

Part A

Report to: Cabinet

Date of meeting: Monday, 6 July 2020

Report author: Director of Finance

Title: 2020/21 Revenue Budget and Capital Programme

1. Summary

1.1 The emergence of Covid-19 and the subsequent lockdown has had a significant impact upon the finances of the council both in terms of additional expenditure and reductions in income levels. The Council has continued to monitor the position closely and this report set out the latest forecast of the impact of Covid-19 on the Council's finances along with proposed actions to rebalance the budget and fund recovery activity during the remainder of the year.

1.2 The table below summarises the additional costs and income losses as result of Covid-19 along with the additional funding the government has made available and savings identified.

	£
Additional costs of Covid-19 response	724,540
Forecast reduction in income levels	2,437,372
Expenditure not incurred due to Covid-19	-1,107,120
Government funding to mitigate Covid-19 impact	-1,023,132
Amount to be met from the Economic Impact Reserve	1,031,660

The Economic Impact Reserve was originally forecast at £2.981M at the 31 March 2020, taking into account the 2019/20 underspend. Taking into account the impact of Covid-19 identified above the balance at 31 March 2020 is now forecast to be £1.950M.

1.3 A review of existing earmarked reserves has been undertaken to identify a Recovery Fund of £1.2M to meet the one-off costs of the council's work on the recovery of Watford from Covid-19, the suggested use of Earmarked Reserves is set out at Appendix 3.

1.4 In addition to the impact identified in 2020/21 there will be a longer term impact both in terms of the time it will take income levels to recover and the longer term impact on the council tax base and income from non-domestic rates. This position will become clearer as the year progresses and a further report will be brought

forward in the autumn detailing the longer term impact and the outcome of the Autumn Spending Review along with a detailed strategy for closing the gap.

2. Risks

2.1

Nature of Risk	Consequence	Suggested Control Measures	Response (Treat, tolerate, terminate, transfer)	Risk Rating (combination of severity and likelihood)
Watford as a place and as a council does not recover from the impact of the incident	<p>Serious impact on the economy and vibrancy of the town.</p> <p>Reduction in the ability of the council to deliver the requirements of residents and businesses and fulfil its statutory obligations.</p> <p>Impact on long term financial sustainability of the Council</p>	<p>Recovery cell established led by the Group Head of Commercial to ensure that plans are put in place as early as possible with action taken as early as possible and to ensure the decision-making during the incident is cognisant of Recovery.</p> <p>The recovery cell includes the Shared Director of Finance and will have a focus on financial as well as economic recovery.</p> <p>An updated Financial Strategy to be brought alongside Q1 Budget Monitoring</p>	Treat	3 x 3 = 9

3. Recommendations

3.1 It is recommended that Cabinet:

- Note the financial impact of Covid-19 and the work being done to balance the budget.
- Recommend to Council that the Director of Finance be authorised to make the necessary adjustments to individual budgets to reflect the expenditure and loss of income arising from Covid-19 contained in the report, including the expenditure savings set out in Appendix 1 and the capital programme changes set out in Appendix 2.

- Recommend to Council the use of Earmarked Reserves as set out in Appendix 3 in order to create a Recovery Fund and that Council delegate the approval of expenditure from the Fund to the Managing Director in consultation with the Mayor.

Further information:

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Report approved by: Alison Scott, Director of Finance

Detailed Report

4. Covid 19 Expenditure and Reduction in Income

4.1 The emergence of Covid-19 and the subsequent lockdown has had a significant impact upon the finances of the council both in terms of additional expenditure and reductions in income levels. The table below sets out the latest position in terms of additional expenditure and forecast loss of income in relation to Covid-19.

Summary Table

<u>Loss of income</u>	£
Pest Control	50,000
Car Parking	401,667
Wavier of Leisure Provider (SLM) management fee costs	344,000
Community assets rents	200,000
Market rent	43,850
Delay in charging for Garden waste	65,556
Estimated reduction in Planning fees	159,000
Citipark loss of rent (repayable in 2025)	224,000
Commercial rent income	1,730,000
Croxley Park income covered by sinking fund	(800,000)
<i>Other smaller items</i>	<i>19,300</i>
Total	2,437,372
<u>Additional Expenditure</u>	
Additional CSC staff	49,500
Cost of housing rough sleepers for 4 months	290,000
Additional Recycling costs	19,500
Additional IT costs	27,220
Home working allowance to staff	25,620
Contribution to Leisure Provider (SLM) for building support costs	150,000
Additional costs of death management	9,600
PPE Taxi Screens	42,000
Additional project management resource	40,000
W2020 Savings not achieved	25,000
<i>Other smaller items</i>	<i>46,100</i>
Total	724,540
<u>Government Funding</u>	
Emergency COVID 19 Funding	(1,009,132)
Rough sleepers	(14,000)
Total	(1,023,132)

Leisure Contract

- 4.2 The council is currently in negotiation with SLM over the impact of Covid-19 on the leisure contract for the remainder of the year. The expenditure figures above only include the income loss to the end of June.

