

HERTSMERE BOROUGH COUNCIL

Meeting name & Date	COUNCIL 18 November 2020
Agenda item	11
Report title	Council's Financial Performance Update 2020-21
Report reference no.	C/20/47
Wards affected	All wards
Report author, job title & email	Matthew Bunyon, Head of Finance & Business Services Matthew.bunyon@hertsmere.gov.uk
List of Appendices	Appendix A – Financial Monitoring 2020/21 as at September 2020
Reason for urgency	Not applicable
Portfolio Holder	Councillor John Graham, Portfolio Holder for Finance and Property

PUBLIC REPORT - this report is available to the public.

1 RECOMMENDATION

1.1 That the Council considers the 2020/21 financial position as at September 2020 as set out in this report and notes that:

- i) The financial pressures arising from the Covid-19 pandemic from March 2020 until September 2020 amount to £1,763k (including £51k in 2019/20) (table 4, paragraph 4.4);
- ii) The 2020/21 financial monitoring position as at September 2020 which shows an adverse variance to date of £934k and a forecast year-end adverse variance of £2,128k as set out in appendix A, however this will be offset by Government funding as in iii) below;
- iii) Hertsmere expects to receive Government funding in relation to Covid-19 financial pressures of £2,154k including funding allocations confirmed as at September of £1,404k and anticipated compensation for irrecoverable lost income of c.£750k based on current income forecasts; and
- iv) The government funding of £2,154k covers the forecast year-end adverse variance of £2,128k.

1.2 That the Council notes the progress on the Government's Coronavirus (Covid-19) financial support measures to local business and residents as described in section 5 (paragraphs 3.20 to 3.41).

2 PURPOSE OF THIS REPORT

- 2.1 The Coronavirus (Covid-19) pandemic has had a significant impact on the local community, local businesses and on the Council including in relation to its response to this national crisis.
- 2.2 This report updates members on some of the measures that the Council have implemented to support the local community and businesses and also updates on the financial impact to the Council arising due to increased demand for services, additional expenditure, reduced levels of income from fees and charges and the impact on funding.
- 2.3 Regular financial monitoring has been undertaken since the start of the year to review progress against the approved 2020/21 budget and this report provides members an update on the current financial monitoring position as at September 2020 which shows a current deficit position of £934k and a forecast year-end deficit of £2,128k.
- 2.4 The report also provides an update on the Government funding measures announced for Local Authorities and sets out Hertsmere's allocation of that funding anticipated to be £2,154k as summarised in table 1 below, which will cover the current budget deficit.

Table 1 – Government Funding for Covid-19	£000's
Emergency Funding (Tranches 1-4 confirmed)	1,244
Rough Sleepers (confirmed funding)	5
New Burdens (confirmed funding)	155
Irrecoverable Income (anticipated funding tbc)	750
Total anticipated Government Funding	2,154

- 2.5 The financial monitoring position will continue to be reviewed and updated monthly.
- 2.6 It is recommended that the financial position set out in this report be noted by the Council.

3 BACKGROUND

- 3.1 The impact of the Coronavirus pandemic on Hertsmere was last reported to the Council in July 2020 around the time that national lockdown restrictions were being lifted. Whilst shops and businesses were able to reopen at that time, the stepped change in public behaviour including remote working and online shopping continues to have a significant impact on our entire community and the way we all are leading our lives during this national pandemic. The retail, hospitality and leisure sector have been hit particularly hard with significantly reduced levels of demand due to changes in behaviour and the requirement for appropriate social distancing measures.
- 3.2 Whilst the Government did introduced various support measures for businesses such as the grant funds and for employees and the self-employed such as the furlough scheme, these measures only provided some temporary relief and with the furlough scheme due to end at the end

of October and the onslaught of a second wave of the pandemic including local lockdown restrictions the Government have been under pressure to provide further support.

