

COVID-19 FINANCIAL IMPACT

Finance and Investment Advisory Committee - 8 July 2020

Report of Chief Officer - Finance and Trading

Status For Decision

Also considered by Cabinet - 9 July 2020

Key Decision No

Executive Summary:

The Council's response to Covid-19 has sought to offer a range of support to residents and local businesses to assist them through the effects of lockdown. This support has extended to planning for the economic and community recovery.

Responding to Covid-19 has inevitably brought additional and unplanned costs on the Council and has led to a fall in income across a number of services, most significantly car parking. Government has provided an additional £1.2m of funding to support the Council in meeting these costs. After this additional funding has been accounted for, the financial impact of Covid-19 in this financial year (2020/21) is estimated to total £4.661m.

The financial strength and flexibility afforded by the Council's unique 10-year budget means that there is no requirement for immediate savings to be made this year (2020/21).

The financial impact of Covid-19 is recommended to be addressed through the Council's thorough 10-year budget setting process. This allows for decisions to be taken in a planned way rather than reacting now, in a way that may have a detrimental impact on services, which residents are currently relying on more than ever.

By taking this approach, Members will be able to continue to make decisions in a structured way with the long-term requirements of the district in mind.

Portfolio Holder Cllr. Matthew Dickins

Contact Officer(s) Adrian Rowbotham, Ext. 7153

Alan Mitchell, Ext. 7483

Recommendation to Finance and Investment Advisory Committee:

(a) To note the financial impact of Covid-19 on this Council; and

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- (b) To recommend that Cabinet approve that the Council address the impact of the Covid-19 response and recovery through the thorough 10-year budget setting process as set out in this report.

Recommendation to Cabinet:

- (a) To note the financial impact of Covid-19 on this Council; and
- (b) To approve that the Council address the impact of the Covid-19 response and recovery through the thorough 10-year budget setting process as set out in this report.
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Introduction and Background

- 1 The Covid-19 pandemic continues to have a dramatic effect on the nation. As councils have stepped up to provide crucial services to residents and businesses within their areas at a time of need and it has also had an effect on council finances. The lockdown has placed enormous pressure on people, businesses and high streets, and as the Council have acted to support its residents and local economy it has resulted in additional and unexpected costs and income has been adversely affected by the actions the Council has had to take and as the demand for some services has reduced.
- 2 The impact on council finances has continued to be raised at a national level by individual councils, national bodies (e.g. the Local Government Association and the District Councils Network) and professional societies (e.g. Society of District Council Treasurers). Members and Officers from this Council have contributed to this process.
- 3 The Government has provided some additional funding to councils including £1.2m to Sevenoaks District Council. However, the financial impacts that are set out in this report show that this additional funding is less than the financial impact of Covid-19 to date, which will leave a significant shortfall by the end of this financial year and beyond.
- 4 It remains uncertain whether the Government will provide any further funding and if so, how much and by when. However, the District Council, and local government as a whole, continue to maintain pressure on the Government to meet the financial impact of Covid-19 as it had promised at the outset of the pandemic. We are anticipating an update from the Government on local government funding in the near future and Members will be updated with any further information at the committee meeting.
- 5 The Ministry of Housing, Communities and Local Government (MHCLG) has requested that each council complete a financial return each month showing the actual financial impact to date and the forecast impact for the whole financial year. The latest return was completed on 19 June 2020 and the figures in this report are based on that return.
- 6 The figures have been calculated using the most up to date information available at the time. It is expected that the next return to MHCLG will be

due in July when the figures will be updated. It is hoped that further funding will be announced by Government resulting in a more positive situation when the Financial Prospects report is produced and reported to Members in September.

Financial impact in 2019/20

- 7 The Covid-19 pandemic started to have a financial impact in March 2020, affecting only a short period of the 2019/20 financial year ending 31 March 2020.
- 8 The main expenditure during that time was setting up the District Emergency Response, which included ensuring that food was received by residents who were in urgent need and could not leave their homes or receive food by other means. This was a critical role to provide for the health and wellbeing of our residents which has been sustained, and will continue to reach those in urgent need throughout the lockdown period.
- 9 The main income stream affected was car parking. Members will recall that it was agreed to make all parking free in the district from 23 March until 22 June 2020 to help the local community during these difficult times.
- 10 Part of the additional £1.2m of Government funding was used to fund the impact in 2019/20. The summary position for 2019/20 is contained in table 1.

Table 1:

2019/20 Covid-19 financial summary	£000
Additional expenditure	49
Reduced income	129
Government funding	(178)
Total remaining impact	0

Financial impact in 2020/21

- 11 The majority of the financial impact of Covid-19 has been experienced in 2020/21. Additional expenditure and reduced income as a result of Covid-19 is forecast to have a net financial impact of £4.661m. This is a significant amount when set against the Council's net budget is £15.6m.
- 12 Additional expenditure has been and will continue to be incurred in several areas including the following:
 - a) District Emergency response - the District Emergency Centre (DEC) was set up early in the process to provide a 7am to 7 pm, 7 days a week (7-7-7) service, with the Council's out of hours service also receiving

requests from residents outside of those hours. The DEC has also co-ordinated the provision of food to those in need. The demand on this service has reduced but it is uncertain what the impact will be when shielding ceases on 1 August 2020. Government have said that 'new burdens' funding will be provided to cover this for the month of July. Provision of food until the end of June had been expected to have been met from within the £1.2m of funding provided by Government.

