

Item No. 7.	Classification: Open	Date: 20 July 2020	Meeting Name: Audit, Governance and Standards Committee
Report title:		Covid-19 Pandemic: financial impact 2020-21	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note:
 - The government grants to date to support the council's financial losses;
 - The impact of the Covid-19 pandemic on spending and income and the current funding shortfall;
 - The uncertainty around the additional government funding;
 - The plans in place to mitigate the financial risk to the council.

BACKGROUND INFORMATION

2. Following the review of the draft annual governance statement report on 10 June 2020, the committee requested a report on the increased costs and losses in income that the council faced due to the Covid-19 pandemic and the strategies in place to mitigate the financial risks.
3. The Covid-19 pandemic has had a significant impact both on the delivery of council services and on council finances. At the beginning of March 2020, the council's priorities had to change rapidly to focus on the need to distribute emergency funding to vulnerable residents, support local businesses and communities and maintain essential services.
4. Since then, the environment has fundamentally changed and the extent of the impact of the pandemic is still largely unknown. This is not least because the virus is still in circulation, creating a need for a 'new normal' way of life and the potential for further lockdowns. There will be significant challenges ahead in terms of recovery and renewal, as great as those faced during the peak of the pandemic.
5. This report sets out the financial impact of Covid-19 on the council to date, reviews the additional costs and reduced income streams and the funding from central government to support these additional pressures. The report estimates the likely extent of the financial impact on the council in 2020-21 and considers the possible mitigations to reduce the financial risk to the council, in the short and medium term.

GOVERNMENT GRANTS

6. The Local Government Secretary, Rt. Hon Robert Jenrick, stated on 16 March 2020 that the government was ready to do whatever was necessary to support councils in their response to Covid-19. £1.6bn of funding was distributed to local government. This pledge of financially supporting local government was reiterated on 28 April 2020, with

a further allocation of £1.6bn, giving a headline total of £3.2bn to support the costs of the pandemic. The first allocation was to support the pressures across all services but particularly for the increasing costs of adult social care, as well as to support the most vulnerable, including the homeless. The second allocation aimed to support these same services but also to support other emerging cost increases in vital services. Southwark's share of this funding is £19.9m, the fourth highest grant in London, reflecting both the population size and the needs of the authority. Based on returns to central government, the LGA estimated that another £7.4bn was needed to fund councils' full costs and losses to avoid in year cuts to budgets and reductions in service levels.

7. In addition to this general funding to support the council's increasing costs, the government made available other targeted funding which is detailed in Appendix A. For example, the government have provided £500m nationally for a hardship fund to support council tax payers, the council's share of which is £3.5m. Appendix A also details measures taken to ease any cash flow measures on local authorities (no additional funding) and the council's own funded support for residents, businesses and the voluntary sector.
8. The government announced on 2 July 2020, further funding to support councils' spending increases and income losses: a third allocation of £500m to cover increased costs and a grant of 75% to cover losses in sales, fees and charges. It is likely that a proportion of business rate and council tax losses will be funded by the government, with an announcement expected at the spending review; currently these losses are permitted to be in deficit over 3 years rather than over 1 year. At the time of writing, no authority level allocations have been notified. However, it is estimated that the new grant to cover additional costs will be approximately £3.5m and potential support for sales fees and charges income losses estimated at £5.8m, an estimated total of £9.3m. As this latest announcement falls substantially short of what is needed to cover all the expected increases in expenditure and income losses, it is expected that further funding will be made available in 2020-21. But there remains a level of uncertainty as to how and at what level, these will be funded.