- 3.3 The Council's own staff, continue to work mostly from home, however more staff have been able to return to the council offices in line with the approved risk assessment. The council offices were also reopened to the public in July with an appointment system in place. A new risk assessment had been approved by the Personnel Committee on 21 September which allowed for a phased return to the office up to a maximum safe capacity of 40%, however the following day the Government changed its stance on encouraging a return to the office and re-endorsed its earlier message of work from home where possible.
- 3.4 Front line services such as Waste Collection and Grounds Maintenance have also been maintained with some changes to address social distancing and increased demand such as the significant rise in residual waste.
- 3.5 Parking services were fully resumed from July when shops were allowed to reopen however the demand for car parks has remained extremely low which is having an ongoing impact on the Council's fees and charges.
- 3.6 Hertsmere's leisure facilities were also mostly reopened with appropriate social distancing measures in place although some leisure services such as Wylyotts theatre remain closed. Officers continue to engage with InspireAll in relation to potential support measures and this will be the subject of a future report to the Executive.
- 3.7 Some services continue to experience high demand such as the Environmental Health team who in addition to their usual duties are responsible for the implementation and enforcement of Covid-19 measures across the borough such as social distancing, the Revenues and Benefits service in relation to the implementation of various Government support measures discussed later in this report and the Partnerships team who continue to support shielding initiatives in partnership with the County Council and the Local voluntary sector across Hertsmere.
- 3.8 Collection rates for rental income from the Council's investment properties such as its shop units had fallen as businesses had requested deferrals for their rent payments. Asset Management have however been working with its commercial tenants to agree phased repayments of deferred rent.
- 3.9 A significant element of the Council's rental income comes from the Council owned Elstree Studios, which currently contributes £1.55million to the Council per annum. Whilst the Studios was required to close during lockdown the Studios was booked out at close to capacity with some high profile tenants including blue chip clients such as the BBC and Netflix and many of these tenant bookings are contractual and were paid and the Studios have been able to continue to pay its rent to the Council. The Studios has since reopened and live productions such as Strictly are now back on site and filming.

Financial Monitoring September 2020

- 3.10 In light of the budgetary pressures arising from Coronavirus, regular budget monitoring has been undertaken since the start of the financial year to continuously review progress against the 2020/21 budget.
- 3.11 The monitoring position as at September 2020, which was reported to the Financial Monitors on 19 October 2020 and Operations Review Committee on 20 October 2020, shows an unfavourable year to date variance of £934k and a forecast unfavourable year-end variance of £2,128k. The financial monitoring is attached at Appendix A.
- 3.12 In recognition of the Covid related financial pressures faced by Local Authorities (LA's), the Government have announced a series of funding measures including emergency funding, new burdens funding, rough sleepers grant and loss of income funding in order to support LA's. **As at September Hertsmere are expecting to receive Government funding of £2,154k as set out in table 1 below.** The different Government funding sources are discussed in more detail in section 6 of this report.

Table 1 – Government Funding for Covid-19	£000's
Emergency Funding (Tranches 1-4 confirmed)	1,244
Rough Sleepers (confirmed funding)	5
New Burdens (confirmed funding)	155
Irrecoverable Income (anticipated funding tbc)	750
Total anticipated Government Funding	2,154

- 3.13 The anticipated Government funding will therefore cover the current forecast deficit of £2,128k.
- 3.14 In addition to this the full Council at their meeting in July agreed to set aside the remaining 2020/21 Contingency budget of £290k towards meeting any budget pressures due to Covid.
- 3.15 In the first instance any budget deficit will be funded from the government funding before then applying the contingency budget. Any remaining funding after meeting the deficit will be carried forward to meet ongoing financial pressures from Covid arising in future years such as any Collection fund deficit which will not be recognised until the setting of the 2021/22 budget.
- 3.16 The budget position will continue to be closely monitored throughout the year.

Council Tax and Business Rates

- 3.17 As previously reported there has been downturn in collection rates for both Council Tax (down 2% as at September, equivalent to £155k for Hertsmere) and Business Rates (down 3.4% as at September, equivalent to £530k for Hertsmere) compared to the target collection rate for this point in the year. However whilst collection rates are below the target level at this time, this is largely due to agreed Council Tax and Business Rate deferrals where requested by the taxpayer whereby the usual 10 monthly payment plan has

been re-profiled to commence from June rather than April, giving two months grace at the start of lockdown.

