

Item No. 8.	Classification: Open	Date: 20 September 2021	Meeting Name: Audit, Governance and Standards Committee
Report title:		Covid-19 Pandemic: Update September 2021	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note the impact of the Covid-19 pandemic on spending and income and the government grants to support the council's financial losses in 2021-22.

BACKGROUND INFORMATION

2. Following the September 2020 report on the financial impact of the Covid-19 pandemic, the committee requested regular updates on the council's increased costs and income losses alongside updates on any additional government funding.
3. This report details the Covid-19 funding, expected additional costs and income losses in 2021-22.

GOVERNMENT GRANTS

4. The government have announced one tranche of general support funding for 2021-22. Southwark's allocation is £11.4m, which was designated to support quarter 1 (April to June 2021). The Ministry for Housing, Communities and Local Government (MHCLG) return in July 2021 has continued to request data for quarter 2 (July to September 2021), however funding for the period is yet to be announced and there potentially may be none. It is expected that councils will receive further general or specific grants to support any additional costs or income losses as a result of the pandemic in quarter 2 (July to September 2021) and beyond.
5. Appendix A has been updated to include additional grants for 2021-22. The only relevant update for this report is the inclusion of the welcome back fund of £286k and an increase of £0.1m to the adult social care infection fund.
6. The council have submitted a claim for income losses in Sales, Fees and Charges (SFC) in 2021-22. Based on a template provided by MHCLG, the claim is expected to amount to £2.2m of the total SFC losses, from April to June 2021, which totalled £3.8m. This is slightly lower than the previous claim expectation of £2.4m. This reduction is due to the actual total income losses for quarter 1 being lower than predicted. This claim reimburses the council for 58% of SFC losses for quarter 1, far lower than the headline figure of 75%.

FUTURE CONSIDERATIONS

7. It is important to consider the potential impact that COVID-19 will continue to have on both the council and the wider community in the future. A key area for consideration

would be the recovery of lost income. Funding for losses in sales, fees and charges has averaged only 58% to date and there has been no reimbursement for commercial or rental income losses. There is yet to be any indication of funding beyond June. In addition, there is council tax and business rate debt which has accumulated during the pandemic for which grant funding has only partially covered losses. Again, the government have yet to announce any further support for future losses. Local businesses continue to be heavily impacted by the pandemic and this is likely to continue especially with the easing of Covid support initiatives, such as the current business rates relief. The council will also be focused on ensuring the payment of business rate and council tax debts by those who can afford to pay.

8. Socioeconomic impact must also be considered, particularly regarding the adverse welfare effect that may occur as, for example, support through universal credit reduces and furlough ends. It is likely that demand for council services for the most vulnerable will increase as the rates of unemployment rise, with 9.4%¹ of all economically active London residents expected to be unemployed by December 2021, predominantly due to the ending of Covid support schemes.
9. Beyond 2021-22, the council will have to continue to deal with the repercussions of the pandemic, not least, the increase in bureaucracy relating to passporting funds to businesses and the increase in the number of specific (and often relatively small) grants awarded for which there are complex and bureaucratic guidelines. This has impacted on the council's capacity and in the longer term, consideration should be given to how this can be managed and mitigated, especially as further funding is uncertain.

EXPECTED INCREASES IN SPENDING AND LOSSES IN INCOME DUE TO THE COVID-19 PANDEMIC- QUARTER 1 ACTUAL AND QUARTER 2 ESTIMATED OUTTURN 2021-22

10. Table 1 shows details of the MHCLG returns for both quarter 1 and 2, reflecting that additional costs are expected to increase into quarter 2. This increase is largely driven by an increase in expected costs for education and environment, planning and public health, both of which are slightly offset by reductions in adults and children's services.
11. The actual additional expenditure for quarter 1 of 2021-22 is £1.2m lower than predicted previously, now sitting at £11.0m. This is due to corporate costs around finance and IT services not materialising during the quarter and Capita costs being £50k lower than initially expected. The estimated expenditure increase for quarter 2 is £600k lower than previously expected, now at £11.9m. This is due to reductions to expected quarter 2 additional costs in covid compliance, cemetery and mortuary costs, all of which would be expected to reduce as the impact of the pandemic subsides.
12. The expected additional costs for the financial year 2021-22 now stand at £40.5m, £1.9m less than previously anticipated. There is an expected decline in additional adult social care costs of £1.0m, mainly driven by lower additional market demand, together with an expectation that schemes (e.g. the Southwark Pioneer scheme) that were re-purposed in 2020-21 will no longer be needed.