Commercial Income

- 4.3 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. June quarter will be difficult and in some cases business won't have traded for a solid 3 months, September quarter may also be impacted as business may still be recovering. It is predicted that the effect of business failures and defaults may not actually materialise until the 3rd quarter of the year.
- 4.4 The council has estimated that it could lose £1.8M in commercial income from the commercial investment portfolio, Intu and Croxley Park during the remainder of the year. When it entered into the Croxley Park lease, the Council received cash up front to cover any shortfalls in rent within the park. This cash will be used to mitigate the impact of any rent shortfalls as a result of Covid-19 and the impact of this is reflected in the table above.

Government Funding

- 4.5 To date the Council has received £1.009m from local government's £3.2bn of Emergency funding and £14k towards rough sleepers. This is to support the additional revenue implications that the Council is facing.

5. Expenditure Reductions and Capital Programme Re-phasing

- 5.1 There are a number of savings in expenditure that will arise directly from the Covid-19 crisis as a result of activities that have stopped due to lockdown or affected by social distancing and other restrictions. These savings total £1.0M and are set out in Appendix 1.
- 5.2 The capital programme has been reviewed for savings and re-phasing into future years as a result of Covid-19. **Appendix 2**, shows the detail of this on a scheme by scheme basis. There is a £1.1M saving for 2020-21 and £14.8M of re-phasing into future years. The next impact of these changes is a £0.4M reduction in projected capital financing charges for 2010-21, of which £0.06M will also be saved in future years. This saving is reflected in para 2.1 above.

6. Reserves

- 6.1 The Economic Impact Reserve was forecast to stand at £2.981M at the end of 2020-21. If all of the proposed savings were taken the balance at the end of 2020-21 is forecast at £1.988M.
- 6.2 In order to create a Recovery Fund to cover any one-off costs associated with the implementation of the recovery plan, a review was undertaken of all earmarked reserves held by the Council. The proposed reductions in existing earmarked reserves are set out at Appendix 4 and would create a Recovery Fund of £1.2M. It is proposed that authority to agree expenditure against the Recover Fund is delegated to the Managing Director in consultation with the Mayor.

7. Longer Term Outlook

- 7.1 In addition to the impact identified in 2020/21 there will be a longer term impact both in terms of the time it will take income levels to recover and the longer term impact on the council tax base and income from non-domestic rates.
- 7.2 The Government has made funding available both for the additional Retail, Hospitality and Leisure reliefs given to business rate payers and the additional support for those of working age who are entitled to Council Tax Relief Support(CTRS). However these reliefs are not expected to completely mitigate the impacts of Covid-19 on Council Tax and NDR. Any impact on collection rates will feed through the Collection Fund to impact on council spending power in 2021-22.
- 7.3 In addition to falls in collection rates the MTFS assumes a level of growth in both the council tax base and NDR base as a result of new developments. With the general slowdown as a result of Covid-19 it is likely that this new development will be delayed with a result impact on the council's tax base. The council is expecting there to be an increased number of working age people applying for CTRS as a result of increasing unemployment.
- 7.4 The Government has announced that proposed changes to the system of business rates retention planned for April 2021 will be delayed. It has also given indications that issues surrounding councils' tax collection rates and revenues from taxation will be considered as part of the autumn spending review along with new Homes Bonus.
- 7.5 The measures set out in this paper, therefore, address the immediate impacts of Covid-19 on the council's 2020-21 budget and provide resources for the initial work contained within the Recovery Plan. Continued work will be needed to realign the future years of the MTFS and a further paper will be brought forward in the autumn alongside the spending review outcomes.

8.0 Implications

8.1 Financial

8.1.1 These are covered within the report.

8.2 Legal Issues (Monitoring Officer)

8.2.1 The Group Head of Democracy and Governance comments that there are no specific legal implications in this report.

8.3 Equalities, Human Rights and Data Protection

8.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

This report deals with the financial implications of the Renewal Plan. The report on the Renewal Plan is elsewhere on this agenda which contains equalities implications.

8.3.2 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

8.4 Staffing

8.4.1 Where necessary some staff have been redeployed. To date no member of staff has been furloughed. The proposals include holding some existing vacant posts vacant for the remainder of the financial year.