- 3.18 Debt recovery action was also temporarily suspended from late March but has since recommenced with reminder notices being sent out from August. The combination of deferred payments recommencing from June and reminder notices now being issued has resulted in an improvement in collection rates, albeit they remain behind target.
- 3.19 There has been an increase in applications for Council Tax Support (CTS), with the value of applications rising by 7.5% or £485k (Hertsmere share being £49k) whilst the number of applicants has risen by 9.2% from 5,683 as at 1 March 2020 to 6,208 as at 30 September 2020. It is anticipated that the number and value of CTS claims will rise further over the coming weeks and months, particularly with the furlough scheme ending at the end of October. An increase in CTS awards will impact on the level of Council Tax collectable during 2020/21 and could potentially have a longer term effect if the increase is not quickly reversed.

Government Support Measures

- 3.20 As previously reported, the Government introduced a number of support measures to support businesses, employees and the self-employed in recognition of the financial pressures being faced as a direct result of the national crisis and local authorities have been tasked by Government with implementing a number of these measures locally.

100% Retail, Hospitality and Leisure Rate Relief

- 3.21 For businesses in the Retail, Hospitality and Leisure sector the Government extended the retail rate relief scheme to 100% relief for 2020/21 and 100% rate relief was also awarded to nurseries. Hertsmere were able to implement both of these 100% rate relief schemes quickly reducing the business rate bills for 820 local businesses to Nil and cancelling almost all direct debits, prior to the first direct debit run on 1 April. This represents a total rate reduction of more than £22million as set out in table 2 below:

Table 2 – Implementation of Rate Relief Schemes

Rate Relief Schemes	No. of Accounts	Value of Relief	Revised Bill Issued*	Comments
Expanded Retail Discount	803	£22,025,418	27-Mar-20*	April DD's were cancelled so no payments were collected relating to 2020/21*
Nursery Discount	17	£369,768	07-Apr-20	

* **N.B.** 28 accounts were only rebilled following a reclassification of their rating status to Retail, Hospitality and Leisure making them eligible for the 100% relief. As such some of these 28 accounts may have made payment by direct debit at the start of the year, however these payments were refunded and the 100% relief applied at the earliest opportunity.

Business Rate Grant Funds

- 3.22 The Council received almost £19.2million in Government grant funding to implement the business rate grant schemes for local businesses announced by the Government on 11 March 2020. This includes the small business grant fund and the retail, hospitality and leisure grant funds. Following the full Government guidance and development of software by the supplier Hertsmere were able to open the grant application process on 6 April 2020 and by the end of April had awarded more than £14million in grants to local businesses.
- 3.23 By the time the schemes were closed on the 30 August 2020 the Revenues team had awarded £18.3million of grant funding to 1,341 local business, with an overall take up rate of almost 96% as shown in table 3 below.

Table 3 – Business Rate Grant Funds

Grant Fund Scheme	Value of Grant	Number of eligible businesses	Number of grants claimed	Value of grants claimed	Percentage of Grants claimed
Small Business	£10k	885	859	£8.590m	97.1%
Retail, Hospitality and Leisure RV* up to £15k	£10k	175	156	£1.560m	89.1%
Retail, Hospitality and Leisure RV* >£15k up to £51k	£25k	340	326	£8.150m	95.9%
Sub Total	-	1,400	1,341	£18.300m	95.8%

* RV = Rateable Value

Discretionary Grant Fund

- 3.24 Following lobbying by local authorities and the business sector and in recognition that not all small businesses were eligible to receive support under the above grant fund schemes, as these were only intended for rate payers, the Government announced a further discretionary grant scheme on 1 May. This discretionary scheme was aimed at small businesses that did not qualify under the original schemes such as those operating out of shared office units whose rates are paid indirectly through a rental agreement, market traders who pay a rental for their pitch and business that pay Council Tax rather than business rates such as bed and breakfast.
- 3.25 The discretionary scheme guidance prescribed that local authorities may disburse grants to the value of £25,000, £10,000 or any amount under £10,000. The value of the payment to be made to a business was at the discretion of the local authority with grants primarily and predominantly aimed at:
- Small and micro businesses, as defined in Section 33 Part 2 of the Small Business, Enterprise and Employment Act 2015 and the Companies Act 2006.
 - Businesses with relatively high ongoing fixed property-related costs

