

Report to:	Cabinet
Date:	7 May 2020
Title:	Initial financial assessment of Covid-19
Report of:	Chief Finance Officer
Cabinet member:	Zoe Nicholson, Leader of Council, Cabinet member for finance
Ward(s):	All
Purpose of report:	To update on the initial financial impact of Covid-19 and associated budgetary implications
Decision type:	Non-key
Officer recommendation(s):	<p>1) Cabinet notes the initial financial impact of Covid-19 and associated vulnerability of the authority's budget</p> <p>2) Cabinet notes the assumptions being made about the ongoing financial impact of Covid-19</p>
Reasons for recommendations:	The Council's response to Covid-19 has been and continues to be fast paced. Budgetary assumptions are liable to change and are only given as an indication. This report provides a position statement at this time to keep Cabinet informed.
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1 Background

- 1.1 The budget for 2020/21 was approved by Full Council on 24 February 2020. As the Council no longer receives any Revenue Support Grant, the cost of its services are met from locally generated sources of income such as commercial operation, fee earning services, council tax and business rate retention. In recent years, there has been a significant increase in demand for some key services namely, addressing homelessness and housing need including provision of temporary and emergency accommodation. These have resulted in additional revenue and capital funding being allocated to these services. In meeting these increased costs, the budget also includes some challenging and robust savings and income targets.
- 1.2 In response to the COVID-19 outbreak, The Ministry of Housing Communities and Local Government was clear that any council who made an immediate response to the COVID19 outbreak would be financially supported in their decision making by the government. In addition over the last 6 weeks the government has been making a series of ongoing policy announcements, initially at Budget 2020, and then over the last few weeks. This has meant that local authorities have had to respond quickly to new announcements and understand the financial implications arising.

A complex picture of initiatives has emerged, some of which have been supported by

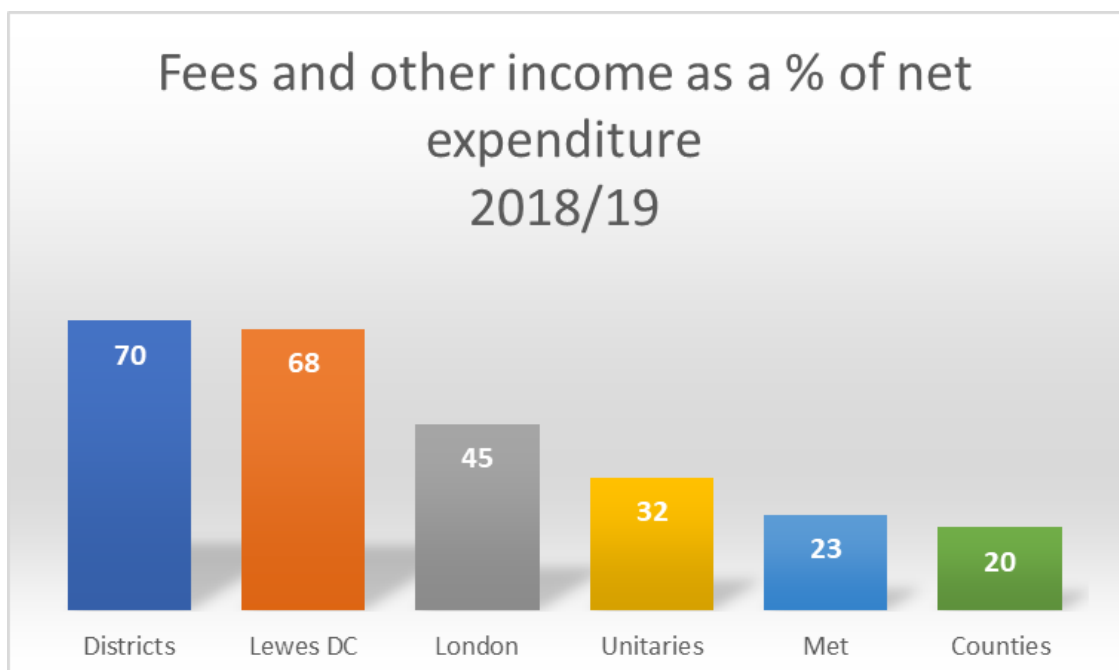
1.3 additional funding; some that will lead to reductions in both council tax and business rates receipts; some that require administration by local authorities of grants to businesses; and then a range of measures with wider financial implications for local authorities.