- b) Homelessness: overnight accommodation - it has been a requirement from Government to get rough sleepers off the streets and into accommodation. A Government grant of £1,600 was provided to support the Council. To date our current expenditure exceeds £100,000. At the time of writing further funding had been announced, but allocations to individual authorities had not been published.
- c) Emergency grants to charities - financial support has been provided to some charities who are assisting the Council with the Covid-19 response.
- d) Direct Services - the Council's Direct Services team has continued to provide a full rubbish and recycling collection service throughout the pandemic. Due to more people spending time at home during lockdown, there has been a significant amount of extra refuse to collect which has resulted in staff working longer hours each day. To continue to provide the usual high level of service that our residents have come to expect, and operating our services in a Covid-19 safe way, there has been additional investment in staff overtime and resources.

13 Reduced income has and continues to affect a number of areas including the following:

- a) Car Parking - with strict adherence to lockdown across our District low occupancy in car parks was anticipated, with a corresponding reduction in income. With significant fall in car parking expected, and to ensure fairness for permit holders the decision was taken to suspend all car parking charges from 23 March until 22 June 2020. It is expected that car parking income will continue to be affected throughout the financial year as less people visit shops and high streets or commute to work.
- b) Direct Services - Trade waste, MOT's, bulky waste and pest control have all seen reduced demand.
- c) Revenues and Benefits - the Council has chosen to stop recovery action on outstanding debts as people were unable to work as many businesses were closed during lockdown.
- d) Treasury Investment - as expenditure increases and income falls the amount of money that the Council can invest reduces and less interest is generated. Outside of the general fund reserve, all of the Council's reserves are earmarked for particular purposes and limits the ability to

use reserves to meet any additional costs or to meet any future budget gaps.

- e) Planning, Building Control, Land Charges - there has been reduced demand for these services during lockdown.
- 14 Council Tax collection has also been adversely affected by the circumstances affecting residents across the district. The Council took action early to assist residents such as moving the ten-month payment period from April - January to June - March so that people started paying later in the year. Based on the first two months of the year, it is anticipated that the proportion of Council Tax collected will be reduced.
 - 15 Council Tax is collected in the Collection Fund and then distributed to the relevant preceptors. This means that the financial impact will not be felt in the revenue account until the following year, but it has been included in the figures within this report for completeness.
 - 16 Business Rates is also collected in the Collection Fund and then distributed. Within the current Business Rates Retention scheme there is a safety net amount which this Council is guaranteed to receive regardless of how much is collected. The Council has always been prudent in assuming the safety net is the amount included in the budget. As a result, there should be no adverse impact on the budget this year.
 - 17 The summary forecast position for 2020/21 is contained in table 2:

Table 2:

2020/21 Covid-19 financial summary	£000
Additional expenditure	536
Reduced income	4,394
Government funding	(1,064)
Council Tax (SDC proportion)	795
Business Rates Retention	0
Total remaining impact	4,661

- 18 The financial impact will remain fluid this year as the impacts of further decisions made by Government are felt.

Budget setting

- 19 The financial impact of Covid-19 is recommended to be addressed through the Council's thorough 10-year budget setting process. By taking this

approach, Members will be able to continue to make decisions in a structured way with the long-term requirements of the district in mind.

- 20 The budget setting process is proposed to be considered by Cabinet and the Advisory Committees from September to November. This is in line with actions the Council has taken previously, as it ensures any savings proposals can be implemented effectively and reduce uncertainty for any services affected.
- 21 The decisions made during the budget setting process will be implemented in the next financial year (April 2021 to March 2022) and will ensure that the most appropriate decisions are made for the long-term benefit of the Council and the District's residents and businesses.
- 22 If additional funds towards meeting the Covid-19 shortfall are not received from Government, it is anticipated that significant decisions will be required to ensure that the Council sustains its 10-year balanced budget position into the future.
- 23 Taking decisive action early in the budget setting process has proven to be a successful strategy for the Council which has enabled it to develop its unique 10-year sustainable budget and is strongly recommended as the strategy that will help retain this position long into the future.

Future Years

- 24 There is no doubt that the financial impact of Covid-19 will continue to have an impact on the finances of the Council as "the new normal" settles down and the financial position, working practices and lifestyles change from those that existed only a few months ago.
- 25 The District Council sets its budget with no reliance on direct grant funding from Government. However, the Government is due to complete reviews on Fair Funding and Business Rates Retention during 2021/22 which will have the potential to impact the Council's financial position in later years but will not be known when the next budget is approved by Council in February.

Capital Programme

- 26 The impact of Covid-19 may also affect approved capital schemes and future capital projects. Members will recall that the White Oak Leisure Centre scheme approved by Council included £76,000 of additional costs to ensure that contractors could adhere to social distancing.

Reserves

- 27 Outside of the general fund reserve, all of the Council's reserves are earmarked for particular purposes and limits the ability to use reserves to meet any additional costs or to meet any future budget gaps. The reserves held by the Council are reviewed each year as part of the budget setting

process and could potentially be allocated differently to meet the priorities of the Council.

Other Options Considered and/or Rejected

Other Councils are considering not providing some services with immediate effect in order to reduce costs. However, it is neither necessary nor recommended for the District Council to take this approach. The pandemic has emphasised how important this Council's services are to our residents. To stop any service in an unplanned way would have a negative impact on people and businesses.

The measure of issuing a Section 114 notice is within the remit of the Council's Section 151 Officer and is required where they conclude that the Council is unable to set a balanced budget. In this Council, this measure would be taken by the Chief Officer - Finance and Trading with the Chief Executive's knowledge that it was a required measure.

Some other councils are considering issuing Section 114 notices due to Covid-19 to inform Government that the Council's Section 151 Officer is of the view that they do not have sufficient funds to continue to operate. Due to the strong financial management of this Council, it is the view of the Section 151 officer that there is no necessity or intention of taking this approach.

This view is given based on the budget setting process providing Members the ability to take decisions to set a balanced budget for 2021/22 and over the duration of our 10-year budget.

Key Implications

Financial

All financial implications are included within the content of this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