8.5 Accommodation

8.5.1 There are no accommodation implications arising from this report.

8.6 Community Safety/Crime and Disorder

8.6.1 There are no community safety/crime and disorder implications arising from this report.

8.7 Sustainability

8.7.1 There are no sustainability implications arising from this report.

Appendices

Appendix 1 – Expenditure reductions

Appendix 2 – Capital Programme re-phasing

Appendix 3 – Review of Reserves

Background papers

There were no background papers used in this report

Expenditure Reductions

		£	£
Arts and Events	Imagine Watford - now Commemorate Watford, reflects revised budget	(15,000)	0
	Big Beach and Big Sports - in order to support the local town centre economy by ensuring the outdoor space in the Parade can be fully utilised for outdoor eating / drinking / queuing / the market etc it is recommended that the Big Beach and Big Sports do not happen this year. Budget remains for smaller events in the town centre.	(50,000)	0
Leisure Centres	Grounds maintenance, repairs & surveys project has been delayed for a number of reasons - reduction in cost for works for the Community Asset Review	(60,000)	0
Community Centres	Reduction in survey work for community centres and Colosseum	(29,470)	0
Grants Admin	Savings in printing and surveys	(4,000)	0
CSC	MacFarlane telephony system budget - Remove this from CSC budget as system replaced by 8x8	(9,000)	(9,000)
	Printing - reduce number of MFD's across the organisation - Have 1 MFD on each floor to reduce fleet from 12 to 6 / 8 devices (including depot, Cemetery, Museum). Will discourage excess printing and staff are now used to printing less since they have been working from home.	(10,000)	(10,000)
Non -operational building	One year reductions in planned maintenance and reactive repairs.	(40,000)	0
Town Hall	Lift compliance checking ILECS - No longer required - permanent saving	(2,400)	(2,400)
	Vending machine maintenance - No longer required - permanent saving	(1,600)	(1,600)
	Reduction in consumable and equipment budgets as a result of Town Hall not being occupied.	(3,800)	0
Corporate Asset Management	Savings in costs	(29,000)	
Buildings, Projects & Facilities	Building surveyor - Move to fund from Capital - permanent saving	(29,000)	(29,000)
	Training - Not required this year - one year only	(12,000)	0
	Reduced van maintenance costs - No longer required - permanent saving	(1,700)	(1,700)
ICT	Infrastructure & Security Manager - Current vacancy within this role. This is covered with a contract resource. Vacancy can remain, and the costs for the cover of the role can be capitalised for 2020/21. Shared post WBC achieve 60% saving	(48,600)	0
Partnership & performance	Take final savings from deleted post	(4,000)	(4,000)
	Bring community engagement/consultation entirely in house.	(22,500)	0
Strategic Finance	Lower Borrowing costs due to capital programme rephasings	(400,000)	0

Watford 2020	Savings in project management costs through changes to the way the final Watford 2020 projects are delivered.	(52,000)	0
	Reduce scope of Business Intelligence project £122,000 budget carried over from 2020/21 -	(60,000)	0
Democracy and Governance	No borough elections in 2020/21	(76,500)	
	Other reductions in costs	(14,380)	
Vacancy Savings	Various savings from vacancies not filled	(132,170)	
		(1,107,120)	(57,700)

