

Report to:	Cabinet
Date:	11 June 2020
Title:	Financial assessment of Covid-19
Report of:	Chief Finance Officer
Cabinet member:	Councillor Zoe Nicholson, Leader of Council, Cabinet member for finance
Ward(s):	All
Purpose of report:	To update on the financial impact of Covid-19 and associated budgetary implications
Decision type:	Key
Officer recommendation(s):	<ol style="list-style-type: none"> 1) Cabinet notes the initial financial impact of Covid-19 and associated vulnerability of the authority's budget 2) Cabinet notes the assumptions being made about the ongoing financial impact of Covid-19 3) Cabinet approves the reserve transfers included in the report 4) 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 COVID19 earmarked reserve as he believes most appropriate in order to continue essential service delivery and/or to mitigate the impact of the emergency on residents and/or service users
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

Cabinet received an initial COVID19 financial impact assessment at its extraordinary meeting on 7th May 2020. This was shortly after receiving its share of the first of £1.6bn emergency funding allocation. The Council's share was £39k.

2 COVID19 – May update

2.1 The second round of emergency funding was announced on 28 April. This increased the allocation by another £1.6bn. The Council's share of this allocation was £1.02m bringing its overall total to £1.06m.

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

2.2

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

2.3 It will be noted the very large increase in allocation between the first and second tranches for the Council is reflective of a similar increase for districts and boroughs. The split between county and district authorities was 65:35 in comparison to 98:2 for the first tranche. This is following provision of financial analysis of impacts by councils, and Officer lobbying through bodies such as District Councils' Network (DCN), Society of District Council Treasurers (SDCT) and political lobbying.

2.4 Following the first financial submission in April, the Ministry of Housing, Communities & Local Government (MHCLG) recently collected the second round of financial data from local authorities on 15 May. The second submission was different to the first one and required additional information and analysis regarding the council tax and business rate collection funds as well as availability of reserves. Still a complex and hard to predict assessment with much depending on factors outside the authority's control, the Council's May's submission was prepared based on available information to date and the developing picture.

2.5 A copy of the submission is provided in appendix A of this report.

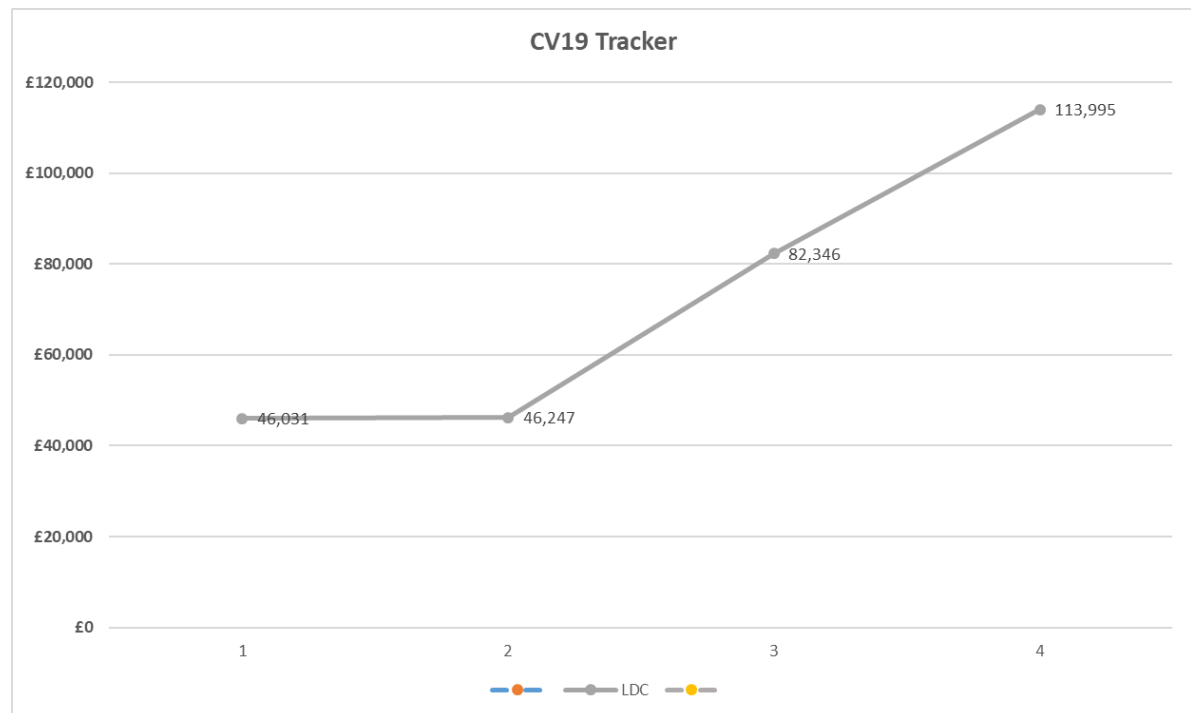
2.6 As previously reported, the Budget set in February 2020, does not take into account the financial impact of the COVID19 response and its financial impacts.

