

Report to:	Cabinet
Date:	3 June 2020
Title:	Initial financial assessment of Covid-19
Report of:	Chief Finance Officer
Cabinet member:	Councillor Stephen Holt, 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> <p>3) Cabinet authorises the Chief Executive, in consultation with the Leader of Council, Cabinet member for Finance and the Chief Finance Officer, to make use of monies held in the Council's Reserves as he believes most appropriate in order to continue essential service delivery and/or to mitigate the impact of the Covid-19 emergency on residents and/or service users</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.
Contact Officer(s):	Name: Homira Javadi Post title: Chief Finance officer Email: Homira.Javadi@lewes-eastbourne.gov.uk

1 Background

- 1.1** The budget for 2020/21 was approved by Full Council in 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.
- 1.3 A complex picture of initiatives has emerged, some of which have been supported by 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 EBC Share	Additional Funding/ to Offset reductions to other sources/ Ring- fenced Funding
£1.6bn Emergency Response Funding 1	£64.3k	Additional Funding
£0.5bn Hardship Fund	£918k	Additional Funding- ring-fenced for those in receipt of Council Tax Relief Scheme £150 per household.
100% Business Rates Relief 2020/21	TBC £2,216k	Offset
Small Business Grant Funding and Retail, Hospitality and Leisure Grant Fund	£22,544k	To Fund Grant Payment with ring-fenced and specified nationally set criteria
*A further £1.6bn Emergency Response Funding 2	£1.03m	Additional Funding

Table 1

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 borough 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. The split between county and district authorities was 98:2. Eastbourne Borough Council received £64,321 from this allocation.
- 2.4 The second round of emergency funding was announced on 28 April. This increased the allocation by another £1.6bn. The split between county and district authorities was 65:35. The Council's share of this allocation was £1.03m.

The following table shows the funding allocations across East Sussex authorities:

Local Authority	First Tranche of Covid-19 Fundin	Second Tranche of Covid-19 Fundin	Total Covid-19 Additional Funding
East Sussex	£16,297,243	£9,810,215	£26,107,458
East Sussex Fire	£136,730	£633,138	£769,868
Eastbourne	£64,321	£1,026,186	£1,090,507
Hastings	£67,268	£918,693	£985,961
Lewes	£39,501	£1,026,785	£1,066,286
Rother	£41,835	£961,373	£1,003,208
Wealden	£52,005	£1,604,988	£1,656,993
Total East Sussex	£16,698,903	£15,981,378	£32,680,281

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	4,346	A
Council Tax	8,712	A
New Homes bonus	332	G
Other government grants	132	G
Total Financing	13,522	

- a) Retained business rates – as a result of a likely reduction in the number of businesses in the Borough, 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 Following table provides an extract from the MHCLG submission providing an estimated position on Covid-19 impact on income :

Income source	April 2020 £m	May 2020 £m	Full financial year 2020-21 £m	EBC Element
Business Rates cash receipt losses	2.200	2.200	26.700	1.000
Council Tax receipt losses - LCTS	0.150	0.150	1.600	0.192
Council Tax receipt losses - payment failure	0.050	0.050	0.600	0.072
Council Tax receipt losses - other				
Council Tax receipt losses total	0.200	0.200	2.200	0.264
Collection fund losses total	2.400	2.400	28.900	1.264
Highways and Transport Sales Fees & Charges (SFC) losses	0.030	0.030	0.300	
Cultural & Related SFC losses	0.700	0.700	2.400	
Planning & Development SFC losses	0.010	0.010	0.100	
Other SFC income losses	0.060	0.060	0.400	
Sales, Fees & Charges (SFC) income losses total	0.800	0.800	3.200	
Commercial Income losses	0.150	0.150	2.300	
Other income losses	0.100	0.100	1.200	
Non collection fund losses total	1.050	1.050	6.700	6.700
TOTAL INCOME LOSS	3.450	3.450	35.600	7.964
HRA – residential rent arrears	0.060	0.060	0.800	0.800
HRA – commercial rent arrears				
HRA – losses from voids	0.010	0.010	0.400	0.400
HRA – other				
HRA – total reduction in income	0.070	0.070	1.200	1.200

4.3 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.

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

Service area	April 2020 £m	May 2020 £m	Full Financial Year 2020-21 £m
Highways and Transport			
Public Health			
Housing - homelessness services	0.100	0.100	1.000
Housing - rough sleeping - accommodating and supporting those			
Housing - other excluding HRA	0.100	0.100	1.000
<i>Housing total excluding HRA</i>	<i>0.200</i>	<i>0.200</i>	<i>2.000</i>
Cultural & related - Sports, leisure and community facilities			
Cultural & related - other			
<i>Cultural & related total</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>
Environment & regulatory - cremation, cemetery and mortuary services/Excess deaths			
Environment & regulatory - waste management			
Environment & regulatory - other			
<i>Environment & regulatory - total</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>
Planning & development			
Police, Fire & Rescue			
Finance & corporate - ICT & remote working	0.100	0.050	0.150
Finance & corporate - Revenue & benefits expansion			
Finance & corporate - other	0.010	0.010	0.100
<i>Finance & corporate - total</i>	<i>0.110</i>	<i>0.060</i>	<i>0.250</i>
Other - Shielding			
Other - PPE (non-Adult Social Care and HRA)	0.010	0.010	0.150
Other - unachieved savings/delayed projects	0.500	0.500	5.400
Other - excluding service areas listed above			0.400
<i>Other total (includes Shielding)</i>	<i>0.510</i>	<i>0.510</i>	<i>5.950</i>
TOTAL SPENDING PRESSURE (General fund)	0.820	0.770	8.200

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 £6,367m 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.

EBC	01-Apr-20 £000's	Transfers In / (Out) £000's	31-Mar-21 £000's
General Fund Balance	3,642	-1,277	2,365
Earmarked Reserves			
General Earmarked Reserve	506		506
ICE Investment Reserve	2,000		2,000
Strategic Change Reserve	199		199
Capital Programme Reserve	345		345
Revenue Grants Reserve	952		952
Total Earmarked Reserves	4,002	0	4,002
Total Reserves	7,644	-1,277	6,367

- 7.2 It is clear that without adequate government financial support, Eastbourne 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 scares and limited resources.

There is current uncertainty over the projected collection rate of council tax and business rates. Officers are seeking ways to mitigate this. For Eastbourne, with its unique tourism and cultural offer, the loss of anticipated income from large-scale discretionary spend, for example on tourism, theatres, events, is a particular concern.

Officers will bring regular update reports to Cabinet. It is at least possible that urgent use may need to be made of monies in Reserves so as to continue essential service delivery and /or to mitigate the worst impacts of the Covid-19 emergency on residents and service users. For this reason, it is recommended that the Chief Executive be authorised, in consultation with the Leader of Council and the Chief Finance Officer, to use these monies where this is necessary.

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, could be of approximately £300k 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 Eastbourne borough council'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 borough 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

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>