

**STROUD DISTRICT COUNCIL**  
**STRATEGY AND RESOURCES COMMITTEE**

**AGENDA  
ITEM NO**

**18 JUNE 2020**

**7**

<b>Report Title</b>	<b>FINANCIAL IMPACT OF COVID-19 ON STROUD DISTRICT COUNCIL</b>			
<b>Purpose of Report</b>	<b>To consider the estimated impact of the Covid-19 pandemic upon the financial position of the District Council.</b>			
<b>Decision(s)</b>	<p><b>The Committee RESOLVES that:</b></p> <p style="padding-left: 40px;"><b>a. The estimated impact of Covid-19 on the financial position of the Council be NOTED</b></p> <p style="padding-left: 40px;"><b>b. It AGREES with the Section 151 Officers opinion that the Council’s Equalisation Reserve should be used to meet the cost of the pandemic</b></p>			
<b>Consultation and Feedback</b>	Political Group Leaders have been briefed on the financial estimates relating to the pandemic.			
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<b>Options</b>	The Council could choose not to use reserves to balance its financial position and make in year cuts to balance.			
<b>Background Papers</b>	None			
<b>Appendices</b>	None			
<b>Implications (further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

**1. BACKGROUND**

- 1.1 The Covid-19 pandemic, and associated government measures to protect public health, is having a considerable impact on the financial position of Councils across the Country and Stroud is no different. This report sets out the current impact of the pandemic upon our budgets and associated responses.
- 1.2 The Council is required to undertake a through estimate of Covid-19 upon budgets at least once a month for Central Government. At the time of writing the most recent return was submitted to Central Government on May 15<sup>th</sup> and is used as the basis for the numbers within this report. The key assumptions for the numbers are stated in the

relevant tables. In many areas these assumptions may have been superseded by later events.

- 1.3 This monitoring does not take the place of the authority's standard budget monitoring process which is still continuing as normal. Reports for the first quarter will be presented to service committees at the first possible opportunity after the end of June.
- 1.4 All of the figures contained within the report are the best possible estimates at the current time. The nature of the pandemic means that circumstances can change rapidly. Estimates will be kept updated and reported to the Committee in future as necessary.

## **2. 2019/20 BUDGET**

- 2.1 The impact of the Covid-19 pandemic financially did not begin until March 2020 with "lockdown" measures not being announced by the Prime Minister until March 23<sup>rd</sup>. As a result of this there is minimal impact upon the 2019/20 Budget. Where necessary the Council has put extra sums to one side to allow for the recoverability of debts being impacted. Even allowing for these measures, at the time of writing both the General Fund and the Housing Revenue Account are expected to be underspent to some degree. The outturn report will likely be presented at the next meeting of this committee.
- 2.2 That Outturn report will include, where possible, transfers into reserves in 2019/20 to help with both response and recovery to the Covid-19 pandemic.

## **3. 2020/21 REVENUE BUDGET**

### **General Fund**

- 3.1 The largest estimated impacts are expected to be upon the General Fund revenue budget for the current year. The following tables and paragraphs set out the estimated impacts, assumptions used and detailed explanations around the major elements of the impact.
- 3.2 It is clear that the biggest change for Stroud will be from lost income, primarily from fees and charges. This is the picture nationally for District Councils, who are not affected by the impact of Covid-19 on costs in the social care and education sectors.

### **Expenditure**

- 3.3 The estimated cost of Covid-19 in the 20/21 financial year is 294k and details of this are shown in the table below.

**Table 1 – Estimated Additional Costs**

Additional Expenditure	Estimated Impact	Key Assumptions
	£k	
Homelessness	61	Additional costs continuing for three months
Ubico	61	Additional agency and PPE through the year
Cornhill Market	1	
Stratford Park - SLM	25	Estimate of initial support
Ebley Mill	35	Adaptations required for Covid secure
Revs and Bens software	18	Software required for grants schemes
IT	15	Additional Equipment
Community Grants	50	Match funding County pot
Covid-19 letters	28	One-off item
<b>Total</b>	<b>294</b>	