1.4 The table below shows a summary of the announcements to date and their implications for local government funding. Each announcement is then covered in greater detail below.

	Payment received LDC Share	Additional Funding/ to Offset reductions to other sources/ Ring- fenced Funding
£1.6bn Emergency Response Funding	£39.5k	Additional Funding
£0.5bn Hardship Fund	£816k	Additional Funding- ring-fenced for those in receipt of Council Tax Relief Scheme £150 per household.
100% Business Rates Relief 2020/21	£2,216k	Offset
Small Business Grant Funding and Retail, Hospitality and Leisure Grant Fund	£25,840k	To Fund Grant Payment with ring-fenced and specified nationally set criteria
*A further £1.6bn Emergency Response Funding	TBC	Additional Funding

Table 1

*As many district councils await the distribution of the additional £1.6bn of government financial support, the following chart clearly demonstrates why district councils are arguing for a fairer share when a significant percentage of their funding from fee income have all but disappeared in lockdown (source LG Improve).



2 Emergency Response

2.1 On 16 March, Local Government Secretary of State Robert Jenrick announced that the government stands ready to do whatever is necessary to support councils in their response to coronavirus. He reaffirmed the government's commitment to supporting councils to focus their efforts on the priority area of social care, providing vital support for vulnerable people and supporting their local economy.

As reported elsewhere on the agenda, immediately following the outbreak of Covid-19 and the announcement of a national lock-down, the Council diverted resources to assist and support the most vulnerable in the district working in partnership with voluntary sector partners. As is detailed in a separate report on this agenda, the Council has, at the request of government, established a Community Hub helpline and related services which have been operating since 30 March 2020.

2.2 It is intended that the Community Hub provision continues until the end of the lock-down period and possibly beyond, although at the time of writing it is unclear when and how lock down measures will be lifted. Therefore it is very difficult to estimate the time-period over which this additional service (and related costs) will need to be provided.

2.3 On 19 March, the government allocated £1.6 billion to councils to assist with Covid-19 related support. Lewes District Council received £39,501 from this allocation.

2.4 Only a small part of the costs associated with the council's immediate response to support the community was covered by the initial grant provided by central government. A significant proportion is being paid for from council own limited resources. Table 2 below sets this out.

National allocation	£1,600m (£1.6bn)
LDC expenditure on direct Covid-19 costs food package, etc.- (monthly -approx.)	£0.180m
19 March government funding	£0.039m

Table 2: Immediate response

3 Financial impact on Council's resources

3.1 The above grants are intended to provide funding for additional emergency response costs as well as enabling councils to provide additional hardship support via their Council Tax Reduction Schemes. However, a fundamental issue for the council is that, its services are now largely reliant on locally generated income and taxation rather than government funding which after continuous reductions since 2010, finally diminished in 2019.

3.2 In 2020/21, the main sources of funding for the Council's General Fund services are as follows (the RAG status provides an overview of the projected risks in relation to COVID-19):

2020-21 Summary	£'000	RAG
Revenue Support Grant	Nil	
Retained business rates (baseline)	(2,243)	A
Retained business rates (growth)	(2,497)	R
Business rates pool	(250)	R
Business rates (Newhaven EZ)	(660)	G
Council Tax	(7,796)	A
New Homes bonus	(464)	G
Other government grants	(344)	G
Total Financing	(14,254)	

