

Report To: Cabinet

Date of Meeting: 6 July 2020

Report Title: Financial Implications Arising from Covid-19

Report By: Peter Grace
Chief Finance Officer

Key Decision: Yes

Classification: Open

Purpose of Report

1. This report provides details of the financial impacts of Covid-19 on the Council. It includes very broad estimates for the remainder of this financial year. The report identifies that there will be significant and continuing impacts for 2021/22 and beyond, and also highlights the need for additional government funding.

Recommendation(s)

- (i) An updated Medium-Term Financial Strategy be considered by Cabinet on the 1 September 2020; this will include a mid-year review of the Capital Programme and the impacts on reserves.
- (ii) To continue to review expenditure pressures and income opportunities as part of the Council's Priority Income and Expenditure Review (PIER) process in order to help achieve sustainable budgets in the future.
- (iii) The Council continue to make representations for additional funding from government – both in the short and long term.

Reasons for Recommendations

1. Covid-19 has had a significant impact on the Council. Most, if not all, areas of council activity have been substantially impacted. The Council's financial position was difficult before the pandemic and it is now even more challenging.

2. The Council's revised Medium Term Financial Strategy will look to provide revised expenditure and income projections for 2020/21 and the years beyond. This will form the basis for producing a budget for 2021/22 albeit that until the final funding settlement is known (expected December 2020), much of the budget planning work will need to consist of scenario planning and identifying potential savings
3. The Council was already exposed to a much greater degrees of volatility in terms of its income from Non-Domestic Rates and expenditure in terms of Council Tax Support claims – the costs falling directly on the Council and the preceptors. Deficits incurred during the year will impact on the 2021/22 accounts The potential downside risks of Covid-19 and Brexit and the increased reliance on income streams are difficult to estimate accurately as yet; the Council needs to maintain sufficient reserves to deal with these and other unexpected events still to come.
4. The Council has had enormous budget cuts every year since 2010. Given the financial pressures now being faced services will need to continue to identify and make savings in order to produce balanced budgets for future years unless there is more funding. The Council will continue to make representations to government for additional funding both in the short and long term.

Introduction

5. The cost implications of Covid-19 are large and varied. The estimates are changing weekly as the impacts become better understood and the rules change. Understanding the financial position will assist with the difficult and challenging decisions that will need to be made on the Council's corporate plan, resources, and the ability to fund initiatives in the future.
6. The government have provided two rounds of funding to local authorities to date and it is understood that further funding may be forthcoming. The timing of any announcement of further support and to what level is unknown, although a further funding announcement on rough sleepers has been made (details awaited at time of writing).
7. In February 2020, before the implications of the pandemic were fully understood, the council identified that a balanced budget could only be achieved in 2020/21 using £1.182m of reserves. The forecast deficit for 2021/22 being £798,000. The monthly return to government in May 2020 on the impact of Covid-19 identified additional costs/ loss of income amounting to some £4.9m. The government have provided grant funding of £985,000 to date.
8. The Council has submitted cost and income loss projections to the Ministry of Housing, Communities and Local Government (MHCLG) on a monthly basis as part of a national return. These figures are required to be modelled on the assumption that the lockdown finishes at the end of July 2020, this financial modelling assumption has been used in compiling this report.
9. The estimated costs/ loss of income ranges from a best-case scenario of some £3.65m to a worst-case scenario of some £10.1m. For the purposes of the government return the total additional costs and loss of income were estimated in May 2020 at some £4.9m for 2020/21. The range is very wide as it is hard to estimate given the unknown timescales and

the impact of the lockdown, and the depth/ length of any recession.

10. The Council estimates loss of income to amount to some £3.37m on the basis that lockdown ends in July. Areas of income loss include, for example, car parks (including those owned by the Foreshore Trust), cliff railways, licensing, planning fees, rentals, investment income, business rates, and council tax. The Council is incurring additional expenditure, estimated at £1.52m over this period in such areas as homelessness, leisure facilities, Council Tax – particularly the Council Tax Support scheme, plus costs associated with the setting up and operation of the Community hub – along with emergency food supplies, etc.
11. The financial implications for the Council of Covid-19 will not necessarily fall into this financial year. Deficits on Council Tax and Business Rates collection resulting from businesses being unable to pay and more people becoming eligible for Council Tax Support will impact on the 2021/22 and 2022/23 financial years. Such deficits also impact on the County Council, Police and Fire Authority. The levels of Council Tax Support claims continue to increase but the full impact will not be felt for some time given the number of workers currently furloughed and others may have savings that preclude them from qualifying for support at present.
12. The Council's own financial position was difficult even prior to the current crisis. The Council had savings plans for 2020/21 amounting to some £1.784m and additional cost pressures of £786,000 e.g. homelessness, cliff and reservoir works. The budget shortfall in this financial year amounting to £1.182m – funded from the Council's reserves (as agreed in February 2020). The government have provided some much-needed support to businesses (Small business grants, Rate relief, and hardship support) but none of these apply to Council owned properties.
13. The Council has received funding of £985,000 towards the additional costs it faces e.g. supporting local people, homelessness, rough sleepers, etc. The level of additional government funding received to date is insufficient to cover the additional costs being incurred and the loss of income from sales, fees and charges.