2.7 Whilst the Government has stated that it intends to fully compensate councils for the impact of COVID19, it is currently doubtful that this promise will extend to cover loss of income and any other longer term cost implications impacting on the Council's own resources. To date, relative to the scale of impact the Council has received very limited financial support from central Government to offset impacts on its budget.

2.8 Whilst the current level of additional funding received to date is welcomed but it is also significantly less than the anticipated financial impact on the Council.

2.9 Officers are continuously tracking the financial impact of COVID19 on the Council. Additional codes have been set up to identify COVID19 expenditure and an income and expenditure impacts model has been set up to model the financial impacts on the Council across a range of pessimistic to optimistic scenarios with respect to length of lock down.

An account of COVID19 related expenditure has been kept so that the items are readily identifiable and weekly updates are presented to the Corporate Management Team to ensure ongoing monitoring.



- 2.10 The Council has been focused on responding quickly to residents in the highest needs and made contact with Category A (shielded) residents and where they had a need provided initial food parcels.
- 2.11 It is currently uncertain as to how long the impact of current restrictions or 'lockdown' is likely to last. However, since the relaxation of the lockdown rules, we have been able to revise down many of our earlier assumptions. We have modelled a number of scenarios, based on various different government announcements, as follows:-
- 2.12
- best case scenario – lock down and restrictions will last for 4 month(Full year impact)
 - mid-case scenario – lock down and restrictions, in some form will last for 7 months (Full year Impact)
 - worst case scenario - lockdown and restrictions, in some form will be in place for a full year. (Full year impact)
- 2.13 The above assumptions are being kept under regular review

	Budget 20/21	April Actual	F/Y Impact	Shortfall	LDC Share	No of Months	No of Months	No of Months	
	£'000	£'000	£'000	£'000	£'000	4 £'000	7 £'000	12 £'000	
Gross Income	77,710								
CTR		22		1,719	263				Increase in CTR
Reduction in Collection Rate		8		580	90				0.5% reduction in collection rate in April
		29		75,410	353	118	206	353	400
Net Rates Payable 1	24,992								
10% reduction (15% economic contraction)				3,579					10% reduction - based on 15% -25% economic slowdown forecast
Extended rate relief				8,321					
				13,092	1,432	477	835	1,432	1,500
Car Parks	1,058	0.63	7.5	1,051		350	613	1,051	Base on April's financial performance
Tourism and Enterprise	220	0.46	5.5	214		71	125	214	Base on April's financial performance
Planning Policy	509	15.3	183.2	326		109	190	326	Base on April's financial performance
Building Control	284	5.9	71.1	213		71	124	213	Base on April's financial performance
Fee from Professional Services	149	5.7	67.9	81		27	47	81	Base on April's financial performance
Liability Order Income	70	0.0	0.0	70		23	41	70	Base on April's financial performance
Summons Cost Income	140	0.0	0.0	140		47	82	140	Base on April's financial performance
Licences	488	10.6	127.5	361		120	210	361	Base on April's financial performance
Investment Properties	1,638	10.4	124.4	1,514		505	883	1,514	Base on April's financial performance
Rental Income	374	0.0	70.0	304		101	177	304	Base on April's financial performance
	4,930	49	657	4,273		1,424	2,492	4,273	4,050

