

Title of Report	COVID-19 FINANCIAL IMPACT REPORT	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	None	Public Report: Yes
Financial Implications	The early council-wide estimated financial impact of the Covid-19 pandemic is £2.1m gross and £1m net of government emergency funding received to date.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	None.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	Once the full extent of the financial impact of Covid-19 is known, it is likely that the council will need to consider any organisational changes that may be required to take account of the additional services needed to support communities over the next twelve months, to mitigate the financial impact and to ensure critical services continue to be unaffected.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide members of the Corporate Scrutiny Committee with an understanding of the financial impact of the Covid-19 pandemic to the Council's finances.	
Recommendations	THAT MEMBERS OF THE CORPORATE SCRUTINY COMMITTEE NOTE THE CONTENTS OF THE REPORT AND PROVIDE ANY COMMENTS IT MAY HAVE TO CABINET WHO WILL CONSIDER THE REPORT ON 14 JULY	

1.0 BACKGROUND

- 1.1 The council's own financial implications arising from Covid-19 are still emerging and are expected to continue to emerge over the medium-term. This report sets out the financial impact currently understood in the last week of April and is intended to provide members with an opportunity to understand the detail regarding the early financial assessment. Forecasts assume a lockdown period lasting until 30 June, unless specific service variations are known, with economic recovery taking longer.
- 1.2 As the finance team continue to work on closing the council's accounts for last year, this report does not provide members with details of the outturn position for 2019/20. The 2019/20 Provisional Outturn report is expected to be presented to Cabinet in July. The council's draft accounts are planned to be published at the end of July and it is expected that the Audit and Governance Committee sign off the final accounts in October, in line with the revised national statutory deadlines of end of August for draft and end of November for final published accounts.
- 1.3 At this very early stage, we are not in a position to forecast the final position for 2020/21 or indeed for the final impact of the pandemic on the council's finances. Further and more refined estimates relating to the impact to the 2020/21 budget will be presented in the

forthcoming quarterly performance management reports. Similarly, it is not yet possible to consider the impact to the council's five year medium term position. The medium-term impact and revised medium-term deficit position will be considered in September of this year when the "Review of the Councils Medium Term Financial Plan" is considered by the Committee and Cabinet. This this end, this report focuses solely on the impact of Covid-19 to date.

1.4 Council finance officers and budget holders from across the organisation have undertaken additional work to review budgets and capture the detailed information to explain the impact of Covid-19. Assessment of the council's revenue accounts, the General Fund, the Housing Revenue Account (HRA) and Special Expenses, has focussed on ascertaining the value of:

- Irrecoverable income losses – where the income lost to the council is unlikely to be recovered;
- Deferred funding or income – where the income lost is likely to be received in the future; and
- Increased expenditure – where the Council has spent more through one-off costs or increased service delivery costs (which may continue through economic recovery or end when we exit lockdown).

1.5 Assessment of the council's General Fund and HRA Capital Programmes has sought to understand the financial impact of the deferment of schemes where works were or have been suspended.

1.6 Along with other local authorities, the council has received additional funding from government to support its own finances in the form of the Coronavirus (Covid-19) Emergency Funding for Local Government from the government of £1.086m, received in two tranches. The government has recently announced that it guarantees funding for councils for actions that it has asked us to carry out, but there is concern that this may not be sufficient to cover all losses. As at the time of writing this report, we are yet to receive further detail regarding a third tranche of this Emergency Funding. Our position has been not to allocate this funding to services, at least until the position becomes clearer.

1.7 The Council has received (or is due to receive over the course of 2020/21) various other significant sums of funding, the majority of which do not or will not have an impact on the Council's financial position but instead compensate for expenditure or planned expenditure, as follows:

Funding	Purpose	Impact on Council finances
Covid-19 Emergency Funding for Local Government £1.086m	Emergency funding to support local authorities increased expenditure and income losses.	Will reduce impact of council losses.
Covid-19 Business Grants £20.8m	Covid-19 Support for businesses via: <ul style="list-style-type: none"> • Small Business Grant Fund • Retail, Hospitality and Leisure Grant Fund Schemes • Local Authority Discretionary Grants Fund 	Nil – funding is passed on to local businesses
Section 31 Grant	Section 31 Grant – funding in respect of business rates	Nil.