Should there be no further funding the Council will inevitably face more challenging decisions on service levels and staff reductions, with a potential moratorium on spend.

14. The major overhaul of the funding mechanism for local authorities (Fair Funding Review), postponed last year until 2020/21 and now again until 2021/22 provides considerable uncertainty on future funding. The uncertainty on funding and unknown implications of a recession and any spike in the pandemic, impact of Brexit, etc, inhibit the Council's ability to plan with any degree of certainty and may bring into question the sustainability of the Council itself in future years – unless there is additional funding.

Additional Expenditure & Loss of Income

15. A breakdown of the projected costs/loss of income as at May 2020 is shown in the table below. These figures are being constantly refined as more information becomes available.

Service Area	Additional Expenditure	Loss of Income	Total
	£'000s	£'000s	£'000s
Community Hub - Staff &Supplies and Services	295		295
Cliff Railways		(233)	233
Licensing- liquor,taxis,licensing,gambling		(19)	19
Car Parking Pay & Display (Incl Foreshore Trust)		(1,333)	1333
Homelessness	661	(319)	980
Planning Fees		(87)	87
Land Charges Fees		(70)	70
Crematorium & Cemetery	11		11
Personal Protective Equipment	2		2
Existing Property Portfolio Income		(387)	387
Delays in Projects/Completion		(120)	120
Investment Income - Base rates 0.1%		(20)	20
Investment Income - CCLA DIF		(7)	7
Investment Income - Property Funds		(7)	7
Asset sales - Investment of Proceeds		(75)	75
Business Rates - Income shortfalls, Pooling & Safety		(336)	336
Council Tax - Collection/ Court Costs	142	(25)	167
Council Tax Support Scheme	260		260
Museum		(6)	6
Active Hastings		(41)	41
Parks and Gardens		(46)	46
Sport Pitches/Bowling Greens/		(16)	16
Beach Huts and Chalets (Weekly Hire only)		(7)	7
Green Waste collection		(32)	32
Bulky Waste Collection		(10)	10
Social Lettings		(24)	24
TIC		(45)	45
Filming		(10)	10
Castle & Caves		(14)	14
White Rock Theatre - income share from room hire		(8)	8
Seafront		(18)	18
Sports Centres	148	(35)	183
Pest Control		(4)	4
Waste and Environmental Enforcement		(18)	18
Total Projected Costs/Income Losses	1,519	(3,372)	4,891

16. As can be seen from the table the biggest impact is the projected loss of income.

Government Funding - Summary

General Funding for Councils to Meet Covid-19 Costs

17. The government has provided two tranches of funding for Councils - two £1.6bn tranches amounting to £3.2bn in total. The first tranche was split into £210m for general support and £1,390m for Adult social care. The £210m was allocated on the 2013/14 Settlement Spending Assessment (SFA) and resulted in some £67,268 for Hastings Borough Council. The second tranche in two tier areas gave a split between County and districts of 65:35. This second tranche was a higher weighting towards districts in two tier areas given the recognition of the financial pressures being faced by districts and their greater general reliance on sales, fees and charges. The Council received £918,693, making a total of £985,961.

Other Grant Funding

18. The government have announced £2bn of funding for walking and cycling, with £250m being made for an emergency active travel fund. Details are awaited.

Small Business & Retail, Hospitality and Leisure Grants

19. Several grants to support small businesses in local areas have been made available. In March the government announced a total of £12.3bn of support through the Small Business and the Retail, Hospitality and Leisure Grants. In May £617m was made available to support small business through the Discretionary Local Authority Grants.
20. The Council received up front funding of £27,782,000 as its share of the funding and started making grants to eligible businesses on the 1 April 2020. As at 23 June some £19.6m has been paid out in respect of 1,690 premises. This represent 71% of the government grant, but 87% of the amount that the Council first expected to be paid out and some 86% of the expected eligible premises have now received payments. The Council, with the help of local business organisations, and individual Councillors, continue to seek out and encourage businesses to provide necessary details in order that grants can be paid.