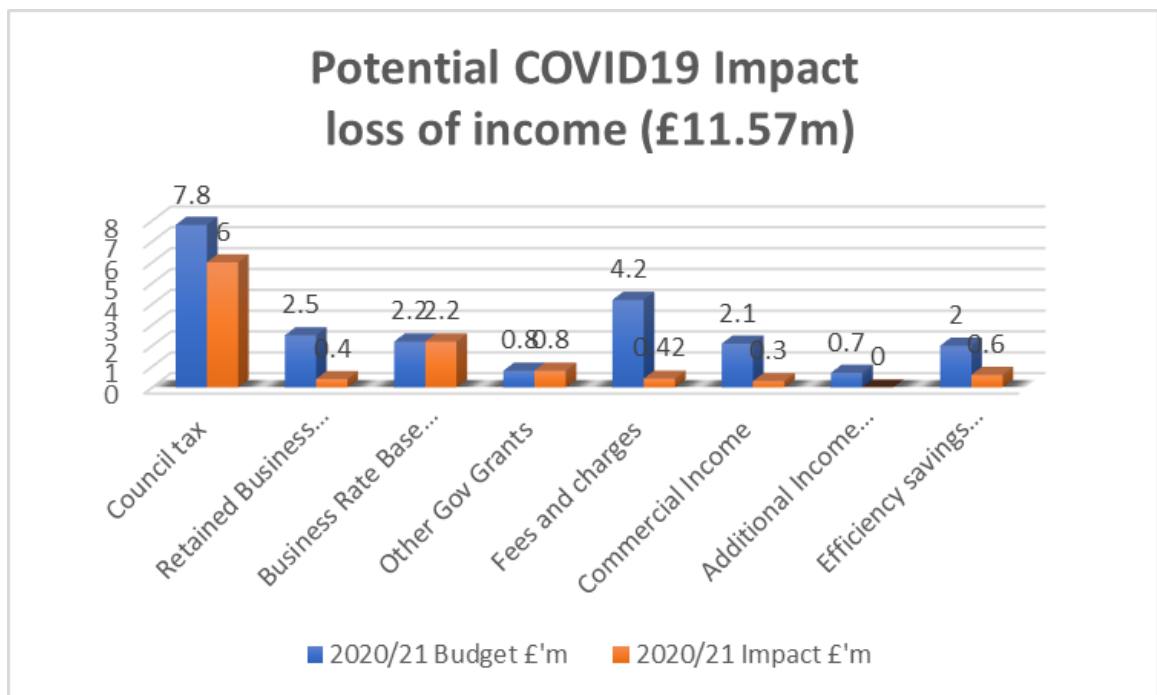
- 3.3
- a) Retained business rates – as a result of a likely reduction in the number of businesses in the District, as some are not able to recover following the lock-down period and subsequent likely economic downturn.
 - b) Business rates (Newhaven EZ)
 - c) Council tax payments - as residents experiencing financial hardship may find it difficult to pay their bills or may seek council tax support as a result in changed financial circumstances; increased bad debt, reduced collection rate etc.

4 Other Income

4.1 In addition, in line with revised government economic growth figures, and the forecasted economic downturn, we are assuming a reduction in the following sources of income:

- d) Rental income from our commercial estate – where our tenants may vacate, due to businesses winding up, may be unable to pay their rent
- e) Events and other income generating activities
- f) Car park, planning and other fees & charges

4.2 The Following chart summarises the potential impact of income streams:



4.3 Following table provides an extract from the MHCLG submission providing an estimated position on Covid-19 impact on income :

1 - Retained Business Rates	Mar-20 £0.1m	Apr-20 £0.3m	Full Year 2020-21 £2.1m
2 - Council Tax	Mar-20 £0.2m	Apr-20 £0.5m	Full Year 2020-21 £1.8m
3 - Sales, fees and charges	Mar-20 £0.4m	Apr-20 £0.5m	Full Year 2020-21 £4.5m
4 - Commercial income	Mar-20 £0.4m	Apr-20 £0.7m	Full Year 2020-21 £3.17m

Table 3: **Reduction of fees and income £11.57m**

4.4 Set against this, demands on our services have increased and are predicted to remain higher than forecast for the rest of the financial year. Table 5 sets out the additional costs to service areas for April alone, above what was originally forecast for the 2020/21 budget. These headline figures reflect likely increases in demand, in particular in relation to;

- a) Homelessness – both increases in those experiencing homelessness and the council’s current additional duties in relation to providing temporary accommodation to ensure there is no rough sleeping.
- b) Benefits – a significant increase in benefits applications has already been seen and is likely to continue through the lock-down period and beyond.

