

9 June 2020		ITEM: 5
Corporate Overview and Scrutiny Committee		
COVID-19 Financial and Budget Implications		
Wards and communities affected: All	Key Decision: Non-Key	
Report of: Sean Clark, Corporate Director of Finance, Governance and Property		
Accountable Assistant Director: Jonathan Wilson, Assistant Director Finance		
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property		
This report is public		

Executive Summary

This report sets out the impact from the COVID-19 Pandemic on the Council's General Fund and Housing Revenue Account (HRA) budgets. There are a number of budget pressures set out that include direct expenditure to manage the effects of COVID-19, indirect costs that have arisen from impacts on contractors and reductions in income.

Members should note the position reflected within this report provides a snapshot of the impacts and as there remains significant uncertainty on when lockdown will be fully lifted or, indeed, what ongoing impacts there could be over the short, medium and longer term.

The report also sets out wider COVID-19 potential impacts on the 2021/22 budget. Council considered a report on 26 February 2020 that set out budget surpluses of £5.8m and £4.1m for 2020/21 and 2021/22 respectively. The surplus in the current year will help the Council address the financial pressures in 2020/21 but the impact on council tax and business rate collections, along with ongoing expenditure and income pressures, will put the Council into deficit in 2021/22 if we do not take action to bring the budget back into balance. Fortunately the council has been able to strengthen its reserves position in recent years with an increase in the General Fund balance from £8m to £11m but also with a Financial Resilience Reserve that stands at a further £6m. Whilst it is preferable not to access these reserves they do provide additional security against financial pressures.

The report also sets out the financial support to businesses that has been provided nationally that Local Government has been tasked to deliver.

1 Recommendations:

- 1.1 **That the committee notes the assumptions and financial implications set out in the report.**

2 Introduction and Overall Projected Financial Impact:

- 2.1 This report provides an update on the financial impact of the COVID-19 pandemic and sets out how the financial pressures link to the delivery of key services and support to our communities.

Summary Financial Position 2020/21

- 2.2 The impact of financial pressures arising from COVID-19 on the GF balance in 2020/21 are currently projected to total £9.7m which covers the period from 1 April 2020 to 31 July 2020.
- 2.3 Direct grant funding to support the council totals £9.21m to date and this meets the majority of the initial impacts set out above.
- 2.4 The wider concern are the impacts for the remainder of the financial year both in terms of additional costs and ongoing reductions in income. This remains under assessment.
- 2.5 There will be further impacts on Council Tax and Business Rates income as set out in the report but it is noted these do not impact on 2020/21 but will need to be mitigated from 2021/22 onwards through the Collection Fund.
- 2.6 Consequently the Council (and the sector as a whole) expects significant additional funding to be required. In addition the Council has frozen non-essential spend and this applies to both capital and revenue projects.
- 2.7 The information is based on current knowledge and will fluctuate on a regular basis depending on our assessment of new and emerging risks and opportunities. The Council continues to engage in an ongoing dialogue with MHCLG and regular returns are submitted to ensure the full range of financial impacts are clear.

3 Background - Government Support to Local Government, Businesses and the Community

- 3.1 There have been a number of initiatives and support to be delivered through Local Government. The Ministry of Housing, Communities and Local Government (MHCLG) has provided specific funding to address COVID-19 financial impacts totalling £3.2bn. Further measures have been taken to support the Council and the wider business community as set out below:

Wider sector funding and support:

- £1.3bn has been provided directly to CCGs to support local authorities enhance the hospital discharge process.

- £0.600bn for local authorities to ensure care homes can continue to halt the spread of COVID-19 by helping them cover the costs of implementing infection control measures to reduce transmission.
- DHSC have announced a fund of £0.300bn for test and trace services. The funding is intended to help each local authority develop tailored outbreak control plans, working with local NHS and other stakeholders.
- A Hardship fund of £500m for those receiving Council Tax Support.
- A fund of £50m to support reopening of the high streets.
- Funding to tackle rough sleeping of £3.2m.

Measures taken by Central Government to Support Local Authority Cashflow:

- An upfront payment of the Business Rates Grant to support cash flow.
- The deferral of £2.6bn in business rates payments to central government until July to support cash flow.
- £850m of existing social care grants to be paid up front in a move to support cash flow.