Savings Targets										
Various	2,698	0	481	2,217	1,500	1,700	2,217	2,050	Ability to achieve savings and income targets based on impact of lockdown on services and economy	
Housing need										
Homelessness - Emergency Accommodation E		15	250		120	190	250		Estimated based on previous years' experience. Delays in housing development. Increase in ET .	
Homelessness - Temporary Accommodation E		25	375		165	275	360		Estimated based on previous years' experience. Delays in housing development. Increase in TA	
Discretionary Housing Payment E		25	310		180	260	300		Estimated based on previous years' experience. Increase DHP.	
HB Overpayment		30	360		130	275	360		experience. Delays in housing development. Increase HB implications.	
Capital investment - financial support E		10	1,400		100	500	1,100		£500k budget provision & potential Support to WL	
			2,695	2,000	695	1,500	2,370	2,000		
Emergency Response										
Agency Staff		12	144							
Cleaning Expenses		5	60							
Hire of Transport		8	88							
Clothing & Uniforms		2	22							
Contributions		20	220							
ICT Costs		31	124							
Unallocated charges		40	440							
			1,098	1,100	480	840	1,000	650	Based on average of £110k per month	
Additional Grant					4,717	7,614	11,714	10,650		
Emergency allocation					-1,060	-1,060	-1,060			
					3,657	6,554	10,654	10,650		

2.14 An estimate of likely additional spend and loss of income under each scenario are included in the table below:

MHCLG Submission	WCS	MCS	BCS
	£'000	£'000	£'000
Additional spend	5,587	4,040	2,675
Loss of Income	6,127	3,574	2,042
	11,714	7,614	4,717
Use of Emergency Grant	-1060	-1060	-1060
Use of Contingency	-450	-450	-450
Potential short term shortfall	10,204	6,104	3,207

2.15 Use of contingency

The Council's approved budget includes a provision of £450k to fund unexpected operational expenditure and to be used as contingency. Use of contingency whilst helpful in reducing the additional estimated net expenditure in relation to COVID19, only makes a small reduction to the significant shortfall against the approved budget as shown above.

The potential combined loss of income and additional costs being incurred are material to the Council's budget and financial position. It can be seen that COVID19 financial impacts are greater on the income side than the expenditure side. This is also reflective of districts and boroughs, which tend to rely on fees and charges income for a greater portion of their budget. As a result districts and boroughs are likely to be proportionately hit harder by COVID19.

2.16 An estimate of the likely range for the Council of the net adverse financial impact in 2020-21 is from £3.2m to £10.2m.

The Council's Net Budget requirement for 2020-21 is £14.25m million. As a percentage of the net budget requirement the potential combined loss of income and additional costs could be between 22% and 71%.

The Net budget requirement for 2020-21 has clearly changed since the setting of the budget in February. Although the government has made two grant allocations, significantly increasing the allocations made in the second towards districts and boroughs, it is unclear whether there will be any more and much needed allocations. It is therefore recommended that the Council looks into interim financial arrangements to support its additional expenditure and or loss of income.

2.17 It is further recommended to create a Covid19 Earmarked reserve to the value of £1.8m by allocating £0.8m from unallocated General Fund reserve and £1m from other earmarked reserves (as suggested below) to be available as required and provide additional and funding for a Supplementary Budget. This is to ensure compliance with the Council's finance procedure rules and provide short term funding for all three scenarios. Hopefully the final outcome will be a lesser impact. The reserves will only be drawn down if the loss of income and expenditure incurred is not offset by further government grant support. In this scenario, Officers will also look for cost savings to partially offset the impact on reserves however, it should be noted that depending on the scale of the shortfall in government funding, it might be unlikely that sufficient cost savings can be found in year to bring the council's expenditure back in line with its budget.

