

<b>Report to:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>15 July 2020</b>
<b>Title:</b>	<b>Financial assessment of Covid-19 update</b>
<b>Report of:</b>	<b>Homira Javadi, Chief Finance Officer</b>
<b>Cabinet member:</b>	<b>Councillor Stephen Holt, Deputy Leader of Council, Cabinet member for finance</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To update on the financial impact of Covid-19 and associated budgetary implications – June update</b>
<b>Decision type:</b>	<b>Non-key</b>
<b>Officer recommendation(s):</b>	<p>1) <b>Cabinet notes the initial financial impact of Covid-19 and associated vulnerability of the authority’s budget</b></p> <p>2) <b>Cabinet notes the assumptions being made about the ongoing financial impact of Covid-19</b></p>
<b>Reasons for recommendations:</b>	<b>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.</b>
<b>Contact Officer(s):</b>	<b>Name: Homira Javadi</b> <b>Post title: Chief Finance officer</b> <b>Email: <a href="mailto:Homira.Javadi@lewes-eastbourne.gov.uk">Homira.Javadi@lewes-eastbourne.gov.uk</a></b>

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## 1 Background

Cabinet received an initial COVID19 financial impact assessment at its meeting on 3<sup>rd</sup> June 2020. This was shortly after receiving a share of the second £1.6bn emergency funding allocation. The Council’s share was £1.026m bringing its total amount to £1.09m.

- 1.1 The very large increase in allocation between the first and second tranches for the Council was 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 was 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.
- 1.2 Following the earlier financial submissions in April and May, the Council is continuing to monitor the impact of COVID19 on its budgetary provisions and financial assumptions. Still a complex and hard to predict assessment with much depending on factors outside the authority’s control, the Council’s June’s submission has been prepared based on available information to date and the developing picture including an assumption of an

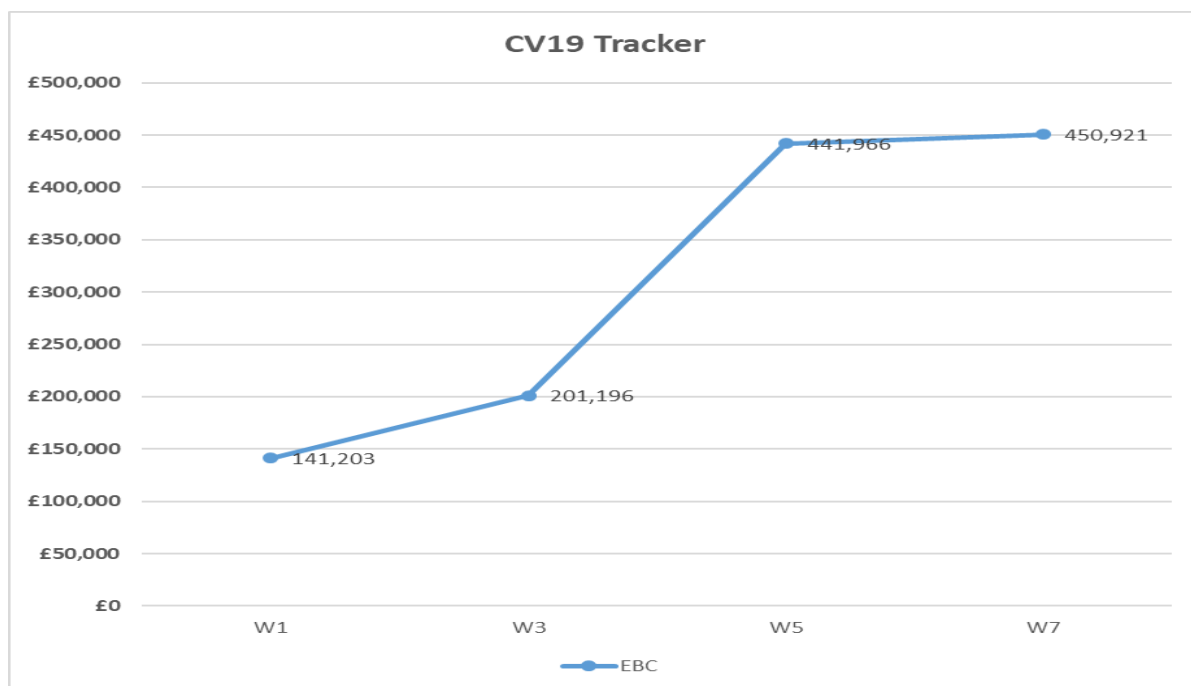
economic bounce back after July and easing off of some social distancing and COVID19 restrictions.