- Businesses which can demonstrate that they have suffered a significant fall in income due to the COVID-19 crisis
 - Businesses which occupy property, or part of a property, with a rateable value or annual rent or annual mortgage payments below £51,000.
- 3.26 Local Authorities were required to devise their own local scheme and have these in place by early June. Hertsmere's scheme was devised with the intention to allocate the maximum level of funding by using a formula based approach to pay grants of up to £10,000 to successful applicants meeting the prescribed criteria pro-rated on fixed property costs.
- 3.27 Hertsmere received an initial funding allocation of £852k for the discretionary scheme which was based on 5% of eligible funding for the main grant schemes as at 4 May 2020. However this was a baseline to provide the fixed minimum 5% allocation for each local authority, to give certainty. The 5% allocation could be adjusted upwards in accordance with the guidance based on 5% of the amount of paid grants under the main grant funds.
- 3.28 At the time of Lockdown Hertsmere had been in the midst of a Small Business Rate review which meant that as officers were administering the main grant funds a number of additional small businesses were determined to be eligible for those grants increasing the number and value of eligible businesses who received grants. This meant that there was potential that the original funding allocation of £852k could be exceeded albeit should awards of discretionary grant end up exceeding 5% of grants paid under the main grant funds any amount paid above the final allowable allocation would have to be funded by the Council.
- 3.29 With the Government expecting discretionary schemes to be live by early June and with the main grant schemes still open and grants still being paid, officers were faced with either awarding up to the initial funding allocation of £852k or estimating what the potential maximum grant allocation might be. So as to maximise the amount of grant that could be paid to local businesses officers estimated the potential allowable grant allocation to be £900k.
- 3.30 In total Hertsmere received 320 applications for discretionary grants of which 164 were initially determined to meet the prescribed criteria. Grants ranging between c.£1,000 and up to £10,000 were paid to the 164 successful applicants pro-rata to their fixed property costs, with 37 grants being paid at the maximum amount of £10,000 and £900k being awarded in total. Following additional evidence being provided a further two grants were awarded bringing the total number of grant payments up to 166 and the total value up to £908k.
- 3.31 It was only after all the main grant funds were closed on 31 August that the final maximum discretionary grant allocation could be determined and as a result of Hertsmere making awards under the main grant funds totalling £18.3million the final allocation based on 5% of those paid grants actually amounted to £915k meaning that Hertsmere has paid out just over 99% of its allowable discretionary funding allocation.

Council Tax Hardship Fund

- 3.32 The Council have also received £736k Government funding in relation to the Council Tax Hardship fund and have to date applied £397k of that funding awarding up to £150 additional council tax support to all existing Council Tax Support recipients in accordance with this scheme. The Hardship funding will continue to be awarded up to a maximum of £150 to all new Council Tax Support claims.

Self Isolation Support Scheme (SISS) (Track and Trace Payments)