Business Rates

21. The March 2020 budget provided for properties falling into the retail, leisure and hospitality sectors such as shops, cafes and pubs paying no rates in 2020/21. The exemptions have also been extended since that date to include other properties, such as lettings agents.

Council Tax – Hardship Fund

22. The government have provided £500m to enable billing authorities to support those eligible for Council Tax support (of working age) with a further reduction of £150 in their Council Tax. The Revenues and Benefits team have been rebilling those affected – some 1,300 out of the 9,611 currently claiming. The Council's share of the money amounted to £1,281,991 and to date some £162,000 has been committed. This figure is expected to increase significantly should unemployment increase significantly throughout the year.

Rough Sleeping

23. Rough sleepers or those at risk of rough sleeping have been supported by the government allocating £3.2m of initial emergency funding if they need to self-isolate to prevent the spread of Covid-19. This funding was announced in March and has been made available to local authorities in England. The Council seeks reimbursement from the government retrospectively e.g. £15,750 in respect of 21 rough sleepers in March 2020.

Recovery Grants

24. The government have allocated £50m for “Re-opening High Streets Safely”. The Council’s share amounts to £82,206 which would be reclaimed retrospectively.

Government Funding Review

25. The government’s Fair Funding Review (the level and distribution of the monies between Councils) was postponed until 2020/21; as a result of Covid-19 this has been postponed again until 2021/22. The promised introduction of the 75% retention of business rates has also now been postponed to April 2022. The ending of the New Homes Bonus Scheme and what will replace it, if anything in 2021/22, provides more uncertainty.
26. Given the ever-increasing burden of national public debt, the under resourcing of local authorities may continue for the foreseeable future which will impact heavily upon the Council’s ability to provide services or grants across all areas of existing activity.

The Key Factors Now Impacting on the Council’s Budget

Wages and Salaries

27. The pay award for 2020/21 is still awaited. An offer of 2.75% has been put forward. The Council would need to be meet the additional costs incurred. It had allowed 2.5% plus ½% for incremental increases.

Inflation

28. Inflation has reduced and may be lower for longer than previously forecast. There may be some savings to the Council as many external contracts have inflation linked clauses to allow for annual increases.

Pension Costs

29. New pension contribution rates came into effect from 1 April 2020. These were expected to decrease over the subsequent two years. Due to predictions of reduced financial returns the contribution rates for future years may be revised.

Investment Interest

30. The bank base rate has reduced to 0.1%. The returns on the Council’s cash balances are reducing. These lower returns are expected to continue for some time.

Business Rates

31. The government after determining the business rates baseline levels back in 2013 included small business rate relief within its own budget proposals - this effectively reduced Councils' income – less money to collect. The government is reimbursing authorities for this and all the other changes it has made over the years that reduce the directly collected income - this amounted to some £1,536,715 for Hastings in 2019/20.
32. Following the March 2020 budget and extension of reliefs the amount reimbursed directly by government for 2020/21 will be some £12,782m - out of a total sum collectable of £21.16m. The government are paying the Council by instalments. Unfortunately, the amount the Council can retain remains unaltered to that included in the budget.
33. The Council is in a business rates pool with other East Sussex authorities, including the County Council and the Fire Authority. Given that some businesses are not paying their rates, and some may go out business the projected income from rates has been reduced to that of the government's safety net calculation. A reduction, and deficit, estimated at some £336,000 on the Collection Fund which impacts on the 2021/22 accounts.

Council Tax Support Scheme (CTSS)

34. The cost to the Council of providing this benefit amounts to some £10.7m per year. Hastings picks up some 13.1% of this cost (its share of the Council Tax); the remaining balance falling on the County Council, Police and Fire Authority. As unemployment increases, the level of claims is expected to increase significantly throughout the year with a big financial impact.
35. This is one of the biggest additional cost pressures that the council could face. A 50% increase in costs may be experienced – the full costs being reduced for a period using the government's hardship fund (£1.281m). A policy on the use of this money, beyond the £150 reduction for working age claimants, will be drafted and considered by Cabinet – once an assessment of costs for the year has been completed and resources permit.
36. The Council is due to consider, and potentially consult on, options for the 2021/22 CTSS scheme; one consideration may, by necessity, be affordability. Nationally reviews are being undertaken on the potential use of banded schemes for example.

Asset Sales - Capital Receipts

37. Asset sales have been delayed by Covid-19. The budget has made assumptions on income being received from investing the money from the sales or using it to offset borrowing costs.
38. The Council resolved in February 2020, when setting the budget, that no properties or land be disposed of, either by sale or long leasehold, at less than market value without further express approval by Full Council. This remains important given the Council's position.

