

1.0 Covid 19 Expenditure

1.1 The full impact of Covid 19 on the Revenue Budget will not be fully known until it is clear how long lockdown will be extended and the impact on income becomes clear. The table below summarises the impact to date that we are aware of and assumes a period of three months before things return to normal.

Summary Table

<u>Loss of income</u>	£
Pest Control	37,500
Car Parking	255,000
Waiver of Leisure Provider (SLM) management fee for 3 months	222,000
Potential loss of community assets rents	150,000
Estimated reduction in Planning fees	318,000
<i>Other smaller items</i>	<i>16,800</i>
Total	999,300
<u>Additional Expenditure</u>	
Additional CSC staff	49,500
Estimated cost of housing rough sleepers for 3 months	180,000
Additional IT costs	17,670
Home working allowance to staff	18,720
Funeral storage	9,600
<i>Other smaller items</i>	<i>22,240</i>
Total	297,730
Total	1,297,030
<u>Government Funding</u>	
Emergency COVID 19 Funding	(50,002)
Rough sleepers	(14,000)
Total	(64,002)
Net Position	1,233,028

It should be noted that the forecast above is for three months only but the impact is likely to be felt for a longer period. The forecasts above also do not take into account any impact on commercial property income or capital budgets and income from joint ventures.

2. Commercial Income

2.1 Commercial income is collected for quarters in advance on what are known as 'quarter days'. The last quarter day was in March and income has held up well for that quarter with the main pressure being from occupiers looking to spread payments monthly rather than paying the quarter up front. The extracts below summarise the collection statistics for this quarter for the investment portfolio and for Croxley Park. These show strong performance for the March quarter day however the next quarter day is June when a loss of income for businesses as a result of closedown may have a greater impact.

March Quarter Day – Collection Statistics (Investment Portfolio)

Rents demanded at 25/3/2020: £1.452m (gross)

Service Charge demanded: at 25/3/2020: £11,205 (gross)

Quarter Day	Rent Quarter Day	Rent 7 Days PQ	Rent 14 Days PQ	Service Charge Quarter Day	Service Charge 7 Days PQ	Service Charge 14 Days PQ
25/3/2020	45%	93%	93%	49%	69%	69%
25/12/2019	-	91%	97%	-	-	-
29/09/2019	-	63%	67%	-	-	-

March Quarter Day – Collection Statistics (Croxley Park)

Rents demanded at 25/3/2020: £2.862m (gross)

Service Charge demanded: at 25/3/2020: £791,774 (gross)

Quarter Day	Rent Quarter Day	Rent 7 Days PQ	Rent 14 Days PQ	Service Charge Quarter Day	Service Charge 7 Days PQ	Service Charge 14 Days PQ
25/3/2020	54%	75%	84%	59%	65%	73%
25/12/2019	33%	35%	45%	40%	42%	56%
29/09/2019	23%	36%	43%	30%	38%	46%

2.2 Income from the investment portfolio is taken directly to the revenue budget so any reduction will be an immediate pressure on the budget and, without offsetting action, reserves. Croxley Park is treated differently in budgetary terms with an income of £1.5M being taken into the revenue budget. For Croxley Park the £92M sinking fund negotiated as part of the deal provides a cushion against rental shortfalls in the short term as the figure was split into two elements – one for planned programmed maintenance and the other for rent guarantee.

- 2.3 Each 10% reduction in income at the next quarter day will cost approximately £145,000 and reductions in income may be well be experienced beyond next quarter. In addition Intu remains in the news over its financial position that can only be made worse by the Covid-19 shut downs.

3. Capital Programme

- 3.1 The Council approved an ambitious capital programme of £119.7M for 2020/21. Delivery of this programme must now be in doubt. Whilst this may have a beneficial impact on capital financing charges it should be noted that this budget was set with a significant allowance for slippage, In addition there are a number of schemes that contribute directly to income and these are set out in the table below.

Service Area	Latest Budget 2020/21
Watford Business Park Phase 2	7,800,000
Hart Homes	24,095,000
Watford Riverwell	20,245,000

Hart Homes are still progressing Croxley View Phase 2 and it is hoped that this can continue to be delivered during 2020/21. The next key development at Riverwell is land north of Thomas Sawyer Way which is currently progressing through planning. Any timing changes on Riverwell are managed through the reserve, however all of the commercial developments will be impacted to a greater or lesser extent by the impact of the current crisis on the property market.