- 3.33 More recently the Government announced Self Isolation Payments of £500 for individuals required to self-isolate through the NHS track and trace system. This includes individuals who have tested positive for Coronavirus and individuals who have been in contact with someone who has tested positive who have been told to self-isolate by NHS Track and Trace.
- 3.34 The £500 payment is intended for those on low income who will lose income as a result of having to self-isolate.
- 3.35 To be eligible for the Test and Trace Support Payment, individuals must:
- have been asked to self-isolate by NHS Test and Trace either because they've tested positive for coronavirus or have recently been in close contact with someone who has tested positive;
 - be employed or self-employed;
 - be unable to work from home and will lose income as a result;
 - be currently receiving Universal Credit, Working Tax Credit, income-based Employment and Support Allowance, income-based Jobseeker's Allowance, Income Support, Housing Benefit and/or Pension Credit.
- 3.36 There is also a discretionary element to the scheme for those individuals who meet the first three criteria and are not in receipt of the prescribed benefits but have suffered financial hardship as a result of having to self-isolate. Local authorities were again required to develop their own local policy and Hertsmere's policy will allocate payments to the most deserving cases based on financial hardship.
- 3.37 The Council have received an initial funding allocation for the main scheme of £37,500 equivalent to 75 payments of £500 although should this number be exceeded the Government would provide additional funding as required.
- 3.38 In relation to the discretionary funding, Hertsmere have received £22,794 equivalent to a maximum of 45 payments of £500 and it is not expected that this amount would be topped up.
- 3.39 The Self Isolation Scheme came into effect from 28 September 2020 with local authorities required to ready to receive applications and make payments from 12 October, which Hertsmere achieved.

- 3.40 At the time of writing just two payments have been awarded under this scheme.

Other Support Measures

- 3.41 At the time of writing the Chancellor announced further support measures which officers are now reviewing and will implement as required.

4 FINANCIAL AND BUDGET FRAMEWORK IMPLICATIONS

Financial Impact of Coronavirus (Covid-19)

- 4.1 The financial impact of Coronavirus on the Council's finances started to be felt from early March as the Government started to introduce 'Lockdown' measures in order to control the virus. This included some additional expenditure in relation to higher service demand for example homelessness and rough sleepers and spend on health and safety measures such as PPE.
- 4.2 There has been a significant fall in income from fees and charges in particular in Parking where charges and enforcement were temporarily suspended between March and July and have since remained well below capacity due to a stepped change in the public's working and shopping habits related to the pandemic and the imposed social distancing measures. There has also been a drop off in relation to rental income from commercial properties such as our shop units where a number of tenants had rent deferrals agreed albeit repayment plans have now been agreed with most tenants for the deferred rent to be repaid by the end of this financial year.
- 4.3 To fully assess the financial impact of the Coronavirus, the financial services team have been working closely with budget managers to review their budgets in detail on a regular basis and the latest monitoring position has been reported to the Financial Monitoring Panel on a monthly basis since April. The Council have also been required to submit monthly income and expenditure returns to the Government setting out the financial impact of Covid-19 which is one of the means by which the Government have been able to determine support measures for local authorities.
- 4.4 Table 4 below sets out the latest assessment of the financial impact for Hertsmere in relation to the pressures arising from and the response measures undertaken due to the Coronavirus crisis. This shows an overall financial impact to date of £1,763k since March 2020:

Table 4 – Coronavirus (Covid-19) Income and Expenditure Analysis

	2019/20	2020/21	Total to date
	March £000's	September £000's	£000's
Additional Expenditure			
Homelessness	0	75	75
Voluntary sector grants	10	0	10
Environmental Health	0	9	9
Waste & Recycling	0	146	146
PPE, additional cleaning and social distancing measures	0	44	44
IT	13	55	68
Other Resources	0	25	25
Total Expenditure	23	354	377
Income			
Parking	22	640	662
Environmental Health	6	37	43
Waste and Recycling	0	84	84
Planning fees	0	61	61
Property	0	312	312
Investment Income	0	133	133
Other Income	0	91	91
Total Income	28	1,358	1,386
Total Financial Impact to date	51	1,712	1,763

Financial Monitoring September 2020

- 4.5 In addition to the analysis above a full financial monitoring process has been undertaken monthly since April and this monitoring has looked at all service budgets and reports on all variances to the 2020/21 budget, not just the financial impact due to Coronavirus.
- 4.6 The financial monitoring report as at September 2020, which was reported to the Financial Monitors on 19 October 2020 and to Operations Review Committee on 20 October 2020, is attached as appendix A. This shows an unfavourable variance as at September 2020 of £934k and a forecast year-end unfavourable variance of £2,138k. The monitoring report includes a summary budget position and commentary on variances by service area.

