

**TAVISTOCK TOWN COUNCIL
EMERGENCY FINANCIAL PLANNING**

**BUDGET & POLICY COMMITTEE
8th SEPTEMBER 2020**

1. PURPOSE OF THE REPORT

To provide the Committee and Council with an opportunity to consider the emerging position regarding revenue spend (capital having been reported to the last meeting) and associated proposals from your officers and Accountant to mitigate and manage the impact of Coronavirus on Council income streams. The report should be read in conjunction with last year's budget setting reports, the previous (June 2020 Budget and Policy Committee) capital report and the first quarter reporting as submitted to the July Council Meeting. In particular, it reflects the outputs of the informal finance workshop.

2. CORPORATE POLICY CONSIDERATIONS

The effective management of resources and appropriate forward planning underpin the delivery of the Council's Strategic Plan 2017-21 and support its commitment to value for money, the promotion of best value and continuous organisational improvement. A failure to match expenditure to income, in the absence of effective mitigation, could put the Council in breach of its legal and/or other obligations.

3. LEGAL AND RISK MANAGEMENT ISSUES

The Council is under an obligation to set the budget. Apart from the legal obligation itself, a failure to match expenditure to income and reserves could lead, at the higher levels, inter alia, to:-

- a) Inability to meet calls for payment as they become due and associated susceptibility to proceedings for recovery;
- b) Inability to appropriately discharge the express (and implied) obligations (legal and other) of the Council in its various capacities - such as service provider, landlord, employer, contracting body, partner etc;
- c) Potential that work streams in hand are not capable of completion, some of which may carry financial and/or other penalties for failure to complete and/or loss of contingent funding/support;

- d) Increased cost burden on the local ratepayer and/or reduction in service offer;
- e) The allocation, to address the economic consequences of the pandemic emergency, of previously available earmarked and general reserves otherwise normally intended to provide for scheduled (and unscheduled) contingencies leading to failure to meet Audit/contractual obligations;
- f) Inability to meet longer term obligations (e.g. a failure to manage an appropriately funded RCP¹ would lead to a deterioration in the building stock);
- g) Consequential reputational damage.

In addition, there are the unknown potential future macro risks associated with local and national economic performance (or indeed occurrence of the pandemic within the reduced workforce), how the pandemic does/does not develop (including the possibility of further lockdowns) and future action by Government and the authorities.

4. RESOURCE ISSUES

The resource issues associated with this report are as set out in the attachments and in previous reports (and in part indicated in the section above). They principally comprise loss of income due to Covid 19, but also the consequential impact in areas such as capital works and the resulting need to rebuild General (essential for both probity and to meet the requirements of external Audit) and Capital reserves (necessary to maintain the building stock and meet the obligations to contracting partners such as NLHF²).

It is important to note that the General Reserve was, in effect, already potentially (albeit not actually because of the point at which delayed capital commitments had reached) in deployment as at the end of the first quarter. Additionally, there remain the pressures identified in the budget setting round. Consequently any shortfall in income normally applied to revenue spend can only³ be made up through savings/efficiencies. There is also a significant, potentially substantial, capacity issue in delivering services with the reductions proposed.

¹ Rolling Capital Programme

² National Lottery Heritage Fund

³ Absent government intervention

5. ENVIRONMENTAL ISSUES

There are no environmental issues directly arising in connection with this report. However, all areas of spend are subject to review and recommendation at the time of resource allocation through the corporate reporting framework.

6. COMMUNICATION ISSUES

The content of this report has been developed in association with the Council's Management Team and Accountant and is derived from the recent deliberations of the Committee and Council.

7. RECOMMENDATIONS

The Budget & Policy Committee consider, amend and recommend that the Council endorse, as appropriate: -

- i) the revenue savings outlined;
- ii) the deployment of the General Reserve, and the making available of the Cemetery/Burial Ground earmarked reserve, to address the revenue position of the Council;
- iii) That a further detailed review of actual as against projected income be undertaken early in quarter 3 as part of budget setting;
- iv) the preparation of further reports to inform both continuing in-year review and the upcoming budget setting process.

