will present very significant rates challenges going forward as these will need to be replenished and also when considered in light of other likely and emerging pressures.

It is therefore **critical that engagement with Government continues to ensure continued support for financial losses (mainly income), emergency expenditure and waste management costs into Quarter 2 of the financial year and beyond.** A further regional bid is therefore being co-ordinated through SOLACE and the regional finance officers group in this regard.

Beyond this, the most critical risk facing Council is depletion of its' rate-base which funds 80% of Council's overall annual gross expenditure each year. Of particular concern is the non-domestic rate-base impact. Added to this is the significant uncertainty in projecting the rate-base impact for the 2020/21 financial year (and even for the 2021/22 financial year) as it is likely to be some time before collection figures can be forecast with reasonable certainty, particularly given that domestic rates bills have just been issued and most business rates bills are currently 100% exempted.

**In order for Councils to plan with certainty and ensure critical services can continue into the recovery phase, the critical ask of Government is therefore that rates payments made to Councils from Central Government are paid on the basis of estimates with any negative finalisations being underwritten for this financial year and the next 2 financial years.**

Engagement is also continuing with both UK and NI Government for further funding towards City of Derry Airport running costs. Whilst full operating costs coverage has been secured until the end of June 2020, the airport subvention will present challenges beyond this date given the obvious impact on passenger numbers and income.

#### Stage 4- Review of all discretionary and programme expenditure and other services

Alongside Stage 3 above, officers are currently completing a detailed review of all programme and discretionary expenditure. These budgets account for £8.1m or 10.8% of Council's overall net expenditure budget, although large elements of these are either critical to ensure external grant funding can be secured (eg Good relations funding) or have been committed eg community services grant funding and SLA's and advice services. Remaining discretionary and programme expenditure relates mainly to festivals and events, Christmas lights, marketing and branding, business support and investment activity and other internal programme budgets eg museums. Whilst elements of these cannot progress due to current restrictions, in the absence of the further Government intervention detailed in Stage 3 above, more difficult decisions are likely to be required to ensure reserves remain adequate. A further report will be brought to Members in July to consider this further.

Alongside this, officers are further reviewing funds set aside for capital projects both in reserves and also loan charge funding ring-fenced. It is important to stress that this will not result in any delays to projects that are currently on site or need to progress to avail of funding deadlines and targets. A further report will be brought to Members in due course. It is also important to note that further financial pressures will result from delays to contracts during the pandemic and associated compensation events and officers are currently working through a number of these at present.

#### Other issues

**Cashflow**- The loss of income from Council services has resulted in a number of NI Councils facing immediate cashflow pressures. This would inevitably present significant challenges in ensuring suppliers and staff continue to get paid. It is pleasing to report in this regard that Council's cashflow position is secure in the medium term until at least September and Council has permitted borrowing capacity beyond this date.

It should also be noted that Council has not yet approved a Treasury Management and Investment Strategy for the 2020/21 financial year. This would normally have come before Members in April but is currently being updated in line with the very significant recent financial developments with liquidity becoming the key priority.

**Year-end accounts 2019/20-** Members will be aware from recent briefings that the deadline for submission of accounts has been extended from 30 June 2020 to 31 August 2020 with the subsequent audited accounts deadline extended from 30 September 2020 to 31 December 2020. In line with this process, the year-end financial outturn report for 2019/20 will be reported to the July meeting of this Committee for approval. This outturn position will obviously be important for 2020/21 financial planning.

#### **4 Financial, Equality, Legal, HR, Improvement, Rural Needs and other Implications**

Significant detail has been provided above in relation to the current financial impact assessment. The significant messages and key summary points are as follows:-

- Council is currently forecasting financial losses of £10.747m for the financial year 2020/21 although the rate-base element of this forecast is currently very uncertain and based on a very broad planning assumption;
- It is hoped that £3.25m of this loss can be mitigated through Council's share of the Government funding announced to date for Quarter 1 in respect of financial losses, waste management costs, emergency expenditure, and furloughing of staff from income generating services;
- Officers have identified savings from staff vacancies, overheads and proposed reallocation of reserves totaling a further £4.735m.
- It is critical that engagement with Government continues to ensure continued support for financial losses (mainly income), emergency expenditure and waste management costs into Quarter 2 of the financial year and beyond.
- In order for Councils to plan with certainty and ensure critical services can continue into the recovery phase, the critical ask of Government is that rates payments made to Councils from Central Government are paid on the basis of estimates with any negative finalisations being underwritten for this financial year and the next 2 financial years.
- Pending the outcome of continued Government funding engagement officers are currently completing a detailed review of all programme and discretionary expenditure as well as further reviewing funds set aside for capital projects both in reserves and also loan charge funding ring-fenced.

Should these steps not be sufficient to ensure adequacy of Council reserves, more difficult decisions will be required beyond the summer period and into next year's rates process.

**Rates 2021/22-** The financial issues identified above will not only impact 2020/21 but will have very significant impacts for the 2021/22 rates setting process given the likely position of depleted reserves, uncertain rate-base, and an ongoing decline in income from Council services such as leisure, planning and building control. This will be in addition to pressures such as staff pay awards (agreed regionally), increased employer pension contributions to the NILGOSC scheme, likely increases to waste management costs, costs associated with new health and safety requirements and ways of working as well as a number of items currently funded from reserves which will require rates investment going forward. Planning for the 2021/22 rates process will therefore start immediately.

## **5 Recommendations**

Members are asked to approve the updated financial forecast and the steps being taken to ensure reserves remain adequate for funding of Council services going forward. Members are also asked to support the continued critical engagement with Government to ensure the further required funding support and assurances identified in this report are provided.

### **Background Papers**

**None.**