Capital Programme

39. The timing of projects has been impacted by Covid-19 and the business cases and affordability of some schemes will need to be reassessed. The existing programme summary (net of external funding) amounts to: -

	Revised 2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s
Gross Capital Expenditure	18,461	26,100	19,122	1,882
Net Capital Expenditure	15,580	16,936	17,310	70
Financing from own resources	185	185	208	70
Borrowing Requirement	15,395	16,567	17,102	0

40. The existing programme is detailed in the 2020/21 budget. The timing of the schemes directly impacts on borrowing requirements – with the consequent impacts on the revenue account.

Revised Financial Position -2020/21 (Estimated June 2020)

41. The financial modelling undertaken to date identifies a best-case scenario of net additional expenditure amounting to £3.65m whilst the worst-case scenario is an additional £10.1m for this year. The “realistic” projection identifies net additional costs at some £4.9m for 2020/21. Whilst some of the costs/loss of income will cause a deficit on accounts this year, they do not appear in the Council’s accounts until the following financial year due to accounting conventions e.g. collection fund costs – hence the deficit is some £3.989m rather than £4.9m shown on the government return. A breakdown of the £3.989m is shown in Appendix 1.
42. The table below shows the revised budget shortfall for 2020/21.

Revenue Budget Forward Plan	2020-21	2020-21
Projection at 17 June	Budget	Projection @ 17.6.20
	£000's	£000's
Net Council Expenditure	14,245	17,040
Funding	(13,063)	(13,051)
Shortfall	1,182	3,989
Use of Reserves	1,182	
Estimated Shortfall	0	3,989

43. The projections for future years are difficult to estimate at present and are very dependent upon the level of government funding that may be forthcoming and the continuing impacts of Covid-19. The Medium Term Financial Strategy will look to provide projections in September to help inform the Corporate Plan and budget setting processes.

Action Recommended

44. Financial Planning - Medium Term Financial Strategy

45. The Medium-Term Financial Strategy will be updated and will look to provide indicative financial forecasts for the 5-year period 2020/21 to 2024/25. It is intended that this will be considered at Cabinet on 1 September 2020.

46. Initiatives/ Capital Projects – Delays/Temporary Postponement

47. The Council is having to concentrate on immediate Covid-19 pressures and a recovery programme. This has invariably led to some projects being delayed.

48. Subject to government funding announcements there will need to be a further review of existing resources and budgets available to undertake and complete projects within required timeframes. The Council will need to concentrate on key transformational projects and those that produce income or have significant health and safety or climate change implications. The delivery of key regeneration and economic development schemes and those that have significant funding attached and tight timescales e.g. Towns Fund (£25m), also remain a priority.

Service Expenditure

49. The Repairs and Renewals programme will be reviewed as part of the PIER process to minimise expenditure in 2020-21 except where health and safety issues could arise or additional expenditure would be incurred at a future date should works not be undertaken, or contracts are in the process of being let. This will also help with the Council's cash flow.

50. Services will also need to identify additional areas of spend. For example, given that more staff will be working from home on a more permanent basis there may be additional furniture and IT equipment required. Likewise, adjustments to the offices, and Museum (one-way system) may be required.

51. It is **recommended** that the services continue to identify areas of potential savings and additional costs as part of the Priority Income and Expenditure Review (PIER) process. These may be required once the final funding announcements are made by government in late autumn.

52. The crisis has identified that the Council is able to still perform with more limited use of offices – at least for a temporary period and can also provide innovative solutions. The use of Microsoft teams has greatly assisted staff and members in being able to work successfully from home, and the continued transition to services being mostly on-line, has put the Council in a better position than many. Whilst financial resources are going to be scarce the momentum behind transformation and greater efficiency, and hence savings, must continue to be supported.

53. Good partnership working remains a priority for the Council and this has provided additional resilience at this challenging time.

Reserves and Forward Planning

54. The impact of Covid-19 on the Reserves, already under real pressure, will be very significant unless there is further government funding.
55. The 2019/20 final accounts closedown is currently ongoing, and the reserves position will be updated once the accounts are closed.
56. When setting the 20/21 budget the General and Capital Reserves were estimated to amount to £7.466m at 31 March 2020; some being already committed e.g. empty homes strategy (£150k). Earmarked Reserves amount to £7.817m of which most is not available to use on other than specific areas e.g. DFG grants.
57. Total reserves at 31 March 2020 were estimated at £15.283m. The reserves were projected to decrease to £12.914m by 31 March 2021 (The estimated reserves position is shown in more detail in Appendix H of the budget – available on the Council’s website).
58. The Council has set a minimum general reserve level of £6m to deal with unexpected events or claims, reductions in income streams, and unanticipated increases in expenditure e.g. Capital projects. The reserve will help meet the immediate needs of the Council but would need to be returned to a £6m minimum level in future years – this could necessitate making further budget savings.
59. The Council, like many others, continues to make representation for additional government funding.