1. BACKGROUND

- 1.1 Tavistock Town Council has a longstanding and continuing commitment to a prudent approach to its finances. This has been underpinned by provision of :-
 - a) An appropriate General Reserve set above the minimum recommended by sector Audit;
 - b) Appropriate earmarked reserves⁴ to address foreseeable future calls on resources (including repair and maintenance sinking funds);
 - c) A funded Capital (RCP) reserve (to address both foreseeable and unforeseen/unforeseeable capital requirements) – necessary in view of the size, age and protections applying to the Councils estate;
 - d) Appropriate levels of insurance⁵.

⁴ Or EMR

⁵ Not insured as regards pandemic impact

- 1.2 However, the timing of Coronavirus arising at the end of a multi-year, multi £M capital programme, combined with withdrawal of funds/allocation of costs via the Borough Council has delivered an unprecedented and existential challenge. It is therefore important to note that all the above contingencies/safeguards are now in or potentially close to (subject to capital project progress) deployment on an emergency basis to meet the expected requirements of principally the first two quarters.
- 1.3 Looking beyond that time, it is submitted the extent of the anticipated future challenge can only realistically be met by:
- A resurgence in economic activity and growth in/resilience of associated (or new) income streams in the near future;
 - A change in Government policy enabling local Councils to either access resources made available to help business (eg Councils cannot access Government grants, borrowing, rate relief etc) or to access support given to principal authorities (eg loss of income or Covid funding)⁶;
 - A change in Government policy enabling local Councils to borrow for revenue purposes, or dispose of capital assets to support revenue spend with the proceeds (neither currently lawful);
 - Substantial reductions in services, savings and efficiencies.
- 1.4 To place the matter in context the Council is therefore vulnerable, both in connection with reserves, and most especially as regards cash flow in the last two quarters. This is compounded by the limitations upon its actions including, but not limited to:-
- i) inability (by operation of the law) to borrow for revenue purposes;
 - ii) inability (by operation of the law) to use capital receipts to support revenue streams;
 - iii) ineligibility for NNDR relief;
 - iv) inability by operation of contract to utilise NLHF sinking fund reserves;
 - v) ineligibility to utilise the Government Loan Scheme;

⁶ But note – even the Government Scheme for replacement of commercial income for principal authorities does not aid lost rental or some market income and unlike elsewhere in the country the Devon authorities do not intend providing town/parish councils access to support for loss of income

- vi) ineligibility for the Government Small Business Grant Schemes;
- vii) ineligibility for the Retail Hospitality and Leisure Fund Grant;
- viii) ineligibility for the Small Business Grant Fund (rateable value restriction applies);
- ix) ineligibility for the Local Authority Discretionary Grant Fund (rateable value restriction applies)⁷;
- x) inability to directly access general Government Covid funding made available to principal authorities;
- xi) inability to access Government Covid funding (Income Guarantee Scheme) specifically targeted at replacing lost Council income streams.

1.5 In short the support made available by Government to the business sector, and the support made available by Government to the principal Council sector, is simply not available to the Town Council.

1.6 As a result, and because of its particular reliance on commercial income to fund community services, the Town Council year end projected shortfall in income will likely exceed (in both relative and absolute terms) that of its much larger principal authority - West Devon Borough Council.

1.7 To precis the scale of the problem in March the Council had a (necessarily estimated) projected potential *half year* (ie as at end September) income deficit of iro £430,000⁸ as against an annual overall *revenue* budget of iro £1.7m.

1.8 More work is being undertaken now that it is possible to compare actual progress against projected. This is beginning to suggest that the position is slightly better than that anticipated in March so far as the commercial (rental) income component is concerned⁹. However, it is still very serious overall representing a substantial shortfall equivalent to nearly one quarter of the whole years revenue budget (see below).

⁷ Note WDBC are currently reviewing this in light of changed guidance but, even if an application is successful it is likely to only represent 1-2% of the anticipated shortfall.