£1.6m	ordinarily paid over course of year brought forward to support local authorities' cash flow	Funding compensates the administration of normal business rates reliefs. Government paid this amount in March to support local authorities' cash flows, instead of paying over the course of the year.
Section 31 Grant – Retail, Leisure and Hospitality and Nursery Discount £10.6m	Additional Section 31 Grant to compensate additional Business Rates reliefs/discounts in respect of Retail, Hospitality and Leisure relief and Nursery Discount	Nil. Funding compensates the administration of new reliefs announced for the retail sector and nurseries and supports the council to be able to meet its precept payments as normal.
Covid-19 Hardship Fund £0.5m	Covid-19 Hardship Fund to support recipients of Local Council Tax Support by reducing their annual bills by £150.00	Nil. These funds compensate the council for its and preceptors loss of council tax income as a result of administering the hardship fund.
High Streets and Retail Spaces £93k	Government to fund preparatory work for the safe reopening of high streets and other retail spaces.	Nil. It is assumed the fund will be spent in full on supporting the re-opening of retail and high street spaces.
New Burdens Funding – Business Grants Value - TBC	Grant funding to compensate local authorities for the administration of grants to local businesses - expected in two tranches, to reflect the two sets of administration responsibilities on grants, although these amounts remain to be confirmed	Will reduce impact of council losses.

1.8 The Council continues to have a healthy level of reserves across both its General Fund and Housing Revenue Account. These reserves are able to be redeployed in the event that a deficit is forecast to arise at the end of the 2020/21 year. As such, the Head of Finance and Section 151 Officer considers the council to be financial stable on an ongoing basis. The future of New Homes Bonus and the level of growth to be retained via the Business Rates Retention System from 2021 remains yet to be confirmed by government and therefore total council funding remains at risk – this matter will be considered and reported in the review of the medium term financial plan in September when the position will be much clearer.

2.0 CASHFLOW

2.1 Since the 17 March, greater scrutiny of cash flow monitoring (in addition to the daily monitoring schedule undertaken by the Finance team) has been implemented to properly assess the likely impact of Covid-19 and ensure the council has the necessary funds to meet its financial obligations to fund service continuity, pay contractors and pay precept payments of council tax and business rates.

2.2 All new investments were suspended on this date in order to preserve cash for these reasons. Cash management processes have been in line with the council's own Treasury Management Strategy Statement that was approved by Council in February 2020 and local decisions authorised by the Head of Finance and Section 151 Officer to ensure cash remains liquid.

2.3 Current forecasts identify that the Council may have a very short-term (1 - 2 months) borrowing need in Q4 (January 2021 – March 2021) in the region of £5m - £11m. However, it is very likely that this borrowing need will be negated through normal fluctuations in cash movements between now and Q4, particularly if capital spending plans are deferred further. The position will be continued to be monitored and estimates revised once further information arises. If necessary, the Head of Finance has the appropriate delegations in place to undertake new borrowing.

3.0 EARLY ASSESSMENT OF COUNCIL WIDE FINANCIAL IMPACT

3.1 In summary, the revenue impact across the Council to date is estimated to be in the region of **£2.129m gross and £1.043 net of the £1.086m Emergency Funding for Local Government**. The majority of this impact is within the General Fund which will bear £1.870m gross impact, with the HRA impacted by £259k, notwithstanding the actual impact on housing rents which is not yet fully understood.

3.2 The estimates detailed span across the tail end of the 2019/20 financial year, but the majority of impact is within 2020/21 as detailed in the remainder of the report. However, members should note that the impact to council tax and business rates will be felt in the 2021/22 financial year rather than the current year due to how local taxation is accounted for (see para 4.3.1).