2.18 As a general guide it is considered prudent to retain an unallocated balance of 3%- 5% is a reasonable level of general fund reserve to provide a cushion for councils for unexpected events. Our current gross services budget is about £55m (including HB subsidy) which suggests a General Fund reserve of between £2m- £3m – the Council’s General Fund reserve is currently ££3.2m but in addition there are specific reserves for equalisation of business rates, Economic downturn and strategic change. If reserves fall to insufficient levels, which in this context is not anticipated, then the Council will be advised to budget to rebuild the reserves to a sufficient level over the medium to long term. It is quite unlikely that sufficient cost savings will be able to be found in any one year, and so it will take a number of years to rebuild reserves.

Following table provides an analysis of an appropriate levels of short term supplementary budget:

2.19	Loss of Income	6,127	3,574	2,042
		11,714	7,614	4,717
	Use of Emergency Grant	-1060	-1060	-1060
	Use of Contingency	-450	-450	-450
	Potential use of reserves	-1,800	-1,800	-1,800
	Potential short term shortfall	8,404	4,304	1,407
	MHCLG Submission	WCS	MCS	BCS

2.20 **Reserves:** When the 2020-21 Budget was reported to Council on 27th February 2020 officers anticipated the level of available general and revenue fund reserves to be around £10 million. Of this £3.2m is in the unallocated general fund reserve and the remaining £6.8m is in earmarked reserves.

The following table provides an analysis of potential impact of short term use of reserves on GF and Earmarked balances:

2.21	Apr-20	in/out	Adj	2021 rev	2021	Diff
	£'000	£'000	£'000	£'000	£'000	£'000
GF	2,862	400	-800	2,462	3,262	-800
Asset Management	2,316	0	-300	2,016	2,316	-300
NHEPZ	266	660	0	926	926	0
Econ reg	1,124	0	0	1,124	1,124	0
Rev Grant & Cont	468	0	0	468	468	0
Strategic Chg	1,771	-500	-300	971	1,271	-300
V&equ rep	18	0	0	18	18	0
BR Eq	200	202	-104	298	402	-104
Econ DT	296	0	-296	0	296	-296
Covid			1,000			
	6,459	362	0	5,821	6,821	-1,000
	9,321	762	-800	8,283	10,083	-1,800

2.22 Summary of overall position

The Council’s finances continue to be very vulnerable in the current situation. 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 £200k 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.

2.23 The Council’s capital programme was carefully developed to address the housing, economic and environmental challenges in the District. The delivery of the Programme is

critical to any post COVID recovery and reigniting the local economy. For any recovery plan to be sustainable, it has to include measure which will increase economic activity, healthy employment and income levels and good housing provision. 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.

2.24 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.

2.25 The Council will need to consider and plan for interim and longer term impacts of COVID19. This includes:

Financial support - Agreement and availability of Supplementary Budget to provide sufficient financial provision for the next 4-6 months depending on the various assumed scenarios.

Options for Mitigation of the financial impacts on the Council

The main options for mitigating the financial impacts of COVID19 include:

- A) Continue to lobby central Government for additional funding in recognition of the impacts on Councils and their ability to deliver services. The Council is continually to actively work with other councils to lobby hard for additional funding
- B) Look to make offsetting savings and efficiencies where possible including extending remote working, greater use of technology, review of capital programme and financing costs.
- C) Revisit saving and income generating targets – aimed at delivering as many of the targets as possible
- D) Explore options to apply capitalisation to some of the costs and financial impacts to enable the Council to borrow and fund on a long term basis. Lobby government to agree to supported borrowing and annual contribution towards meeting the revenue payments
- E) Temporary use of Reserves to close the gap. The Council has very limited capacity and can only make limited allocation from its reserves.

Although above is not a full list of actions but it provides a sound starting point in putting in place a sustainable financial solution to tackle an unprecedented health, economic and social challenge.

3 Financial appraisal

3.1 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 scares and limited resources.

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

4 Legal implications

4.1 There are none arising directly from this report.

5 Equality analysis

There are none arising directly from this report.

6 Appendices

Appendix A – MCHLG Submission (Round 2)

7 Background papers

Initial financial impact assessment – 7th May 2020