⁸ Comprising estimated approx. £160,000 market income, up to £200,000 for deferred rents (subject to take up) and the remainder Town Hall/events/miscellaneous etc

⁹ But unchanged re Market and other income

- 1.9 In summary an early evaluation now indicates an overall total *half year* projected loss of income¹⁰, against budget, of £381,277.
- 1.10 To apply against this we have a £450,000 General Reserve and then as/if necessary a short term accessible (but would need replenishment) EMR of £50,000.
- 1.11 In the third quarter, and notwithstanding receipt of the second half of the Precept payment (£364,128), the Council will be heavily reliant on the extent to which rents do/do not start to come in as usual (also the extent to which the Pannier Market can come back on stream more fully (or not) according to health and economic conditions¹¹).
- 1.12 Similarly in the fourth quarter (but bearing in mind that for those tenants who took up the deferred rent offer they will need to make payment for both the final (Jan-March 21) period and also the two deferred (April-June and July-September 20) quarters¹²).
- 1.13 Revised estimates (necessarily rough) suggest that under current conditions a 'better' case scenario for the Council (considered unlikely) is an actual loss of income in the whole financial year of iro £350,000+¹³. A safer figure is most likely over £400,000 with 'worse' (but not worst) case scenarios substantially above that.
- 1.14 However, permanent income losses and ongoing income reductions combined with rent deferrals to support tenants mean that even under the best scenario the cash flow impact is considerable. There are of course, as outlined above, other risks to income to be factored in. At the time of writing this report takes the view that cash flow is presently assessed as the greatest risk.

¹⁰ But does assume no more/late 2nd quarter rental income is received

¹¹ Realistically in all but the very best case scenario it is likely that reduced footprint 3 day trading will continue for the foreseeable future (ie months not weeks) apart from the short remaining summer season (4 days)

¹² The facility to do so supported by eligibility of tenants generally for Government grants, loans and NNDR relief

¹³ Ie still hypothecated on a limited period of onerous health restrictions, a strong economic recovery, loss arising mostly in Market and Town Hall activities and most rents being paid.

- 1.15 In a normal year an impact of these proportions, whilst substantial, would be manageable for a Council of the size of Tavistock because it has historically¹⁴ held reserves above that typically recommended by Audit reflecting the need to service its extensive listed property base. However, as outlined above (and with £2M capital works in progress and adversely impacted by the pandemic) this event comes at the most challenging time when, for the first time in a decade, reserves are temporarily at levels more consistent with other councils of its size (but without its commercial exposure).
- 1.16 Indications from elsewhere in the sector suggest that, amongst the cohort of 50 largest town/city councils in the country, Tavistock is as or more badly affected as any other.
- 1.17 That said (and subject to capital projects coming in within budget) it is believed the councils prudent approach and deployment of reserves should be sufficient to deal with these scenario's. However, it is acknowledged in the event that the shortfall exceeds those amounts (perhaps due to further lockdown, increased/ing business distress, consequential additional reductions in income or increased costs) the capacity to deal with these is presently minimal. It is also recognised that, even in the 'best case' scenario listed above, at financial year end the Council could still need to find in (absent mitigation) excess of £300,000 to restore the General Reserve to acceptable levels¹⁵.
- 1.18 The purpose of this report is therefore to begin to understand
- a) what savings/efficiencies/mitigations can be made to maintain the financial viability of the Council for as long as possible;
 - b) identify what that timeline may realistically be in the event that the position turns out to be worse than that outlined above (para 1.7 refers);
 - c) ensure that once (a)-(b) above are addressed there is urgent commitment to restoring essential reserves¹⁶ with least impact on the ratepayer;
 - d) begin to scope other variable factors.

¹⁴ And even this year did, albeit to a lesser extent

¹⁵ Hence the extent of savings sought to be achieved

¹⁶ ie the General Reserve and contracted sinking funds

- 1.19 The report sits alongside the extensive range of measures already introduced to support tenants and licensees which are understood to be more far reaching than that introduced by any principal authority in the County. In addition, at the next quarter day a further letter will be sent to tenants outlining support available and inviting those who might consider it likely they may have difficulty in meeting their obligations as they fall due to contact the Council to explore what can be done to assist.
- 1.20 For clarity this report is not intended as a definitive statement of the financial position of the Council, there are too many variables in play. Rather as an indicator of some of the main issues arising, utilising information received from the first quarter, and applying prudent projections for the second quarter, to provide early opportunity to identify areas where an in principle commitment to mitigating savings can be made to support the revenue budget. It does not (and cannot yet) look to the longer term position of Council budgets in the next financial year. It also acknowledges the uncertainties of the economy and progress of the pandemic.