3.3 The **impact across our capital programmes is estimated at an additional £79k expenditure**, solely on the General Fund at this stage. Some detail is included below with regard to likely deferment of spending, however, it is too early to estimate the full year impact on spending plans.

3.4 We currently await for a response from government regarding 'right to buy one for one replacement monies' and whether the council will need to spend more of its own fund on its new build housing programme due to having to repay £134k of right to buy one for one receipts back to treasury (see paragraph 8.2.2).

3.5 As we are yet to allocate the emergency funding recovered to services, estimates below are in gross values and where possible reflect the full year impact.

4.0 GENERAL FUND

4.1 The total impact to the General Fund is currently estimated to be £1.870m.

4.2 In the last few weeks of the 2019/20 financial year, we have estimated that income reduced by £11k due to the pandemic: respect of bulky and food waste collections (£2k) and car parking income (£9k). An estimated £58k of additional expenditure was estimated to be incurred in respect of additional administration equipment (£3k), cleaning equipment (£1k), IT equipment (£43k), IT software licences and (£6k) and homelessness prevention (£5k).

4.3 The key areas where we expect the pandemic to impact our finances over the course of 2020/21 are detailed below:

4.3.1 **There is an early estimated reduction in local taxation of £460k Business Rates and Council Tax that would hit the council's accounts in 2020/21.**

It is anticipated that there will be an impact to the Council's share of business rates and council tax due in 2020/21, however, the impact on local taxation is

much more difficult to assess. Although we anticipate a reduction in the amounts we will receive in the coming months, this does not of itself amount to a shortfall of income as sums charged remain due and can be collected long after the year ends. Due to the nature of accounting arrangements, any additional amounts not collected will not hit the accounts in the current year and instead will be reflected as a charge against the 'Collection Fund' in the following year (2021/22).

In the past, we have found that around 98% of business rates and council tax is collected each year. Initial estimates for council tax suggest that we could see an increase of 1-2% of not collected which we broadly equate to a loss of £110k (at 2%) on the council's £5.5m share of the total £69m due to be collected. Business rates could see an increase of 5% not collected, which would broadly equate to £350k of the council's £6.9m share of the total £71.7m due.

4.3.2 There is a forecast reduction in income of £818k. The significant areas of reduced income are detailed below:

- a) £255k in relation to Grounds Maintenance – only minimal work has been undertaken during April to June, it is assumed that the service will be restarted from July.
- b) £139k in relation to trade refuse income which has been partially offset against the reduction in disposal costs of £104k. It has been assumed that there is a 50% decrease in demand for the service for the period April to September and a 10% decrease for the remainder of the year.
- c) £117k for pay and display income. The forecast is based on no income for April to June and then reduced income for when the car parks start charging again from July.
- d) £41k for cleansing services due to the loss of income from Leicestershire County Council for sweepings, recharges to the HRA for the waste removal contract and from various cancelled events. The service is scheduled to recommence from June with the support of agency staff and the service should be back to normal from January.
- e) £100k in relation to planning fees. Assumptions are based reductions in applications for the first 6 months of the year and then it has been assumed that the budgeted income will resume from October.
- f) £116k investment income – due to the fall in interest rates and the expectation they will not increase for the remainder of the financial year.

4.3.3 Additional expenditure of £631k. The significant areas of additional expenditure are:

- a) £66k in relation to cleaning, which includes daily wipe downs of the refuse, recycling and cleansing vehicles and contract cleaning at the Linden Way depot.
- b) £48k in relation to communications with residents, two letters have been send to all residents detailing the council's response to the coronavirus pandemic and information regarding the recommencing of green bin collections.
- c) £95k in relation to a loan to Everyone Active to cover 20% of staffing costs for furlough staff not covered by the government scheme. The £95k will be repaid over the remainder of the contract. Everyone Active have requested additional support and this will be covered in a separate report to Community Scrutiny in July and Cabinet in September 2020.
- d) £292k in relation to waste staffing costs. To enable the refuse and recycling services to continue, additional staffing and agency costs have been incurred and the additional spend has been forecast to continue until December.