- 3.2 £29.9M was allocated within the Capital Programme for the multi storey car park at Riverwell. Watford Hospital Trust are currently pursuing a solution through Department of Health commercial funding although this is likely to be delayed due the current situation. There will be no impact on the revenue budget as this was included as a revenue neutral project.

4. Council Tax and Non Domestic Rates

- 4.1 There will be a number of implications for the Council's council tax and non-domestic rate income. The Government has made funding available both for the additional Retail, Hospitality and Leisure reliefs given to business rate payers and the additional £150 support for those of working age who are entitled to Council Tax Relief Support(CTRS). However impacts on collection rates will feed through the Collection Fund to hit financially in 2021-22 as will any impacts on the underlying Council and NDR taxbases.
- 4.2 Council tax collection rates to date are 0.6% lower than last year, equivalent to £0.4M in cash. Some of this may recover during the year if taxpayers have merely re-profiled expenditure however bad debt is likely to increase. Reductions in council tax collection rates feed through into the collection fund and hit the general fund through a deficit in the collection fund in the following year, this is shared between ourselves and the precepting authorities.

4.3 In addition to falls in collection rates, we are expecting there to be an increased number of working age people applying for CTRS. A 50% increase on current levels would reduce council tax income by £0.45M per annum.

4.3 Non domestic rate collections are to a large extent being held up by the enhanced small business and retail, hospitality and leisure rate reliefs the longer term impact is harder to predict. The current business rate projection assumes an amount of business rate growth and receipts from the business rates pool. Not achieving the assumed business rate growth income would equate to £0.75M in the revenue account.

5. **Government Funding**

5.1 The level of funding that Government will make available to the Council is at present uncertain. To date we have received £50k from local governments initial £1.6bn of funding and £14k towards rough sleepers On Saturday, 18 April, the Secretary of State for Communities and Local Government announced an additional £1.6bn of funding for local authorities. The allocation method has not yet been announced, and the press release states that “allocations to individual local authorities will follow as soon as practicable”. The funding will be provided as a non-ring-fenced grant.

5.2 The government has given indications that it will meet direct expenditure in relation to Covid 19 but has specifically excluded any promises around lost income.

6. **Reserves**

6.1 The table below shows the reserves position for the Economic Impact Reserve and General Reserves as approved as part of the Medium Term Financial Strategy for 2020/21 and beyond. It then takes the potential impact of Covid 19 and forecasts the impact on reserves.

6.4 The forecast makes some initial assumptions about how longer term income may be hit that are very much a starting point at this point in time. The full picture will become clearer as we approach the Q1 monitoring report.

- The lock down lasts no more than three months and there is not a second wave.
- Property income takes a hit in Q2 but then recovers, given the economic outlook there may be a longer term impact.
- Government funding is received to cover direct costs
- Collection rates take a hit in 2019/20 but then recover and the hit can be contained within the collection fund.
- The loss in growth in business rates in 2019/20 is not recovered (there is effectively a 12 month delay to new sites coming on stream)
- Council Tax Relief Support returns to normal levels by the end of year 2.
- Other income levels return to projected levels after lock down.

	As at March 2021	As at March 2022	As at March 2023
Approved MTFS			
Economic Impact Reserve	2,207	1,730	1,783
General Fund	2,000	2,000	2,000
Current Covid 19 projection (net)	-1,233		
Economic Impact Reserve	974	497	405
Government Funding	234		
Property income Q2 (-10%)	-145		
Council tax base		-450	
Business rates		-750	-750
Economic Impact Reserve	1,063	0	0
General Fund	2,000	1,863	1,113

The current forecast shows that general fund reserves could well fall below the recommended minimum level of £2M based on the following scenario, with the Economic Impact Reserve being completely depleted. Further savings will be required throughout the MTFS period in order to balance the budget.