- 3.4 The largest cost items for District Councils nationally have been in relation to homelessness prevention and in waste and leisure services. This is equally the case for us in Stroud.
- 3.5 The Covid-19 response saw additional responsibilities placed on us to help those in need of emergency accommodation within the District. We have been working with all Councils across the County, including the County Council, to ensure appropriate provision of this accommodation. This has resulted in additional costs and the figure in the table above represents our best estimate of that cost at the time of writing. Central Government has recently announced a pot of funding of £433 million for housing rough sleepers and this may be used towards funding the next stage of the response.
- 3.6 Ubico are incurring additional costs relating to agency staff and provision of PPE for staff. These costs are being reported monthly to the Council and included within our overall estimates. Ubico have made some small savings by furloughing shielded staff under the job retention scheme but these savings will not offset these costs in full. Discussions will be held with Ubico as to the ongoing nature of these costs and whether future budget adjustments are needed.
- 3.7 Adjustments will be needed to SDC properties, primarily Ebley Mill to make them Covid Secure and the cost has also been included in the table.
- 3.8 The Council put to one side up to £50k to match fund the community grant money provided by the County Council. The final use of our part of the fund may ultimately be less than £50k but it will not exceed that allocation.
- 3.9 No financial support in excess of budgeted amounts has currently been provided to SLM. However, this situation is likely to develop when more detail is known about the re-opening of leisure facilities and the impact of the lockdown upon future levels of income. The figure included in the table above is the estimate as at Mid-May but an increase in the coming months is not unlikely.

- 3.10 The cost of £28k for Covid-19 letters is the cost of the yellow letter sent to all residents. This has been a one off cost and is not expected to be repeated.

### Income

- 3.11 Like the majority of District Councils, lost income is the largely element of our estimated Covid-19 impact. We have a number of different income sources which have either been eliminated or severely affected by the crisis. The table below sets out the current estimates and the major ones are discussed in the paragraphs below.

**Table 2- Estimated Lost Income**

Lost Income	Estimated Impact £k	Key Assumptions
Car Park income	919	No income in 2020/21
The Pulse	720	Five month closure followed by three months of half income
Museum in the Park	55	Five month closure followed by three months of half income from shop and room bookings
Planning	173	No reduction in April. At least 25% reduction for next six months after that
Building Control	165	Gradual return to normal levels over six months
Bulky Waste	12	Reduced income in April and May
Garden Waste	71	No further take up of scheme beyond income already received
Land Charges	39	Lower level of property transactions likely throughout the year
Licensing	21	Phased recovery over three mo
Market income	3	
Environmental Health	31	Reductions in income to last for five months
Property rental income	130	Some tenants may seek rental reductions as well as deferrals.
Investment Income	188	Reduction in the bank of England Base Rate will see reduced returns all year
Enforcement income	50	
<b>Total Loss of Income</b>	<b>2,577</b>	

- 3.12 The biggest estimated impact at the time of writing is loss of car parking income. This has been estimated on a worst case scenario of a full year of lost income. An officer decision was made, with the support of Group Leaders, at the start of the pandemic to temporarily cease charging until such time as government restrictions were eased. When these restrictions ease a further political decision will be required as to whether to extend the no charging period or return to previous arrangements. Parking income differs from other lost income sources in that much of the income relates to a Council decision (temporary

suspension of charging). At such point as charging may be reintroduced this impact will be reduced.

- 3.13 The leisure and cultural facilities at the Pulse and the Museum in the Park have been closed since government restrictions mandated it in late March 2020. The combined budgeted income from these sites averages £120k a month and this has been reduced to zero as a result of the closure. The re-opening of these sites is uncertain but is currently anticipated to be later in the summer. What is not known at this stage is what level of income will be received when sites are re-opened. These will be monitored closely and reported through budget monitoring and the budget setting process.
- 3.14 Income from planning application fees has held up well in the first stage of the pandemic. However, planning application levels are very sensitive to levels of activity in the wider economy and therefore a reduction in income throughout the year is expected. Currently the forecast is based upon a reduction of 25% in the number of planning applications for six months.
- 3.15 The Bank of England has reduced the base rate from 0.75% to 0.1% during the crisis. This has had a corresponding impact on the level of interest being received from the Council's short dated investments and money market funds. The return on longer dated investments is not clear at this time but may not be subject to the same fluctuation. There has been a fall in the estimated value of the longer term funds of £310k as at the end of the financial year (much of which has since been recovered). This has no impact on the bottom line of the Council at this time and as an additional precaution the investment risk reserve is maintained at a level to match the fluctuation in value. Fluctuations in the capital value was always to be expected and the yield from these funds is more than three times the return on short dated funds.
- 3.16 The Building Control service has seen a large reduction in income in the first part of the lockdown as the services have not been required due to a slowdown in construction activity. The current assumption is that income levels will return to something closer to normal over six months. The Council holds a building control reserve and some of the income shortfalls are likely to be topped up from this reserve.
- 3.17 The Council has a budget for income from General Fund rental properties for the year of £790k and a reduction of £130k is currently anticipated. At the current stage there have been no rent holidays granted, only deferrals, but the second quarter rent period may see tenants request reductions in rental payments.