Treasury Management & Cash Flow

60. The collection rates for Council Tax and Business Rates fell towards the end of 2019/20 and continue to be significantly lower than normal, as is the receipt of rental income. Some rental deferments have been agreed.
61. The government have recognised that cash flow was an issue for local authorities and have assisted by, for example, paying grants upfront. The Council’s treasury management strategy has ensured sufficient liquidity has been available to meet all its commitments e.g. suppliers, payroll, grant payments, precepts, HMRC. This key area remains under continuous review.

Key Financial Risks to the Council

62. There remain numerous financial risks facing the Council that could impact on the Reserves, excluding Covid-19, a further lockdown, Brexit, unexpected storms and disaster. More detailed explanations are included in the budget report (February 2020).

Economic/ Financial Implications

63. The financial implications of Covid-19 for 2020/21 and beyond are many and varied and are expected to last for several years. A further funding package is expected from the government, but the timing of any announcements remains unknown. A government Spending Review and budget is expected in the autumn and the Council normally receives its own funding settlement in December.

64. The financial and resource impact is already very significant, and the Council will have even more limited reserves should further unexpected events occur. The alignment of the Council's priorities to its available resources will need review to achieve a sustainable budget in the years ahead **should** further funding not be received.
65. The Council will need to consider even more carefully than normal its own financial position, and cash flow implications, when making key decisions that involve affordability.

Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Medium Term Financial Strategy	1 September 2020	Papers published end of August	Chief Finance Officer

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

1. Revenue Projection – 2020-21 Revised
2. The 2020/21 budget is available on the Council's website
http://www.hastings.gov.uk/decisions_democracy/transparency/budgets_finance/

Officer to Contact

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Chief Finance Officer

Appendix 1

	Revenue Budget Forward Plan	2020-21	2020-21
	Projection at 17 June 2020 (assuming lock down ends by July 20, and no severe recession, or funding reductions)	Budget	Projection @ 17.6.20
Ref		£000's	£000's
1	Net Service Expenditure	12,000	12,000
2	Budget Variations		
3	Election Costs (bi-annually)		(70)
4	Potential loss of Homelessness Reduction Act grant		
5	Covid 19 related Costs/ Loss of Income		
6	Community Hub/ PPE/Staffing		300
7	Temporary Accomodation/Homelessness		980
8	Sales, Fees, Charges		1,720
9	Sport Centres		150
10	Property - Rental Income reductions		400
11	Delays in Project Completions & Regeneration schemes (PIER)		120
12	Interest on balances		40
13	Delays in Asset Sales - Loss of Interest/Addn costs (PIER)		75
14	Senior Management Restructure - Partially completed (PIER)		75
15	Freedom Leisure - contract extension Furloughed Staff		30 (40)
16	Additional Covid-19 Funding		(985)
25	Other:		
26	Contingency Provision	300	300
27	Interest (net of Fees) & other Adjustments	1,568	1,568
28	Minimum Revenue Provision (excl. Inc Gen Adj)	1,624	1,624
29	Contribution to Reserves	722	722
30	Net Use of Earmarked Reserves	(1,969)	(1,969)
31	Net Council Expenditure	14,245	17,040
32	Taxbase - Covid-19	26,197	26,197
33	Council Tax	270.78	270.78
34	Funding		
35	From Collection Fund - Council Tax- Covid-19	(7,094)	(7,094)
36	From Collection Fund - Business Rates - Covid-19	(2,771)	(2,771)
37	Revenue Support Grant- Covid-19	(1,004)	(1,004)
38	New Homes Bonus	(199)	(199)
39	Council Tax Support Admin Grant	(157)	(157)
40	Housing Benefit Admin Grant	(398)	(398)
41	NNDR (Surplus) / Deficit - Covid-19	188	188
42	NNDR Pooling- Covid-19	(12)	0
43	Business Rates Section 31 Grant (not amended for £12.3m)	(1,564)	(1,564)
44	Council Tax Surplus/Deficit - Covid 19	(50)	(50)
45	Contribution To General Fund	(13,063)	(13,051)
46			
47	Funding Shortfall / (Surplus)	1,182	3,990
48			
49	Use of General Reserve	(929)	
50	Use of Transition Reserve	(253)	
51			
52	Net Funding Shortfall / (Surplus)	0	3,990