7. Longer Term Outlook

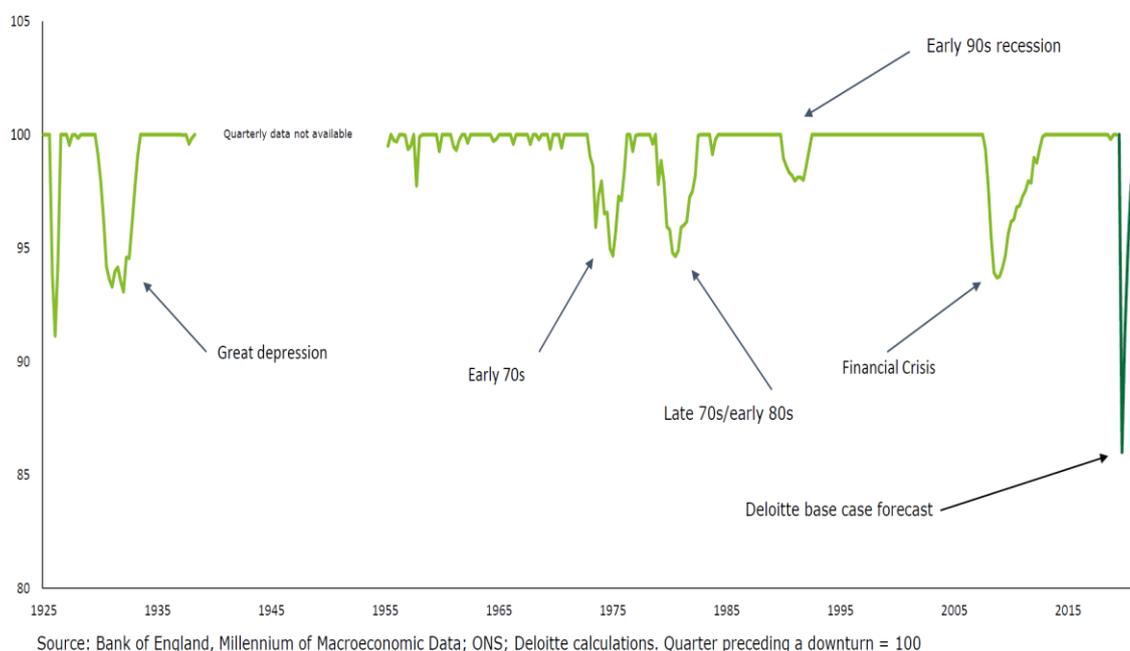
7.1 The reserves position above is predicated on what we can reasonably forecast at present in terms of the financial impact of Covid 19. Of greater concern is the impact of the projected economic downturn on over public expenditure and local government finances. UK public debt stands at nearly £1.8trillion and is forecast to rise to over £2.0trillion. Once the immediate crisis is over and lockdowns have ended, the IMF have indicated that governments will have to raise taxes and put the brakes on public spending to bring their books closer to balance.

7.2 This need to bring down public debt is going to come into play alongside an economic contraction unprecedented in modern times. This will not only place additional pressure on government funding but is also likely to have considerable impact on the Council's ability to raise additional income. The following graphs give an example of the economic contraction forecast as a result of Covid 19. Of some comfort is the time projected for the economy to rebound but it should be stressed that we are in

uncharted territory as never before have Governments deliberately halted economic output for a sustained period.

UK downturns since 1925

Depth and time to recover to previous peak



How does the coming downturn compare?

Significant UK downturns since 1925

Name	Years	Decline, peak to trough	Contraction (quarters)	Time to recover to previous peak (quarters)
COVID-19 downturn (base case)	2020	14%*	1	7
Financial Crisis	2008-2009	6.3%	5	22
Early 90s recession	1990-1992	2.0%	7	11
Late 70s/Early 80s recession	1979-1981	4.1%	6	16
Early 70s recession	1973-1975	5.3%	7	14
Great depression	1930-1932	6.9%	9	16
1926 recession	1926	8.9%	2	4

* Deloitte base case forecast, 090420

8. Immediate Actions

- 8.1 It is proposed to bring forward a budget strategy paper as part of the first quarter monitoring once Covid 19 figures are becoming clearer and the 2019/20 outturn position is finalised. In the meantime all service heads are being asked to avoid any unnecessary additional expenditure within existing budgets by using the simple flowchart process at Appendix 1. It is also recommended that reserves are protected by not allowing carry forwards of underspend into this financial year except in exceptional circumstances.