Capital Programme Re-phasing

Cost Centre	Scheme and Service	Original Budget	Budget with rephasing from 2019/20	Estimated Spend this year £	Potential Saving	Rephased to 2021-22 £	Comments	Future Years	
								2021-22	2022-23
WA4900	WBC Capital Programme	119,737,722	139,957,826	124,288,104	1,148,388	14,771,334		36,477,003	16,265,250
WA5510	Service Transformation	5,415,000	6,144,167	5,774,167	0	370,000		1,430,000	1,530,000
WA5520	Community & Environmental	12,625,490	15,096,796	6,912,074	848,388	7,586,334		4,456,260	825,230
WAB972	Tree Planting Programme	15,000	23,388	15,000	8,388	0		15,000	15,000
WAB986	Cassiobury Park Perf'ce Space	40,000	40,000	0	0	40,000	Move project to next year	0	0
WAB987	Garston Park Sculpture	30,000	30,000	0	30,000	0	This project could be terminated and, if required, revisited in the future	0	0
WAB990	Parks Litter Bin Replacements	10,000	10,000	0	10,000	0	No investment in bins this year	10,000	10,000
WAB991	Meriden Park Improvements	50,000	50,000	0	0	50,000	Move project to next year	50,000	50,000
WAB984	Vicarage Rd Cemet'y Feas Study	5,000	21,406	16,406	5,000	0	This is the residual budget from the feasibility study so no longer needed	0	0
WAA302	Leisure Centres (SLM)	250,000	3,021	253,021	0	0	Bid for £250K for 2020/21 to be funded from Structured Leisure maintenance reserve	0	0
WAB981	Woodside Sports Village	6,800,000	6,571,688	650,000	0	5,921,688		2,150,000	0
WAA195	Watford Museum	247,000	200,396	0	0	200,396	Move project to next year	0	0
WAA983	Cultural Quarter Ph 1	30,000	30,000	10,000	20,000	0	Retain £10k for now	0	0
WAB973	Little Cassiobury Match Fund	50,000	50,000	0	50,000	0	Little Cassiobury now returned to HCC ownership	0	0
	Watford Market	0	750,000	100,000	500,000	150,000	£500k not required	0	0
WAM001	Delivery of Cultural Plan	400,000	400,000	0	0	400,000	Cultural Strategy (and so action plan) currently being revisited so project could be re-phased.	300,000	0
WAJ300	Decent Homes Assistance	100,000	100,000	25,000	75,000	0	With the exception of a small budget (circa £25k) for reactive decent homes assistance the focus for 2020/21 will be on the £200k within the Private Sector Renewal programme elsewhere in the capital programme..	100,000	100,000
WAJ311	Street Improvement Programme	100,000	187,796	87,796	100,000	0	This can be saved as the underspend from last years SIP has been carried forward to this current financial year and there are plans to undertake a SIP this financial year	100,000	100,000
WAJ306	Paddock Road Depot Enhncmts	1,300,000	1,299,250	500,000	0	799,250	Re-phase depot construction and woodland burial works to next year. Complete community storage	0	0
WAJ307	Derby Rd Skate Park Blockade	25,000	25,000	0	0	25,000	Leave skate park open until there is a development project on the ground for the site	0	0
WAB992	Departmental Vehicle Renewal	74,000	74,000	24,000	50,000	0	This can only be taken if the current lease vehicles being used are purchased out right along with a maintenance plan to last the next 2 years and then a new procurement undertaken then.	0	0
WA5540	Place Shaping & Performance	100,992,762	117,712,393	110,922,393	0	6,790,000		29,885,003	13,228,000
WAA186	Watford Business Park Phase 2	7,800,000	9,200,000	3,400,000	TBC	5,800,000	Savings expected once value engineering of scheme is completed and construction contract tendered.	300,000	0
WAJ122	Scenery Store Redevelopment	1,000,000	1,000,000	10,000	0	990,000	Project is subject to approval by Cabinet and for a reduced contribution from WBC - note overall spend will change and will need to be revised	500,000	0
WA5545	Corporate Strategy & Comms	25,000	25,000	0	0	25,000		25,000	0
WCC000	Town Boundary Signage	25,000	25,000	0	0	25,000	Project delayed to 2021-22	25,000	0
WA5570	Strategic Finance	679,470	979,470	679,470	300,000	0		680,740	682,020
	Professional Fees	0	300,000	0	300,000	0	Project budget carried forward that is not needed	0	0

Review of Reserves

Description	Balance at 31 March 20 £000	Purpose	Amount to be reduced by? £000	New Balance	Comment
Revenue Reserves					
Area Based Grant	(86)	Extremism and anti-social behaviour prevention	86	0	
Charter Place Tenants	(93)	Tenants' contributions to major works	93	0	
Climate Change	(56)	Energy saving initiatives	56	0	There is now a one off £50k allocation in the revenue budget for 2020/2021
Crematorium	(150)	Funding repairs and maintenance	0	(150)	
Housing Planning Delivery Grant	(266)	Improve planning outcomes and delivery of housing	0	(266)	
Invest to Save	(689)	Support expenditure producing savings	689	0	We would have no capacity to support future proposals
Le Marie Centre Repairs	(11)	Funding Council obligations as landlord	11	0	Can be covered from existing revenue budget
Leisure Structured Maintenance	(423)	Funding unforeseen maintenance not covered in contract	173	(250)	£250 required to fund capital scheme in 2020/21
Local Development Framework	(178)	Support local plan production and inspection	0	(178)	
Multi-Storey Car Park Repair	(181)	Funding major structural works	0	(181)	
Parks, Waste & Street Strategy	(60)	Support Street Projects	60	0	Not required
Performance Reward Grant	(28)	Grant allocated by Local Strategic Partnership	28	0	
Rent Deposit Guarantee Scheme	(100)	Assist in providing homelessness accommodation	0	(100)	
Total	(2,321)	Total	1,196	(1,125)	
			To Recovery Fund		