¹ <https://www.londoncouncils.gov.uk/press-release/19-march-2021/almost-%E2%80%98one-ten%E2%80%99-londoners-be-unemployed-december>

Table 1: Reported Estimated Additional Costs for the Financial Year 2021-22 due to Covid-19

Service area	Quarter 1 2021-22 Actuals £m	Quarter 2 2021-22 Estimate £m	FY 2021-22 Estimate £m	Comments
Adult Social Care (ASC)	3.2	1.6	5.9	Gradual reduction in all areas of expected additional costs from Q1 to Q2. Main driver of pressure due to supporting the market which covers a higher than normal inflationary increase to some providers.
Children's Services*	0.5	0.3	0.9	Additional expected costs driven mainly by costs associated with care leavers.
Education Services	0.8	1.5	2.7	Increase from Q1 to Q2 for additional professional and assessment materials ahead of the new academic year.
Highways & Transport	0.0	0.0	0.0	
Housing	3.6	3.3	13.3	Expected reduction in rough sleeping additional costs from Q1 to Q2.
Environment, Planning & Public Health	1.3	2.5	8.1	Increased expectations for Q2 for testing and contact tracing, from increased use of track and trace as lockdown measures ease from Q1 to Q2. Other increase due to the use of the Substance Misuse grant expected to be taking place in Q2.
Culture	0.5	0.6	2.1	Costs related to sports, leisure and communities facilities and other culture and related areas
Corporate	0.2	0.6	1.5	Pressures predominantly relating to IT rollout to support remote working and increases in contract costs for work relating to additional benefit claims.
Other	0.9	1.5	6.0	Main drivers are the support through the Southwark Emergency Support Service (SESS) and potential contractor claims for cancelled works due to Covid-19.
Expenditure Increases	11.0	11.9	40.5	

* Rounding of figures

13. Table 2 shows the actual and estimated income losses for quarters 1 and 2 respectively as reflected in the July MHCLG return. This shows total actual estimated income losses of £5.1m for quarter 1, with SFC income losses accounting for £4.0m of this, both of which match previous estimations. Additional costs for quarter 2 are £1.7m higher than previous estimations due to recalculations of business rate and council tax receipt losses. Government has still not committed to reimbursing commercial income losses, rent losses and housing revenue account (HRA) income losses.
14. Table 2 outlines that the total income losses expected for the financial year 2021-22 is £18.7m, which is a decrease of £0.8m from the last return. This variance is mainly due to a reduction in SFC losses of £1.1m compared to the last completed MHCLG return, predominantly driven by parking services showing improved performance, forming a new expectation of showing minimal income losses across the full year. This reduction is offset by an increase in the expected collection losses for the full year.

Table 2: Reported Estimated Additional Income Losses for the Financial Year 2021-22 due to Covid-19

Income source	Quarter 1 2021-22 Actual £m	Quarter 2 2021-22 Estimation £m	FY 2021-22 Estimation £m	Notes
Business rates	-0.4	1.2	2.9	Southwark's share of business rates losses
Council Tax*	0.7	2.2	2.0	Southwark's share of council tax receipt losses
Collection Losses	0.3	3.4	4.9	
Commercial Income	0.1	0.1	0.3	Losses on commercial property
Other income	0.7	0.8	3.2	Losses in housing rents
Other Income Losses	0.8	0.9	3.5	
Highways & Transport*	0.5	0.0	0.1	Losses in off-street and on-street parking
Cultural	1.0	0.8	3.2	Losses in recreation and sports losses and other losses from youth services and libraries
Planning & Development	0.4	0.2	0.7	Reduction in income projection in statutory and non-statutory planning fees
Other sales, fees and charges, income losses	2.1	1.8	6.3	Includes income losses in regulatory and enforcement services, education and adult social care
Sales, Fees and Charges Losses	4.0	2.8	10.3	
Total income losses	5.1	7.1	18.7	