- 4.7 The monitoring position as at September 2020 takes into account actual expenditure and income as at September and measures this against the profiled budget for the same period, this shows an adverse variance as at September of £934k.
- 4.8 The monitoring also then forecasts expenditure and income anticipated over the full financial year based on known and anticipated service requirements, economic conditions and other environmental impacts including the impact of Covid-19. The current forecast, which shows an adverse variance for the year of £2,138k is a forecast position at this point in time and will continue to be monitored and revised regularly throughout the year.
- 4.9 Currently the forecast adverse variance can be met from the government funding of £2,154k referred to in paragraph 3.12 above and discussed in more detail below.

Council Tax and Business Rates – Cashflow Implications

- 4.10 Hertsmere collects around £123 million annually in Council Tax (£76 million) and Business Rates (£47 million) on behalf of itself as well as the precepting authorities: MHCLG, Hertfordshire County Council, Hertfordshire Police and Crime Commissioner and the Town and Parish Councils.
- 4.11 As mentioned earlier, there has been a decline in the collection rates for both Council Tax (down 2.0% against target as at September, equivalent to £155k for Hertsmere) and Business Rates (down 3.4% against target as at September, equivalent to £530k for Hertsmere) compared to the same period last year. This is mainly due to requests from taxpayers to defer their payments until June however some direct debit payments were also cancelled.
- 4.12 It should however be noted that whilst collection rates are below the target level at this time, this is mainly due to requested deferrals and the debt still remains due. Whilst debt recovery was initially suspended between April and July, recovery action has now resumed with reminders having been sent out since August. The debt recovery process for Council Tax and Business Rates debt is prescribed by legislation and recovery action will follow the due process.
- 4.13 There has also been an increase in applications for Council Tax Support (CTS), with the value of applications rising by 7.5% or £485k (Hertsmere's share equating to £49k) whilst the number of applicants has risen by 9.2% from 5,683 as at 1 April 2020 to 6,208 as at 30 September 2020. It is anticipated that the number and value of CTS claims will rise further over the coming weeks and months, particularly with the furlough scheme ending at the end of October. An increase in CTS awards will impact on the level of Council Tax collectable during 2020/21 and could potentially have a longer term effect if the increase is not quickly reversed.
- 4.14 Council Tax and Business Rates are accounted for through a separate "Collection Fund" which enables budgets for all precepting authorities to be set before the start of each year. As such the current downturn in collection rates and increase in Council Tax Support will not actually impact the

budget until the deficit is released through the collection fund in 2021/22. This will need to be addressed through the 2021/22 budget process and potentially be funded (or part funded) from any brought forward funding balance as referred to in paragraph 3.15 above.

- 4.15 Hertsmere, as the collection authority, is required to pay over to the preceptors their share of Council Tax and Business Rates based on estimated collection rates agreed at the start of the year. The agreed amounts must be paid over on pre-agreed payment dates throughout the year meaning that any reduction in collection rates below the agreed estimate will have an immediate impact on Hertsmere's cashflow position. With Hertsmere only retaining a small percentage of the total amount collectable, in total around £10.9m in 2020/21 (£7.6m Council Tax and £3.3m NNDR), a decline of 1% in collection rates would leave a cash shortfall of around £1.1m over the course of the year.
- 4.16 The introduction of the 100% Retail, Hospitality and Leisure relief scheme and the Nursery relief scheme have also reduced the total amount of collectable business rates by around £22m during 2020/21. This also impacts on the Council's cashflow as, under the Business Rates retention scheme, Hertsmere still needs to pay the precept payments as referred to in 6.12 above along with tariff payments of c.£15.7m but with a significantly reduced level of income. Hertsmere will however be compensated for this loss of income via a section 31 grant.
- 4.17 The Government have however recognised this impact on cashflow and have restructured some of their precept payments delaying the payments due to them from LA's. They have also made some s31 (business rate relief) grant funding payments upfront to boost LA cashflow.
- 4.18 Officers have also discussed the cashflow position with Hertfordshire County Council as the main Council Tax preceptor and it has been agreed that any losses incurred by Hertsmere will be addressed later in the year.
- 4.19 Due to Hertsmere's healthy cash balances there are currently no cashflow issues.