Further Direct Support to Businesses administered through the Council:

- £1.8bn of Business Rates Relief.
- £12.3bn of Grant Support to Rural and Small Businesses as well as the Leisure, Hospitality and Leisure sectors to local authorities in England.
- A further £617m to provide support to those businesses with ongoing premises costs but are not on the rating list. This is a discretionary scheme that must be set by individual councils.

Financial Impacts in Thurrock

3.2 The following funding and support has been provided to the Council and the wider business community in Thurrock:

Direct Revenue Funding to manage the effects of COVID-19:

- Thurrock Council received a total of £9.210m to address COVID-19 pressures.
- Thurrock Council has been allocated £1.007m to distribute to care homes to implement infection control measures that reduce the spread of COVID-19.

- Funding to support Test and Trace will be provided to help each local authority develop tailored outbreak control plans. Allocations are to be confirmed.
- The Council has been allocated £0.156m of funding to support a range of practical safety measures to reopen high streets safely including new signs, street markings and temporary barriers.
- The Council has been awarded £1.3m from the Hardship Fund. As a minimum, each Local Council Tax Scheme (LCTS) recipient will receive a further discount of £150 or less if the current liability is less.

Support for Local Businesses in Thurrock:

- Business Rates payments for all businesses were deferred for the month of April.
- 2,401 businesses will pay no business rates in 2020/21 due to the Small Business and Rural Rate Reliefs.
- Business rate relief has been extended to all businesses within the Retail, Hospitality and Leisure sector with a rateable value between £15,000 and £51,000.
- A grant scheme covering all businesses that are in receipt of one of the reliefs above As at the 27 May 2020, 1,597 grants have been paid out of an estimated number of 2,018 with a total of £20.455m from an estimated total of £23.770m.
- The government has announced a further discretionary scheme for small businesses with a total of £1.237m to allocate.

General Fund Budget Pressures 2020/21

- 3.3 Set out below is a summary of the significant General Fund budget pressures in services based on actual and forecast impacts to date over an initial 4 month period. Whilst some impacts are already known there remains significant uncertainty on the impacts of COVID-19 as lockdown is released and thereafter. It is expected there will be financial impacts beyond the initial period under consideration.

Adult Social Care

- 3.4 There has been significant activity to ensure the local social care capacity was sufficient to address the expected increases in demand due to COVID-19.
- 3.5 The focus has been on:
- stabilising the care market.

- ensuring emergency care facilities had sufficient capacity for people leaving hospital.
- providing more financial resilience in the care sector.
- taking actions to reduce hospital admissions.
- ensuring there is sufficient Personal Protective equipment available to staff.

This has been reflected in:

- 10% across the board resilience up-lift for 4 months to stabilise local provision and address income shortfalls and increased staffing costs.
- Establishing local Step-Down provision - for example rapidly re-opening Oak House Residential Care home to take COVID positive patients discharged from hospital.
- Block booking, for a period, vacant beds within Thurrock to secure local provision.
- Work is also ongoing to enable swab testing to be available to care home staff to enable effective management of any virus outbreaks.

3.6 The financial resilience costs are projected to total £1.27m. A further £0.41m is required to ensure there has been sufficient additional capacity available locally and circa £0.13m to reflect the projected increase in homecare demand. Finally the additional PPE requirements are currently projected to be £0.24m and additional staff costs to cover increased demand and sickness related to COVID-19.

3.7 Looking ahead the care sector will be facing significant challenges. This is a national issue as care homes in particular face reduced occupancy, increased costs and ongoing requirement around infection control. Action will be required to avoid significant business failure as the sector recovers from the pandemic and adapts to a changed market.

Community Shielding

3.8 In Thurrock 9,536 residents have been identified as needing to shield at home for 12 weeks as they are considered clinically extremely vulnerable of a high risk of severe illness if they contract COVID-19.

3.9 Locally, Thurrock Coronavirus Community Action was established and is a partnership between Thurrock Council and Thurrock CVS working with Stronger Together and the voluntary sector to support anyone self-isolating without friends or family to support them.

3.10 The government tasked Local Authorities to meet needs in the period before food deliveries could be achieved. The majority of council purchased food

boxes were delivered in the initial weeks of operation, prior to government purchased deliveries settling in. The Local Authority is expected to fill any gaps linked to food deliveries.