4.3.4 Reduction of expenditure of £108k. The main savings identified are in relation to fuel savings of £67k for the waste services and cleansing teams, due to the lower costs of fuel and reduction in usage.

4.3.5 Journey to Self Sufficiency Programme. Responding to the pandemic is diverting internal resources away from this important corporate programme. We

had budgeted for £570k of savings in 2020-21, but work is currently paused. Savings of £56k are forecast to be made this year by:

- a) Arranging to prepay secondary pension contributions for 2021/22 and 2022/23 years early to generate a 3 year saving of £120k - £88k of which relates to the general fund and the remaining £32k for the HRA, meaning £29k will be saved in 2020/21.
- b) Savings of £27k per year have also been identified in relation to the procurement of the ICT Data Centre.

Given the ongoing recovery work it is unlikely that the full £570k savings will be achieved in 2020-21, however a review of the programme will be undertaken and an update will be provided as part of the review of the medium term financial plan in September 2020.

5.0 HOUSING REVENUE ACCOUNT

5.1 The Housing Revenue Account is a ring-fenced account to ensure that income generated from our council homes is reinvested back into the service we provide as a landlord.

5.2 The total impact on the HRA is £259k. There were no identified areas of reduced income or additional expenditure relating to 2019/20.

5.3 The key areas where we expect the pandemic to impact our finances over the course of 2020/21 are:

5.3.1 Reduced surplus from our In-house Repairs Team (IRT). Our in-house repairs team charge the HRA for each repair or home improvement they complete. This generates a surplus, which is then reinvested back into the HRA.

A budgeted for a surplus of £286k exists for 2020-21. However, the pandemic has caused the council to temporarily pause our home improvement programme and only complete emergency repairs in homes. We have also kept all agency staff employed through this difficult time, meaning the IRT recorded a loss of £121k in April.

The IRT are now beginning to restart work where possible and we currently expect that the account should near breaking even by the end of the year, which is £285,000 below our budgeted position. This, however, is heavily dependent on work increasing back to normal levels, which remains to be seen.

5.3.2 Savings on our routine repairs work. In April we spent £115k on routine repairs compared to a budget for the month of £259k. Our expectation is that our repair costs will take the rest of quarter one to recover back to normal levels as non-urgent repair work is resumed where possible. As a result we expect savings of £218k at this stage.

5.3.3 Journey to Self-Sufficiency Programme. Responding to the pandemic is diverting resource away from this important corporate programme. We had budgeted for £225k of savings in 2020-21, but work is currently paused. Given the ongoing focus on recovering from this emergency it is prudent to assume that this programme will not generate all the savings anticipated this year. This will be reviewed in details and a revised position reported as part of the medium term financial plan in September 2020.

5.3.4 Reduced rent from the new homes we're building in Coalville. We are currently building 8 homes on Cropston Drive, Coalville. The budget had assumed these would be ready for occupation at the beginning of June, but work on site was paused in March 2020. We currently expect the homes to be let in early September, which reduces our expected income by £12k.

5.3.5 Reduced rental income from existing homes by £114k. We have adopted a policy of managed collections, whereby we continue to charge rent but take no action to recover any debt. This resulted in the amount of rent we are owed increasing by £114k above normal levels in April 2020. However, work will continue to recover this debt.

5.3.6 Officers are also exploring options how we can pass on savings to tenants for activities that normally attract service charges that have been suspended due to Covid-19, such as grass cutting. This work is still ongoing at the time of writing, but the financial implications should be small as the reduced income will be offset by the reduced costs.

5.3.7 Reduced investment interest on balances. As noted in paragraph 4.2.2 f), interest rates have fallen significant and are not expected to recover quickly. We are forecasting reduced income to the HRA of £66k as a result.

6.0 SPECIAL EXPENSES

6.1 Due to the pandemic, there will be reduction in planned expenditure of £135k due to suspension of grounds maintenance services received and the cancellation of a number of events.