Government Funding

- 4.20 In recognition of the Covid related financial pressures faced by Local Authorities (LA's), the Government have announced a series of funding measures including emergency funding, new burdens funding, rough sleepers grant and loss of income funding in order to support LA's. In total Hertsmere are expected to receive Government funding of £2,154k as discussed below which will meet the current forecast deficit of £2,128k.
- 4.21 To date Hertsmere have received a total of £1.404m in Government funding including: emergency funding, new burdens funding and Rough Sleepers grants, which will contribute towards our cost and funding pressures:

Table 5 – Government Funding Schemes

Funding Scheme		Grant Allocation £000's
Funding Allocations to Date		
Emergency Funding	Tranche 1	48
	Tranche 2	1,036
	Tranche 3	160
Rough Sleepers Grant		5
New Burdens Funding	Business Rate Grant Funds	130
	Self-Isolation Support Scheme	25
Total Funding Allocation to Date		1,404

- 4.22 The Emergency Funding is intended to meet the cost and funding pressures arising due to Covid which will arise during 2020/21 as well as in future years. This impact in future years is due to the collection fund accounting requirements as referenced in paragraph 4.14 above, whereby recognition of any deficit will be released in the next financial year. It is also due to changes in the Council's Tax Base, which is set to decrease as a result of the current increase in claims of Council Tax Support and the potential reduction in Business Rates should local business close due to the current crisis.
- 4.23 The 2020/21 collection fund deficit will become a one off cost in 2021/22 (although the new Covid legislation does allow this deficit to potentially be spread over three years) whereas the reduced Council Tax Base and potential reduction in business rates will reduce the level of local taxation that can be raised in 2021/22 and in future years whilst the economy recovers. It would therefore be appropriate to carry forward any surplus funding, should there be any, to address this impact in future years.

Compensation for Irrecoverable Income

- 4.24 Further funding was announced by Government that will reimburse Local Authorities 75p in the £1 for losses of income from fees and charges, after the first 5% of losses. Guidance on the income scheme was issued in early September. This funding will provide reimbursement for loss of income from fees and charges in 2020/21 that are not recoverable during the financial year, for example car parking and leisure income that has been permanently lost due to closure of these facilities.
- 4.25 The income scheme does not however cover any commercial income such as rent or investment income although some trading services (i.e. Trade Waste) may be included.
- 4.26 Hertsmere submitted a compensation claim for the first four months of the financial year (April to July 2020) in early October totalling £465k. The breakdown of the income losses claimed is summarised below:

Table 6 – Irrecoverable Lost Income Claim April to July

Sales, Fees and Charges Income Area	MHCLG Estimated Compensation (£000)
Off-street parking	243
On-street parking	93
Recreation and Sport (InspireAll management fees)	73
Regulatory services	33
Waste management	15
Trade waste	7
Civic halls	1
TOTAL	465

- 4.27 There will be two further claims in January 2021 and April 2021. These claims will require a reconciliation process to ensure any income losses identified in past claims which were recovered by the services to be paid back to government.
- 4.28 It is estimated the total 2020/21 irrecoverable losses claim could provide additional funding of c.£750k based on the currently forecast income losses, mainly in relation to losses in parking and leisure income. Any further losses during the year would increase the potential income funding.

Table 7 – Anticipated Total Irrecoverable Lost Income Funding

		£000's
Irrecoverable Lost Income	Parking (net position)	500
	Leisure Management fee	200
	Other	50
Total		750

Central Contingency

- 4.29 The 2020/21 revenue budget includes a £300k contingency. The purpose of this budget is to fund unexpected one off budget pressures. Council agreed in July to set aside the remaining unallocated 2020/21 contingency budget of £290k to fund any remaining budget deficit for 2020/21 after first applying the emergency government funding and any specific grant funding.