3.11 The total projected cost of the operation to date is £0.25m.

Children's Services

3.12 The key impact is the availability of placements for children looked after and is a critical function of the local authority. Whilst placements are generally available it is predicted that demand may increase due to provider staff absence, in addition the availability of local placements is crucial especially if we have reduced staffing levels as this will decrease time spent travelling.

3.13 This has been applied to both LAC placements and Head Start Housing as shown below:

Directorate	Detail	Total for 4 month period
Children's Services	Block Purchasing of Placements	156,233
	Head Start Housing	177,328
Children's Services Total		333,561

3.14 Wider impacts include supporting care leavers and children looked after laptops have been purchased to support access to online learning; prior to the government scheme.

3.15 In addition Schools were asked to remain open over the Easter holiday period to support key workers and vulnerable children. Consequently additional Home to School Transport costs have been incurred, where the Council has a statutory duty to provide transport.

3.16 Going forward there is concern of an increase in demand for children's services once the sector returns to business as usual. This could have an associated financial impact.

Other Significant Expenditure

3.17 The Council has wider additional costs arising from the response to COVID-19. This has included additional subsidies to local bus providers to ensure services remained open to residents at a reduced level during the lockdown process – this is projected to cost £0.52m over the 4 month period.

3.18 The Council is also working with Essex partners to ensure there is sufficient mortuary capacity available across the Essex, Thurrock and Southend areas – this has been held at a specific level as the position is assessed and can be scaled up or down as required. The current facilities are expected to cost up to £0.14m.

- 3.19 The Council has reconfigured the Household Waste and Recycling Centre to address social distancing requirements and enable the facility to reopen. This has required detailed traffic management planning to support this and the associated costs are under assessment.
- 3.20 The Council has provided significant additional capacity to provide rough sleepers with accommodation during the pandemic and the expectation is this will continue into the future. The projected costs over the initial 4 months is currently £0.11m but remains under review.
- 3.21 The response to the pandemic will also directly impact on the delivery of savings plans for 2020/21 and this is estimated to total £0.233m over the period.

Ongoing Expenditure

- 3.22 Members should also be aware that savings on non-COVID budgets are minimal. Government instructed local authorities that where contracts were in place – the highest value example being Home to School Transport – that payments should still be made despite the services not being provided either all or at a much lower level than originally budgeted.

Income

- 3.23 Officers are currently estimating a shortfall in fees and charges of £2.3m. Key areas include Environmental Services, Parking, Planning, Children's Services (Catering, Thurrock Adult Community College, Grangewaters and Music Services) and the Thameside Theatre.
- 3.24 Not being able to progress the Thurrock Regeneration Ltd projects has an impact on the investment returns that would have started in this financial year. Members will also be aware that there were also pressures in the last financial year and these roll forward into this financial year. The financial impact is estimated at £2.4m.
- 3.25 Investments entered into in previous years continue to be robust and pay interest/dividends as expected. Due to Covid-19, resources have been focused on delivering services and so no new investments have been progressed – as such, new investment targets for 2020/21 will be revised down.
- 3.26 Members need to be aware that there are significant commercial considerations when discussing investments and Local Authority inter-lending. There will be a specific report on this at the July 2020 Standards & Audit Committee.

General Fund Summary 2020/21

- 3.27 The financial pressures set out above total circa £9.7m which covers the period from 1 April 2020 to 31 July 2020. Grants received to support the council totals £9.21 and this meets the majority of the initial impacts set out above.

3.28 This does not include the impacts for the remainder of the financial year nor does it include the impact on Council Tax and Business Rates which is set out below. Consequently the sector expects significant further funding to be required to meet the overall expected impacts in 2020/21 and 2021/22.

4 Council Tax and Business Rates

4.1 These elements remain under review but early indications suggest Council Tax income levels may be significantly impacted by the wider economic position. This is reflected in Council Tax receipts reducing by 5% compared with the prior year and circa 800 applications for the LCTS scheme (of which circa 400 have been accepted to date).

4.2 Business Rates income is protected by both the funding of reliefs for affected sectors from MHCLG and a safety net mechanism but there remains a smaller level of risk related to the economic uncertainty for the business sector as a whole.

5 Impact on the Medium Term Financial Strategy (MTFS)

5.1 The overall impact on the MTFS will be determined by:

- The level of the final additional costs and income losses that crystallise in 2020/21;
- The level of MHCLG financial support to address pressures faced by the sector;
- The ongoing financial pressures resulting from decision made in response to the pandemic (particularly in Adult Social Care); and
- The impact on Council Tax and Business Rates in both the current year and next year.