7.0 GENERAL FUND CAPITAL PROGRAMME

7.1 It is not currently proposed that any of the 2020/21 approved schemes planned will be cancelled, however a number have been suspended during the pandemic. The Council spent less than £10k of its approved capital programme budgets during April, however this is expected to increase from June.

7.2 There has been one direct impact on the general fund capital programme due to Covid-19. The capital programme included £25k for the laptop replacement programme. Due to the requirements to set staff up to work from home, £104k has been spent on laptops. £43k was incurred in 2019/20 and £61k in 2020/21. There may need to be some further spend as a number of employees are still using their own devices. The over spend in 2020/21 will be funded from an identified saving in respect of another ICT related capital project.

7.3 At present it is too early to forecast the impact on the remainder of the capital programme due to the pandemic. Construction work on the New Market was paused but work has now recommenced. There is likely to be slippage on both the Leisure Centre and Marlborough Square projects. However, the indirect impact will be in the Council's capacity to deliver some of the projects within the year given the focus on recovery and delivering core services. It is anticipated that a revised position will be presented to members as part of the Quarter 1 performance report.

8.0 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

8.1 We spent £185k on the HRA Capital Programme in April 2020. This is lower than would have been expected as work on some major programmes has had to stop.

8.2 There has been no direct impact of the pandemic in terms of additional capital expenditure. We expect key areas of impact over 2020/21 to include:

8.2.1 The Home Improvement Programme. We had budgeted to spend £3.9m on this programme, which provides funding for the replacement of key components in our properties, such as bathrooms, kitchens and roofs. This work was stopped in response to Covid-19, meaning little has been spent on the programme so far this year.

We are beginning to restart the Home Improvement Programme, starting with works to the outside of properties such as roofs. However, we expect spending in this area to be lower than normal for some time as:

- Social distancing policies will reduce operative's productivity;
- It may take time for supply chains to return to normal, preventing us completing some types of work;
- Tenants may be less willing to have operatives in their homes completing this work.

We currently expect to spend between £100k-120k in the first quarter of this year. The position at the end of the year is also likely to be lower than originally budgeted, with a current estimated spend of £3m by the end of the year compared to a budget of £3.9m.

8.2.2 The New Supply Programme. As noted in paragraph 3.3.6, the current new build scheme on Cropston Drive was temporarily paused and is now likely to complete later in the year. This delay is not expected to have major changes to the budgeted expenditure.

However, the build is being part funded by right to buy one for one receipts. These are receipts retained from the sale of our homes through the right to buy scheme and our agreement with Government stipulates that we must spend these within 3 years or return to Government with interest. We need to spend £342k by the end of quarter one in 2020/21, and the delay on Cropston Drive now puts us at risk of having to return £134k of this funding.

We, and other organisations, have raised this issue with Government and are waiting to hear whether there will be any changes to the agreement to reflect the challenges authorities are having spending these funds during this period.

8.2.3 The New Housing System project. The 2020-21 budget included a small budget of £24k to complete the installation of a new IT system for the Housing department. This project is now on hold in direct response to the Covid-19 response and the staff have been redeployed to other teams responding to the crisis. It is not yet possible to accurately quantify how much will be spent during 2020-21 on this project as a new timetable for completion of the project has not been confirmed. However, we can expect to see a significant overspend when the project gets underway again.

8.3 Other projects and programmes within the Capital programme have not been directly impacted by the Covid-19 emergency. However, as with the General Fund capital programme, there is a risk that the Council's focus on responding to and recovering from this emergency will reduce capacity to deliver some of these projects.

Policies and other considerations, as appropriate	
Council Priorities:	A sound financial position for the Council underpins all Council values.
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.

Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	The 2020/21 budget will continue be monitored throughout the year to ensure expenditure is controlled and where possible income recovered. Similarly, the council's cash flow will also be monitored to ensure the council has sufficient funds to pay preceptors and its own financial liabilities when they fall due.
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