Overall Financial Position

- 4.30 As reported in the Revenue Budget to the full Council in February 2020 the Council are in a good financial position with a significant level of reserves and high cash balances.
- 4.31 Whilst the current budget forecast shows an unfavourable year-end variance of £2,128k this deficit can be met from the various funding measures discussed above. The overall budget position for 2020/21 is summarised as follows:

Table 8 – Overall 2020/21 Budget Position as at September 2020

	£000's	£000's
Forecast Deficit (pre-funding)		(2,128)
Government Funding:		
Emergency Funding	1,244	
Rough Sleepers	5	
New Burdens	155	
Irrecoverable Income (TBC)	750	
Total Government Funding		2,154
Contingency budget		290
Net favourable year-end variance (Surplus funding to be carried forward to fund pressures arising in future years)		316

- 4.32 Due to the pressures in respect of Council Tax and Business rates referred to earlier and the potential ongoing impact on expenditure and reduced income it is proposed that any remaining funding, currently £316k is carried forward to manage these financial pressures in the next financial year.
- 4.33 The 2020/21 budget position will continue to be monitored throughout the year and reported monthly through the Financial Monitoring Panel.

5 LEGAL POWERS RELIED ON AND ANY LEGAL IMPLICATIONS

- 5.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Finance Officer (or Section 151 Officer) to have responsibility for those arrangements.
- 5.2 Section 114 (3) of the Local Government Finance Act 1988 requires that:
- “The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.*
- 5.3 In February 2020 the full Council approved the revenue budget for 2020/21 which included a statement by the Chief Finance Officer which showed the Council to be in a healthy financial position with a prudent level of reserves and had presented a budget that is believed to be achievable albeit challenging. This statement also confirmed that the Council fulfils the requirements under the Local Government Act 2003, Part II, sections 25, 26, 27 and 28 in relation to the budget calculations the setting of minimum financial revenue reserve levels, financial monitoring and budget reviews during the year.
- 5.4 Whilst the revenue budget had considered various risks, the current Coronavirus (Covid-19) national crisis is unprecedented and this report has set out that the potential financial impact to Hertsmere arising from the crisis

is significant and is currently forecast to be an adverse variance of £1.089m by year-end.

5.5 However in recognition of the financial impact to local authorities the Government have announced various funding streams for Councils amounting to £6.4billion and Hertsmere are expected to receive £2,154k of funding which will meet the current 2020/21 adverse variance of £2,128k.

5.6 The Council's healthy financial position also means that it has a prudent level of resources should this position worsen.

6 EFFICIENCY GAINS AND VALUE FOR MONEY

6.1 This report considers the potential financial impact to Hertsmere of the Coronavirus (Covid-19) crisis and the overall 2020/21 budget position forecast as at April 2020.

7 RISK MANAGEMENT IMPLICATIONS

7.1 The financial impact set out in section 6 is the current forecast as at the date of writing. The financial impact will be closely monitored and reported to the financial monitoring panel monthly throughout the year. This current forecast could improve or worsen depending on how this national crisis pans out over the coming months or longer.

8 PERSONNEL IMPLICATIONS

8.1 None for the purposes of this report.

9 EQUALITIES IMPLICATIONS

9.1 None for the purposes of this report.

10 CORPORATE PLAN and POLICY FRAMEWORK IMPLICATIONS

10.1 The budget and financial strategy are closely linked with the Corporate Plan and enable the delivery of the Council's goals and objectives.

11 ASSET MANAGEMENT IMPLICATIONS

11.1 As referenced in sections 5 and 6.

12 HEALTH AND SAFETY IMPLICATIONS

12.1 None for the purposes of this report.

13 CONSULTATION ON DRAFT REPORT

13.1 A draft of this report was sent to the following on the following dates:

Consultee	Report sent	Comments rcvd
Managing Director	23/10/20	
Executive Director	23/10/20	
Head of Legal & Democratic Services	23/10/20	
Head of Partnerships	23/10/20	
Portfolio holder for Finance and Property	23/10/20	
All Heads of Service	23/10/20	