4.5 Following table provides an extract from the MHCLG submission providing an estimated position on Covid-19 impact on additional costs :

Question B1	Mar-20	Apr-20	Full Year 2020-21
11 - Housing (including homelessn	£0.3m	£0.4m	£2.6m
12 - Cultural Services	Mar-20 £0.2m	Apr-20 £0.2m	Full Year 2020-21 £1.3m
13 - Environmental and regulatory	Mar-20 £0.1m	Apr-20 £0.18m	Full Year 2020-21 £1.454m
17 - Finance/ corporate services	Mar-20 £0.08m	Apr-20 £0.12m	Full Year 2020-21 £0.5m
18 - Other services	Mar-20 £0.15m	Apr-20 £0.18m	Full Year 2020-21 £2.4m

Table 4: increase in costs £8.254m

5 Capital Investment

- 5.1 The Council's capital programme is currently under review. A further update and impact assessment will be provided on this area once this review is about to complete and make recommendations as appropriate.

6 Cashflow

- 6.1 The Council's treasury management team have modelled a number of scenarios for cashflow over the next 6 months. This is heavily influenced by the timing of government support, in particular the timing of the Section 31 grant to replace the loss of business rates, as well as the flow of income from local taxation.

- 6.2 On 16 April the government announced it will defer Business Rates payments to government. Section 31 grants to cover the loss of retail relief will also commence in May. The impact of these measures will be to improve cashflow position over the next 5 months which will help offset the reduced cashflow arising from income losses. With these revised government measures in place, the council should avoid the need to borrow to support cashflow until the end of August at the earliest.

- 6.3 It is important to recognise that these measures provide us with temporary cashflow assistance and not a much needed financial support.

7 Reserves

- 7.1 The 2020/21 budget included the Council's Chief Finance Officer Report (Section 25 Report). It included the following analysis of the reserves held by the Council. The reserves were estimated to be £10.083m at 31st March 2021 and at the time, adequate to meet the commitments and forecast expenditure facing the Council, as well as providing a degree of resilience against changes in Business Rates income forecasts and the impact of a continuing economic downturn.

	01 April 2020 £000's	Transfers In / (Out) £000's	31 March 2021 £000's
General Fund Balance	2,862	400	3,262
Earmarked Reserves			
Asset Management	2,316	-	2,316
Newhaven Enterprise Zone	266	660	926
Economic Regeneration	1,124	-	1,124
Revenue Grants and Contributions	468	-	468
Strategic Change	1,771	(500)	1,271
Vehicle and Equipment Replacement	18	-	18
Business Rates Equalisation	200	202	402
Managing In-Year Economic Downturn	296	-	296
Total Earmarked Reserves	6,459	362	6,821
Total Reserves	9,321	762	10,083

7.2 It is clear that without adequate government financial support, Lewes like many other councils will find it impossible to manage the medium and long-term financial impact of Covid-19 relying solely on its own scarce and limited resources.

8 Summary of overall position

8.1 This demonstrates that the Council's finances are very vulnerable in the current situation. Council Tax revenues could be impacted if taxpayers' financial circumstances are impacted and more people claim Council Tax Reduction discounts (CTR). Similarly, Business Rate revenues, excluding government support for expanded reliefs, could be impacted by the effect on the local economy and the visitor-driven economy both in the short and medium term depending on recovery.

8.2 Most concerning are fees and other commercial income as these are now a very large source of funding for council services. The pandemic will see many income streams being severely impacted by closures, or reduced business and tourism activity, and/or the general impact on the economy (e.g. commercial rents and planning fees).

8.3 In setting its budget and meeting the cost of its key services, the Council committed to a range of efficiency savings and additional income targets much of which are now unlikely to be delivered.

The Ministry of Housing, Communities & Local Government (MHCLG) recently collected financial data from local authorities on 15 April to begin to understand the costs and income pressures facing local authorities. At this early stage these are difficult to estimate accurately, however, the assumptions included in our submission are under constant review and will be updated regularly.