5.2 There are a range of possible outcomes that can be modelled, especially when considering a council tax base of circa £70m per annum. Considering a reasonably moderate level of losses: A 5% Council Tax reduction in collection; 20% increase in LCTS claimants; and a 10% fees and charges reduction there will now be a significant funding gap in 2021/22 and action will be required to finance this shortfall.

6 Housing Revenue Account

6.1 The impact on the Housing Revenue Account has been limited to an increase in the debt risk associated with the rental income stream. The wider concern remains that this risk increases as the wider economic impacts of the pandemic develop. April data already indicates a significant increase in Universal Credit claims as unemployment rises and this is likely to feed through into increased debt concerns for local residents. The impact associated with the first 4 months of the year is £0.22m but remains under review.

7 Capital Programme

- 7.1 It is currently too early to understand the impact of COVID-19 on the capital programme. On existing projects there are likely to be claims for contract extensions and social distancing on site whilst, for any new projects, delays to commencement is likely to have inflationary pressures as well as the impact of any new working requirements to manage social distancing.
- 7.2 A review of the current capital programme is taking place to determine affordability in the context of the wider financial issues noted in this report.

8 Issues, Options and Analysis of Options

- 8.1 This report sets out the current projected financial impact of COVID-19 and the impact on the delivery of the 2020/21 budget and the wider expected impact on the MTFS. The impact on services remains under consideration to assess the full impact and to enable the reassessment of priorities to address the expected shortfalls in funding.
- 8.2 The MTFS assessment indicates it is likely to be difficult to set a balanced budget in 2021/22. The key factor underpinning this will be the wider economic impact on Council Tax and Business rates income levels.
- 8.3 It is noted that there are no expected surpluses over the four year period of the MTFS once the financial impact of COVID-19 is included. This will be revisited later in the year once the wider impacts are known.

9 Reasons for Recommendation

- 9.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out the potential impacts on the delivery of the balanced budget for 2020/21 and the MTFS over the next four years.

10 Consultation (including Overview and Scrutiny, if applicable)

- 10.1 The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members.

11 Impact on corporate policies, priorities, performance and community impact

- 11.1 The initial impact of COVID-19 has impacted on the wider delivery of frontline services and the financial impact remains under consideration to assess how the council delivers both its statutory services and priority areas.
- 11.2 The budgeted surplus for 2020/21 remains at risk but will provide further financial resilience to support the Council response to the pandemic.

12 Implications

12.1 Financial

Implications verified by: **Sean Clark**
**Corporate Director of Finance, Governance
and Property**

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors' Board and management teams in order to maintain effective controls on expenditure. In the context of the financial impact of COVID-19 austerity measures are being communicated across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

The budget report issued in February 2020 set a balanced budget based on the assumptions in place at the time. The COVID-19 pandemic has created a significant shock to the economy and resulted in significant unplanned expenditure and income losses as set out in the report.

The full impact of this is not yet known but the ability of the Council to deliver a balanced budget in 2020/21 remains uncertain. The most significant uncertainty is on the impact of the pandemic on council tax and business rates income going forwards. This combined with the additional costs and local income losses will be significant. The ability to deliver the budget will then depend on the final proposed level of mitigation from central government. The impact is likely to be even more significant in 2021/22 when the wider economic picture becomes clearer and any collection fund losses from the current year need to be funded.

The longer term outlook will be influenced by the ongoing review of financing in the sector. This has been deferred to 2021/22 at the earliest so there remains significant uncertainty underpinning the Medium Term Financial Strategy. The Council continues to liaise with Government to develop a mutual understanding of the issues to enable appropriate actions to be taken by both.

12.2 Legal

Implications verified by: **Ian Hunt**
**Assistant Director of Law and Governance,
and Monitoring Officer**

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its

conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". The financial impact of the pandemic on the Council remains under review to ensure the responsibilities set out under s114 of the Act can be met.

12.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**
**Community Development and Equalities
Manager**

There are no specific diversity and equality implications arising from the report.

12.4 **Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)**

The wider concerns are set out in the report. The major concern is that core services cannot be delivered at the expected level as a consequence of responding to the pandemic.

12.5 **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers
- MHCLG funding announcements
- Wider sector responses

13 **Appendices to the report**

None

Report Author:

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