### **Housing Revenue Account (HRA)**

- 3.18 The impact on the Housing Revenue Account is estimated to be less than the General Fund with the current estimate shown in the table below.

**Table 3 – HRA Impact**

<b>Expenditure</b>	<b>Estimated Impact £k</b>	<b>Key Assumptions</b>
Repairs and Maintenance	200	Costs related to catch up for backlog of repairs and additional PPE
Sheltered Housing	5	
Other Expenditure	32	
Revaluation of stock	10	
<b>Total</b>	<b>294</b>	

<b>Lost Income</b>	<b>Estimated Impact £k</b>	<b>Key Assumptions</b>
Rents and Service Charges	408	Void properties held vacant during lockdown and assumed higher level of non-payment of charges
Non dwelling rents (shops)	38	Relates only to commercial properties within the HRA
Other income (recharges)	20	
Investment income	50	As per the General Fund
<b>Total Loss of Income</b>	<b>516</b>	

- 3.19 The biggest expenditure impact is upon repairs and maintenance. This area has seen costs relating to agency staff provision as some staff members are shielded and unable to work. In addition, non-priority repair works have been paused and there is likely to be a cost to catching up with the backlog.
- 3.20 Income within the HRA is likely to see a reduction in rent as empty properties are not being re-let, except in exceptional circumstances. Rental payments received are also lower than normal and it is expected that there will be a higher level of non-payment of rents and services charges during the year.
- 3.21 The in-year impact on the HRA can be managed through the HRA General Reserves.

#### **4. LONGER TERM FUNDING SOURCES**

##### **Council Tax**

- 4.1 Council Tax is the single largest source of funding within the Council's budget and any reduction will have a significant impact on the Medium Term Financial Plan.

- 4.2 Accounting for Council Tax is carried out using a system called the Collection Fund. The impact of this is that the amount of money feeding into a Council's budget from Council Tax is fixed during the budget setting process before the year even begins. Any surplus or deficit on that assumed collection amount does not impact upon budgets until the following year. Therefore any shortfall in collection in 2020/21 as a result of Covid-19 will be incorporated into the 2021/22 budget.
- 4.3 Any Covid-19 related recession will not clearly not reduce the number of properties within the district. The elements which could potentially, although by no means certain, reduce the taxbase in future years are likely to relate to;
- An increase in tax payers claiming local Council Tax support
  - A potential decrease in collection rates
  - Lower housing growth in future as a result of an economic downturn

### **Business Rates**

- 4.4 Data on the long-term impact of business rates collection within the District is not yet available. As with Council Tax the nature of accounting for business rates means that any reduction in income in 2020/21 will impact on the bottom line in 2021/22.
- 4.5 Any downturn in the economic environment is likely to lead on a fall in the level of business rates retained by the Council. As a result of the previously expected business rates baseline reset a loss of growth of £1.3 million is already predicted in the Medium Term Financial Plan for 2021/22 and this should be more than adequate to cover any Covid related reduction.

### **Housing Rents - HRA**

- 4.6 Housing Rents are a relatively stable form of income as the number of properties within the HRA is broadly constant as new builds increase our numbers and right to buy sales decrease them.
- 4.7 The long term financial risk is around inflation. Housing rents increases are linked each year to CPI and assumptions have been included within the MTFP. Any reduction in CPI to below assumed levels, even temporarily, will have an impact across the 30 year plan as rent levels will be lower than anticipated. Cost pressures within the HRA will not necessarily be reduced the same way leading to a decreased level of rent to cover expenditure.
- 4.8 Any reduction in CPI, and as a result housing rents, as a result of a recession linked to Covid-19 will be included within the next HRA budget setting process.

## **5. CAPITAL PROGRAMME**

- 5.1 The impact around the capital programme is expected to be relatively limited at the current time. Some delays to the New Build programme are anticipated as a result of Contractors time on site. However, the process of procuring architects for the next stage of the New Build Programme has continued. This will include consideration of the additional costs of

higher standards of energy efficiency. Inevitably the affordability of future new build schemes will be impacted if rents are ultimately lower than anticipated (see para 4.7).

