

OVERVIEW AND SCRUTINY COMMITTEE – 15 OCTOBER 2020

Item 6 – Update on Council’s Response to Covid-19

Financial update from Councillor Rebecca Lury, Cabinet Member for Finance and Resources

1. The Covid-19 pandemic has had a major impact on the council’s finances. Over the last seven months the environment in which we live has fundamentally changed. In response to recent rises in Covid-19 cases, the government announced on 12 October, further local targeted restrictions based on a three tier system. There is uncertainty as to how this approach will control the virus, making it difficult to assess the resultant financial impact on the council. But it is likely that further contributions from government will be needed to support residents and businesses in the months ahead.
2. The council is required by central government to estimate the financial impact of the pandemic on a monthly basis. Reports have been taken to the audit, governance and standards committee to review the additional pressures on the council and the corresponding government grants that have been made available. Similarly, this report looks at the latest position on the estimated increased costs and losses in income and compares this to the government grants received and expected to date.
3. In the September return, we reported that the additional costs were forecast to be £48m for 2020-21; for service areas such as supporting the homeless, protecting those in need of social care, as well as having to reduce or cancel planned savings. The sharp downturn in the economy has impacted on our residents and businesses, which has resulted in a reduction in council tax and rental income, and business rate and commercial income. Together these losses are estimated at £27m. In addition, sales fees and charges income has significantly reduced by an estimated £21m, as lockdown closed large parts of the local economy.
4. Nationally, the government have distributed £3.7bn to local authorities for the extra costs incurred due to the pandemic. Southwark’s share stands at £23.6m, the third highest in London reflecting both the population size and needs of the authority. The government promised another £1bn to local authorities in October, which may result in a further £6m, bringing the total government funding for additional costs to £30m.
5. The government support for lost income has been limited to just 70% of sales fees and charges losses, estimated at £6.5m. There has been no grant support offered to date for commercial income or rental income. Business rate and council tax losses can be spread over a period of 3 years, but there has been no funding offered yet to councils. We have assumed that some support will be provided by central government and hopefully announced at the spending review.

6. The report highlights a potential shortfall of £34m between the expected financial pressures faced by the council and expected grant funding in 2020-21. The report notes that the financial challenges and risks arising from the pandemic are both 'in year', delivering a balanced budget for 2020-21 and the need for a re-think in the medium term. The draft external audit report recognises that the council's approach to financial sustainability has lessened the financial impact of the crisis. A draft renewed council plan was agreed at the September cabinet meeting with a view to approval at council assembly in November.
7. The most substantial risk still lies in the government's lack of clarity and uncertainty around fully funding local authorities for the financial losses they are facing. The council will continue to lobby for full funding of additional costs and lost income, given that the government promised to deliver this at the start of the pandemic.

Dated: 15 October 2020