2. REVENUE - OPTIONS

SERVICE ACTIVITY

- 2.1 Each Manager has been tasked with reviewing their areas of responsibility and making recommendations where there is a reasonable level of assurance that, with commitment, same can be realised. However, it is recognised these are very much 'stretch' targets that may not be fully achievable in view of the wide and uncertain range of variables applying.
- 2.2 Furthermore this is an ongoing piece of work and so necessarily reflects early work and it should be understood, from the outset, that the recommendations will either significantly or substantially impact on service levels and capacity. The impact should not be underestimated, in some cases services will be withdrawn and, amongst other factors, the resilience and flexibility of the workforce, some of whom are undertaking multiple roles, will be central to the deliverability of the exercise. It is only through commitment to operating at a substantially reduced establishment that it will be possible to avoid more substantial

and far reaching cuts in services to the community and associated resources.

- 2.3 As such this represents an unprecedented in-year challenge and your officers are in no doubt that whilst it is the first, it will not be the last review required this financial year. To mitigate the financial challenge facing the Council areas are identified where, if agreed by Committee and Council, it is believed appreciable in-year savings can be made to support the position of reserves subject to the caveats listed above. The Committee is requested to endorse all the savings identified.

CORPORATE ISSUES

- 2.4 This report primarily focusses on areas which are either organisation wide, or which have significant departmental spread and where savings are being actively sought across cost centres. For example **Staffing**¹⁷

- That appointment to all current vacancies (representing approximately 20-25% of the workforce) be suspended for the remainder of the current financial year and services continue to be delivered on a Covid adjusted basis. It is important to note that these vacancies can only be sustained in the short term (albeit with impacts), and whilst the Council is operating on reduced services¹⁸ albeit with an increase in attendant levels of organisational risk. This would represent an approximate gross saving (ie including employer costs) to the Council potentially of in the region of £150,000¹⁹.

- 2.5 Whilst still challenging your officers would suggest that in view of the accompanying uncertainties, £20,000 be retained (ie reduce the £150,000 to £130,000) to provide a (albeit very limited) contingency for one or other of the risks identified.

Potential saving £130,000

¹⁷ Note – national pay awards reflect the offer made by the Employers side – 2.75% and no material impacts arise from the recent review of the job evaluation scheme – both these were provided for in the budget.

¹⁸ Eg reduced market trading, no events, no civic/ceremonial, limited meetings, limited opening, etc

¹⁹ Accompanying assumptions have previously been communicated to members.

2.6 Turning to other areas of revenue spend identified at the recent finance workshop that the Committee and Council endorse as follows:

- **Utilities** – Potential saving £10,000
- **Waste Disposal** – Projected saving up to £10,000
- **Business rates** – Potential saving £1,500
- **Localism** – Potential saving £15,000
- **Conferences/Meetings** – Potential saving £3,500
- **Travel** – Potential saving £1,500
- **Courses/training** – Potential saving £9,950²⁰
- **Other Advertising** – Potential saving £9,750
- **Managers Budgets** – Potential saving £4,000
- **Civic Ceremonial** – Potential saving £3,500
- Member allowances²¹ (foregone) Potential saving £3,591

2.7 Other budget heads will form part of the half year review scheduled in the Autumn, there is currently insufficient information to assess whether (and if so the quantum), of any savings that could be made (or indeed increased costs incurred).

3. CAPITAL – OPTIONS

3.1 Projects - the position was outlined more fully in prior reports to Committee and Council. In short there is no current facility to increase those budgets, nor to accommodate any potential increased contract costs²². An application is however being prepared seeking support from NLHF in the form of a grant uplift (the Council was not eligible for the NLHF emergency funding scheme). The possibility of deferring the opening date for the Gateway Centre is also being explored with NLHF and Tavistock Heritage Trust so as to defer the revenue implications associated with supporting that project.