Based on our current experience, the Council estimates that the additional costs in the arising from the pandemic so far, including delayed savings programmes, of approximately £380k per week. This is an approximate impact and worse-case scenario which takes into account significant loss of income, additional costs including increased demand in homelessness and housing need. There will be some offset to these costs from reduced purchases of non-essential supplies and services, however, this is not anticipated to be significant. These costs may be mitigated more substantially by, for example, increased economic activity, income and employment levels associated with the easing of lockdown restrictions. Conversely, if businesses and households continue to experience lower incomes then lower Council Tax, Business Rates and other income to the Council will remain below those anticipated in the Budget. These longer term risks emphasise the importance of additional government financial support to local authorities as a consequence of the pandemic and the extra vital work we are carrying out in supporting vulnerable households and local businesses. These matters will be monitored closely and modelled with regular updates to members.

It is also of considerable concern that the financial impacts on taxation, business rates and fees incomes could take a considerable amount of time to recover, giving rise to a significantly greater medium and longer term financial impact.

The impact of Covid-19 on the council's finances will be significant. Detailed figures are still being calculated, but it can be assumed;

- a) That income levels will be reduced from the levels projected when the budget was set
- b) That there will be additional pressures on expenditure

- c) That there may be challenges in achieving the efficiency savings that formed part of the adopted budget as service pressures on the organisation require higher staffing levels to be maintained.

Outlook

The above are our projected budgetary pressures. We will continue to closely monitor the impact Covid-19 is having on our budget and revert to Cabinet in a timely manner. We are also continuing to lobby for additional funds to offset the budgetary costs of Covid-19.

The government (MHCLG) have already set up 3 different monitoring processes via their DELTA on-line portal. These capture Business Rate Reliefs, Business Grants and general financial implications. The information to be captured by the latter will be collected monthly and the first submission was provided on 15 April 2020. It captures all spend against the emergency funds, estimated losses or income and taxation, expected cash flow requirements and provides 'free text' fields for local authorities to raise other matters if required. The other returns are weekly and the first data returns were made on Friday 3 April.

Locally, financial updates will be provided to the Cabinet and Members on an ongoing basis.

9 Corporate plan and council policies

- 9.1 Lewes District's Corporate Plan was adopted in February 2020. The service and support provided during the first month of Covid-19 to residents, businesses, voluntary organisations and others in the district is in line with the corporate plan's priority to getting our services right for you.

10 Financial appraisal

- 10.1 The financial implications are set out in the body of the report. The key point to note is that it is not possible to currently quantify all of the costs, losses and exceptional expenses that the authority will incur due to Covid-19. It is also not currently possible to say whether or not the government emergency funding streams, including any future announcements, will off-set these financial impacts. Should these funds be insufficient, Cabinet is advised that the council will need to call on its reserves.

11.0 Legal implications

- 11.1 There are none arising directly from this report.

12 Risk management implications

- 12.1 The council is acutely aware that the focus is currently on responding to the crisis and is mobilising its staff and resources to support this effort. However, it is also fully aware that after the crisis has subsided there are likely to be a wide range of long term impacts on individuals, the business and local economy, the third sector and public sector agencies. The council is working to assess the impact and develop its policy and approach to managing recovery and sustainability once the logistics of the immediate crisis have been put in place and are operating effectively. In the meantime, the Leader and Chief Executive are ensuring the Council's own financial position is represented at various local government and government forums.

13 Equality analysis

- 13.1 There are no direct equalities implications arising from this report. The COVID-19 outbreak affects all areas of society. Government are making specific provisions to 'shield' those expected to be most affected. The council will monitor impacts on protected characteristic equality groups as the crisis continues.

14 Environmental sustainability implications

- 14.1 This report contains no direct environmental sustainability implications although it is worthy of note that current ways of working, with most staff working remotely, has a positive impact in terms of the council's carbon emissions with significantly reduced car usage.

15 Appendices

- Appendix 1 – MHCLG submission
- Appendix 2 – Performance data

16 Background papers

The background papers used in compiling this report were as follows:

- Budget report
- COVID-19 related links
https://www.lewes-eastbourne.gov.uk/_resources/assets/inline/full/0/286143.pdf