- 5.2 In the longer term there are clearly risks to the financial position of the Council's two major regeneration programmes, the further restoration of the Canal and the redevelopment of Brimscombe Port. The risk at the canal relates to the ability to raise the fundraising required to fund the portions not funded by the Council or the heritage lottery fund. This may be affected in an economic downturn. The viability of the Brimscombe Port scheme may be impacted if there is a significant fall in the market for residential property as a result of a Covid-19 linked recession. Both of these risks will be considered and mitigated where possible as part of the project management of these schemes.

## **6 USE OF RESERVES AND MEDIUM-TERM PLANNING**

- 6.1 It is clear that the pandemic will have a fundamental impact on the Council's budget during 2020/21.
- 6.2 This impact will be partly offset by the grant funding that the Council has received from Central Government. The Council has benefitted from two tranches of un-ringfenced government funding towards the cost of the crisis. This money totals £1.236 million. This will be used to reduce the net draw on reserves. It has not been allocated to individual services. Funding has been made available for all necessary Covid-19 response spending (as seen in Table 1) and the impact is being managed at this Corporate Level.
- 6.3 In The Council has built up sufficient reserves to allow it to deal with financial shocks, at least in the short term. It is appropriate that these reserves are used to respond to a shock of the size of Covid-19. The Council holds an equalisation reserve which is intended to give it the time to respond to reductions of income without creating kneejerk reductions in services or staffing levels. This reserve currently has an unallocated balance of £3.8 million within the MTFP.
- 6.4 Therefore it is recommended that this reserve be used to meet the gap in the budget in 2020/21 created as a result of the pandemic. It must recognise that this is a short-term measure and reduction in this reserve will inevitably lead to a need to accelerate savings and modernisation plans. This is particularly the case if the impacts of Covid-19, particularly on income collected, stretch into the medium term.
- 6.5 The budget for 2020/21 assumes that a surplus of £600k will be placed into the Business Rates Reserve with an overall surplus budget of £122k. In the light of the pressures of Covid-19 neither of these transfers will take place.
- 6.6 The impact of the Covid 19 changes on the balance on the equalisation reserve, based on current reserves is shown in the table below.

**Table 4 – Drawdown from Equalisation Reserve**

<b>Reserve Movement</b>	<b>£k</b>
Extra Covid Costs	294
Lost Income	2,577
<b>Covid Impact</b>	<b>2,871</b>
Grant Support	(1,236)
Cancelled reserve transfer	(600)
Budgeted surplus	(122)
<b>Net drawdown from reserve</b>	<b>913</b>

- 6.7 At this point in time the budget for 2020/21 is not being comprehensively revised at a service level. As set out in previous paragraphs the budget gap created by Covid-19 restrictions will be assessed at a corporate level. The budget monitoring process will identify budget variances at a service level. This report includes an estimate of the drawdown on the equalisation reserve to balance the position. This estimate will be updated at each budget monitoring report to Strategy and Resources Committee.
- 6.8 A Budget Strategy is usually prepared for full Council in October of each year setting out the assumptions being used in the budget process and an indication of a draft Medium-Term Financial Plan. As a result of the uncertainties around the current medium term position this report may be in a more summarised form or be considered at a later Council meeting.

## **7 RISKS**

- 7.1 All of the figures in this report are estimates and there is a clear risk that final outcomes will differ. The budget monitoring process will review things as the year progresses.
- 7.2 Any long term impact on revenue streams will require a new Medium Term Financial Plan including adjustments to budgets to bring the Council's planned expenditure in line with the future funding available.

## **8 IMPLICATIONS**

### **8.1 Financial Implications**

The whole report is of a financial nature illustrating the estimated impact of Covid-19 upon Council Finances. It is appropriate that the Committee consider these impacts and the current planned response.

Many of the estimates within the report contain a considerable level of uncertainty and although the themes of impacted services within the report will likely remain the same the numbers are very likely to differ.

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### **8.2 Legal Implications**

There are no specific legal implications arising from this report.

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### **8.3 Equality Implications**

An EqlA is not required because no changes to service levels are proposed.

### **8.4 Environmental Implications**

This report sets out financial implications of the Covid-19 pandemic and there are no environmental implications.