- 1.3 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.
- 1.4 The Government had stated that it intends to fully compensate councils for the impact of COVID19, however, the current view is indicative of a shared burden proposition whereby councils and government jointly manage the financial impacts on the councils' 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.
- 1.5 Whilst the current level of additional funding received to date is welcomed but it still falls significantly below what is required to mitigate the anticipated financial impact of the COVID19 on the Council's resources and key services.

## 2 Emergency Response

- 2.1 Officers are continuously tracking the emergency response costs of COVID19 on the Council. Additional codes have been set up to identify COVID19 expenditure and a financial model has been set up to assess 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.

The following chart provides an overview of the costs directly relating to the Council's emergency response over the last 7 weeks.



The chart shows that to date about half of the emergency funding allocation has been directed at various response and community hub activities.

### 3 Covid19 impact the budgetary provisions

3.1 The COVID-19 crisis has seen the financial challenges placed on local authorities grow at unprecedented pace and scale. These challenges are only likely to deepen as the financial year goes on. 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 some of our earlier assumptions in addition to introducing a number of cost reduction and saving measures such as:

- Revising down the impact on housing need and homelessness
- Re-introducing a program of savings to meet as many targets assumed within the approved 2020/21 budget;
- Re-start a program of delivery to meet as many income targets assumed within the approved 2020/21 budget;
- Reduce as many additional (recurring and one off) growth items included in the approved budget; and
- Review of capital programme and financing implication

3.2 The above assumptions are being kept under regular review and any changes will be reflected in the Council's future submissions.

A summary of key assumptions included in the June's MHCLG submission relating to additional spend and loss of income is shown in the following table.

• Homelessness & Housing	£1.0m	
• Unachieved new savings and income	<u>£2.3m</u>	
	<b>£3.3m</b>	
• <b>Collection fund impact</b>		<b>£0.8m</b>
• Loss of income from leisure	£1.2m	
• Loss of Car parking income	£0.3m	
• Planning income etc	£0.1m	
• Other Income	£0.6m	
• Tourism	£2.4m	
• Income from Corp Landlord	<u>£1.8m</u>	
	<b>£6.4m</b>	<b>£7.2m</b>
<b>Figures in Red include loss of collection fund income</b>	<b>£9.7m</b>	<b>£10.5m</b>

The assumptions are based on a July bounce back – however the CV19 impact on many of income streams will be long-term and long lasting.

3.3 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.

#### **4 An estimate of the likely impact**

The Council's Net Budget requirement for 2020-21 is £13.5m. As a percentage of the net budget requirement the potential combined loss of income and additional costs could be 73%.

The Net budget requirement for 2020-21 has clearly changed since the budget was set in February 2020. Although the government has made two grant allocations, it is critical that the severity of COVID19 impact on the authority's resources and services is recognised and further government support is made available to address immediate and longer term financial requirements in order for the Council to continue to deliver its key services.

#### **5 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 arising from the pandemic so far, including delayed savings programmes, could be of approximately £190k per week. This is an approximate impact which takes into account significant loss of income, additional costs including increased demand in homelessness and housing need.

5.1 The Council's capital programme was carefully developed to address the housing, economic and environmental challenges in the Borough. The delivery of the Programme is critical to any post COVID recovery and restarting the local economy. For any recovery plan to be sustainable, it has to include measures which will increase economic activity, employment opportunities and improve 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.

5.2 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 carry out in supporting vulnerable households and local businesses. These matters will be monitored closely and we continue to provide regular updates to members.

5.3 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.

5.4 The Council will need to consider and have robust plans in place in managing the interim and longer term impacts of COVID19 by September and in preparation for formulating its Medium Term Financial Strategy. Members will be updated on an ongoing basis and as plans develop further.

## **6 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) 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.
- E) Lobby government to agree to supported borrowing and annual contribution towards meeting the revenue payments
- F) 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.

## **7 Financial appraisal**

- 7.1 The Council's financial appraisal remains the same as last report and continues to be that without adequate government financial support, Eastbourne like many other councils will find it impossible to manage the immediate and longer-term financial impacts of Covid-19 relying solely on its own 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.

## **8 Legal implications**

- 8.1 There are none arising directly from this report.

## **9 Equality analysis**

- 9.1 There are none arising directly from this report.

## **10 Appendices**

Appendix A – MCHLG Submission

## **11 Background papers**

Initial financial impact assessment – 3<sup>rd</sup> June 2020