ESTIMATED INCREASES IN SPENDING AND LOSSES IN INCOME DUE TO THE COVID-19 PANDEMIC

9. In order to assess how the initial emergency grants (£3.2bn) were to be spent, from April 2020, the Ministry for Housing, Communities and Local Government (MHCLG) surveyed all local authorities to estimate the financial impact of the Covid-19 pandemic. The survey was repeated in May and June, each time with additional questions or requiring further details. These returns show that in the four month period, March to June 2020, councils have incurred £4.8bn of extra cost pressures.
10. In addition, the MHCLG survey required councils to estimate the full year impact based on actual, predicted and emerging costs, based on just ten weeks' data. So the additional costs (and losses in income) are subject to significant uncertainty. It is very unclear when or if or how full recovery will take place and what that recovery will look like for council services and the communities they serve.
11. Table 1 details these estimated additional costs for Southwark. Significant additional expenditure has been incurred in adult social care, homelessness, and in the 'other' category which includes additional costs of PPE and support for those shielding together with the council's support for the voluntary, community and business sectors.

Higher costs in these categories were broadly replicated across London, although the council reported higher than average housing spending, due to having the largest housing stock. In total, the council expects to spend an additional £40.5m; other boroughs ranged from £11m to £58m.

Table 1: Estimated Additional Costs (June 15 2020) of Covid-19 in 2020-21

Service area	Increased spending £m	Description of significant cost pressures
Adult social care (ASC)	9.2	Includes costs of PPE, additional demand for services and supporting the market
Children's services	1.8	Supporting additional demand, costs associated with residential care and care leavers
Education services	1.5	Social distancing for SEN transport and possible increases in home to school transport following the removal of the bus pass for eligible pupils
Highways and Transport	1.6	Loss of productivity due to social distancing and safety measures
Housing	8.1	Additional costs from housing rough sleepers and the homeless in self contained accommodation. Expected that highest in London as have largest housing stock
Environment, Planning and Public Health	2.3	Increased mortuary services and waste management
Culture	3.5	Contractual and running costs in leisure centres
Corporate	0.7	IT and remote working additional costs
Other	11.8	Includes delayed savings £2.7m, Non ASC PPE £1.5m; Shielding costs £2.7m; Southwark schemes to support those in need £3.5m; other £1.4m
Total increase in spending	40.5	

12. The council is expecting substantial income losses resulting from the pandemic. These include business rates, council tax, housing rents, commercial income, parking, leisure services, planning fees. Table 2 details the potential loss of £44.3m in income. Across London, this compares with an estimated income loss range, from £12m to £105m.

Table 2 Covid-19 Estimated income losses (as at June 15 2020) in 2020-21

Income source	Losses income £m	Description of significant losses
Business rates	15.6	Net loss of business rate income after deducting business rate relief grants
Council Tax	8.6	Net loss of council tax income through non-payment and increase in the number of claimants in the local council tax scheme
Commercial Income	7.0	Commercial rent income losses
Other income	5.0	Housing rent losses
Highways and Transport	3.2	Loss of parking fee income
Cultural	1.9	Leisure income, filming income, libraries, hire of facilities
Planning & Development	0.6	Reduced income on planning fees

Income source	Losses in income £m	Description of significant losses
Other sales, fees and charges, income losses	2.4	Licences, project fee income, registrar income
Total income losses	44.3	

Housing revenue account (HRA)

13. Housing was identified by councils as one of the main areas where emergency funding was being directed. Councils highlighted an additional housing cost pressure to MHCLG where data needed to be collected. Although the HRA does not directly impact on the general fund, there are substantial income losses and no 'plan' on how to recover these. The estimated income loss and increased expenditure for Southwark are estimated at £15m which is mainly loss in income from residential rent arrears and is similar across London.

Potential funding shortfall between government grant and estimated expenditure increases and income losses

14. The difference between both the council's current estimate of income losses and additional expenditure and government grant to date is estimated in total at £31.5m (Table 3). The current estimate of grant funding includes known funding to date, an estimated share of the grant funding announced on 2 July 2020, together with estimated additional funding for 2020/21.