3.2 Current available Capital project earmarked reserves are principally held in the form of those for Cemetery/burial ground extension (£50,000)²³ and are potentially already available to

²⁰ Albeit leaving a backlog of training to carry forward

²¹ Listed for information as this is a decision undertaken by individual Councillors and not a decision for Council

²² Whether or not deriving from routine contract matters or consequential on Covid 19 by means other than reducing spend in other areas. This is highly unlikely given the Guildhall contract has already been value engineered by iro approaching £half a million.

²³ This excludes EMR for NLHF sinking funds which are a contractual requirement of NLHF support for the THI and Guildhall schemes.

support the General Reserve. There is the potential to consider asset disposals but, for the reasons listed in para 1.4 the proceeds could not be lawfully used to support revenue spend.

- 3.3 Consequently at this time it is considered premature to seek to progress a course of action that cannot redress the challenge at hand.

4. SOME OTHER FACTORS

- 4.1 In addition to the foregoing sections it may help to also identify some (but not necessarily all) other factors which could be material:
- a) The possibility of Government intervention to
 - i. support the sector;
 - ii. impose further lockdown.
 - b) The potential increase of some cost heads;
 - c) Future opportunities to review and/or consolidate services, operating sites etc;
 - d) The outcome of partnerships and associated costs/benefits eg THT, WDBC etc;
 - e) Whether new income streams become available, or established one's decline or disappear;
 - f) The possibility that new (whether or not foreseeable) liabilities (capacity, revenue or capital) arise;
 - g) Whether or not grants or in-kind assistance can be accessed to support outputs;
 - h) Whether a safety net or support scheme of last resort can be put in place;
 - i) Similarly there will be areas where spend will likely exceed budget – such as meeting the new website accessibility requirements which will be picked up in future reports;
 - j) Generally more detailed review of budgets.

5. AREAS WHERE INCOME MAY BE AT RISK

- 5.1 Commercial Properties – it is important to note that, when viewing the budget monitoring report income shown is income *invoiced not received*. Consequently, and in view of the extensive deferred rent scheme provided by the Council to support its tenants, an appreciable proportion of rent is outstanding. For participating tenants, the first 6 months of the 2020 becoming

payable in March 2021, with the first invoiced income in 2020 (for the third quarter) falling due in September.

- 5.2 Additionally there is a substantial projected shortfall in Pannier Market Income. It is as yet too early to be able to make a meaningful projection regarding Butchers Hall and no income is projected for the Town Hall whilst Covid restrictions remain in place.
- 5.3 There are also other areas where projected income is either at risk or is not expected to be met and on which more work will be done.

6. CONCLUSION

- 6.1 There are no ready solutions to the challenge currently being encountered and the depth and duration are, for the reasons outlined, necessarily uncertain.
- 6.2 The foregoing report sets out a series of steps which, if adopted and successful²⁴, provide a first (and major) step in providing near term stability and minimising the impact on the tax payer.
- 6.3 However, the challenge it poses should not be underestimated either in terms of the uncertain nature of factors outside the Councils control, the intense pressure it will place on staff to deliver with limited resources, or the discipline it will ask of elected Members. That will mean some things the organisation would like to do, or it needs to do, or the public expect it to do, cannot be done.
- 6.4 That said the measures represent a viable basis to address the situation in-year and will be followed by more detailed work in the third quarter – both around additional savings and budget projections (this year and next). The proposals secure in principle up to £202,291 achievable revenue savings accompanied by the realistic potential for a second round later in the financial year to support the General Reserve and assist cash flow.

²⁴ In practice not all savings will necessarily materialise as expected, also there will be increased costs in certain areas which may not be avoidable and in some areas income streams may prove more resilient

- 6.5 If adopted and provided that discipline is maintained in revenue and also capital projects²⁵ the foregoing measures enable the Council (in all but the worst case scenario²⁶), to secure its finances during the 2020/21 financial year (ie not exceed available reserves). By doing so it will help it plan for the future as it enters the budget setting round for the next and future financial years recognising that, even in the best case scenario, full recovery will likely take some years.

**CARL HEARN
TOWN CLERK & RFO
TAVISTOCK TOWN COUNCIL
SEPTEMBER 2020**

²⁵ And new revenue spend streams are not opened up

²⁶ Discussions are taking place regarding availability of potential short term safety net arrangements in a worst case scenario.