*Rounding of figures

15. Housing was identified by councils as one of the main areas where emergency funding is being directed. Although the HRA does not directly influence the general fund, there are substantial income losses and discussions continue as to how these might be recovered. The actual income loss and increased expenditure for the council's HRA for quarter 1 of 2021-22 is £2.0m. The estimated loss for quarter 2 is lower, standing at £1.3m.
16. Table 3 updates the expected shortfall position across the year. The council's shortfall between income losses and additional expenditure and government grants to date for quarter 1 is a 'gain' of £5.2m, which suggests the council was fully funded. This 'gain' is £0.8m greater than what had been predicted in the previous MHCLG return, due to the actual expenditure increases and SFC losses being £1.2m less than predicted, offset by the clinical commissioning group funding which was expected to be received during quarter 1 now being expected in quarter 2.
17. The shortfall in quarter 2, estimated at £15.0m, is due mainly to the lack of government funding targeted beyond June. This reflects the government's initial expectations of

lockdown easing and the effects of the pandemic only continuing to the end of quarter 1, which now appear to have been incorrect. Expected additional costs and losses increase between quarter 1 and quarter 2, suggesting that the council expectation is that the impact of the pandemic will continue and marginally increase until September 2021. It is hoped and expected that the government will provide grant funding beyond June, given that it is clear that losses will continue throughout the year.

18. The expected shortfall for 2021-22 as a whole is now £2.7m less than previously assumed, at £28.9m. Estimated grant funding has stayed fairly consistent from the previous return at £30.3m. The increase offered by the inclusion of the welcome back fund and additional funding for the adult social care infection fund was offset by a reduction in the SFC claim as the actual claim value is now based entirely on actual data, rather than estimates. The changes in the current estimate of expenditure and income losses have been explained in paragraphs 12 and 14 of this report.

Table 3: Estimated Potential Funding Shortfall for the Financial Year 2021-22 due to Covid-19

Current Estimates	Quarter 1 2021-22 Actual £m	Quarter 2 2021-22 Estimate £m	FY 2021-22 Estimate £m	Notes
Expenditure increases	11.0	11.9	40.5	Q1 predominantly driven by housing and adult social care pressures. Q2 driven by housing and public health.
Business rates and council tax losses	0.3	3.5	4.9	
Sales, Fees and Charges losses	4.0	2.8	10.3	Over 50% of Q1 losses driven by 'other', primarily around central services to public. Central services is the main driver for Q2 also but at a lower proportion.
Other Income losses- Commercial, housing rents	0.8	0.9	3.5	
Total current estimate of expenditure and income losses	16.1	19.1	59.2	
General Grant funding for expenditure losses. 2021 Tranche	-11.4		-11.4	
Sales, Fees and Charges	-2.2		-2.2	
Contain Management and Outbreak Grant 21-22	-3.0		-3.0	
Rough sleepers initiative*	-0.8	-0.8	-3.2	
Housing benefit/universal credit and tenant contributions	-1.7	-1.7	-6.5	
Adult Social Care Infection Fund	-0.5	-0.1	-0.6	Additional £0.1m announced for Q2.
Clinical Commissioning Group Funding		-0.4	-0.4	This was not received in Q1 and is now expected to be seen in Q2 instead.
COVID Winter Grant Scheme	-0.4		-0.4	
Clinically Extremely Vulnerable Funding	-0.7		-0.7	
COVID Local Support Scheme 21-22*	-0.2	-1.0	-1.2	
New Burdens Grant	-0.4		-0.4	
Welcome Back Fund		-0.1	-0.3	Full year expectation of £286k and have allocated across the year.
Estimated additional grant funding for 2020-21	-21.3	-4.1	-30.3	As can be seen, the majority of funding streams are for quarter 1. Very few are expected to continue throughout the year.
Estimated Potential Funding Shortfall	-5.2	15.0	28.9	

* Rounding of figures

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial and Information Governance files	Finance and Governance, Second Floor, Tooley Street	Geraldine Chadwick

APPENDICES

No.	Title
Appendix A	Covid-19 Grants (as at 31 July 2021)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Geraldine Chadwick, Interim Technical Accountant	
Version	Final	
Dated	7 September 2021	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
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