Table 3: Covid-19 Current Estimated Funding Shortfall

Current estimate of expenditure increases and income losses	Initial estimate	Notes
	£m	
Expenditure increases	40.5	
Business rates and council tax losses	24.2	
Sales, Fees and Charges losses	8.1	
Other Income losses- Commercial, housing rents	12.0	
Total current estimate of expenditure and income losses	84.8	
Current estimate of grant funding		
Grant funding to date	-19.9	Southwark's share of £3.2bn
Additional estimated share of £500m	-3.5	Estimated share of £500m (announced 2 July)
Expected further funding for increased expenditure	-7.0	Initial view of further funding to support expenditure increases (share of £1 bn)
Business rates and council tax losses	-12.1	Expected that the spending review will share expected shortfalls in tax revenues. Initial estimate at 50%
Sales, Fees and Charges	-5.8	Grant of 75% to cover losses in sales, fees and charges (announced 2 July)

Other Income losses	-5.0	Potential grant to cover a proportion of other income losses
Estimated additional grant funding for 2020-21	-53.3	
Estimated Potential Funding Shortfall	31.5	

15. There is clearly a need for additional funding across all local authorities to fund the expected shortfall between expected government funding and expected increased spending and income losses. The additional grants announced on 2 July 2020, and expected further grants will not compensate councils for the additional costs of the pandemic. Given the promises made in March and April, this should be to fully fund and the council will continue to lobby central government to fulfil this promise.

Mitigating risks

16. The financial challenges arising from the pandemic, are both ‘in year’, delivering a balanced budget for 2020-21, and medium term, with the need to re-think the medium term financial strategy. Although, the most substantial risk associated with 2020-21 still lies in the government’s lack of clarity around fully funding local authorities and pledging full reimbursement for activity undertaken to support local people as a result of the crisis. Funding to date has been piecemeal and if the level of support continues to be less than fully funded then decisions will have to be undertaken as to how to deliver a balanced budget.
17. The policy and resources strategy report to cabinet on 14 July 2020 initiates the process for review of the council’s medium term financial plan for the period 2021-22 to 2023-24. The report provides the foundation for the financial planning process following the unprecedented financial uncertainties of the impact of Covid-19, as well as other local government funding uncertainties. The report looks ahead to assess the reliance of the council on locally generated income sources and the implication of recession for future council income. Built into these plans are assessments of the financial stress on major service contracts such as leisure and construction, a fall in commercial property income and a delay to capital programme works. The council will evaluate the future of all income around the different possibilities for the release of lockdown, social distancing and a return to something like “normality”.
18. The council’s constitution has proved to be resilient throughout the pandemic, allowing for rapidly changing processes and procedures to be implemented without the need for suspension. The council has been able to demonstrate flexibility and adaptability using existing powers throughout the crisis.
19. The council’s risk assessment will be updated to include possible declining reserves and future budgets being subject to variations. But all risks are subject to regular review. Financial management and monitoring continues to be undertaken on a risk-based approach, with focus on those budgets which are subject to fluctuating demand and updated monthly for those that are under pressure from the pandemic.
20. The financial remit is scheduled to be updated in September 2020, where there should be more certainty around funding and more certainty around cost pressures and income losses. The annual budget challenges will continue as part of the normal budget cycle. The Strategic Director of Finance and Governance with the support of other strategic directors will look to establish medium term budget plans, reviewing any decisions previously taken.

21. Moving forward, the council's approach to recovery and renewal will continue to reflect and be shaped by local priorities and needs. Departmental plans are focused on the changing environment, analysed in detail with reference to 'Renew, Continue, Amplify and Reduce' in a post Covid-19 environment. The approach will also be guided, where necessary, by national government recovery strategies.
22. Further separate reports on individual aspects of the Covid-19 response, and learning to inform the borough's approach to recovery and renewal, will therefore be brought to future cabinet meetings. This will include consideration of medium to longer term renewal of service plans as part of the refresh of the Council Plan, medium term resources strategy and future budget priorities and plans. An updated Council Plan and financial remit will be presented to cabinet in September 2020.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial and Information Governance files	Finance and Governance, Second Floor, Tooley Street	Rob Woollatt 020 7525 0614

APPENDICES

No.	Title
Appendix A	Covid-19 Grants (as at 7 July 2020)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	7 July 2020	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team	9 July 2020	