

Item No. 10.	Classification: Open	Date: 9 September 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 updated position of:
 - Government grants to support the council's financial losses;
 - The impact of the Covid-19 pandemic on spending and income;
 - The continuing uncertainty around the additional government funding;
 - The ongoing plans in place to mitigate the financial risk to the council.

BACKGROUND INFORMATION

2. Following the July report on the financial impact of the Covid-19 pandemic, the committee requested regular updates on the council's increased costs and income losses and an update on any additional government funding.
3. It was reported to the July committee that the Covid-19 pandemic had 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. The virus is still in circulation, creating a need for a 'new normal' way of life. Many restrictions have been eased in recent months with local lockdowns enforced where Covid-19 case rates are increasing. And as we move into the winter months, it is feared that there is a potential for a second wave that might necessitate another full lockdown. This uncertainty creates significant challenges ahead in terms of recovery and renewal.
5. This report updates the committee on the financial impact of Covid-19 on the council by reviewing the revised additional costs and reduced income streams and the funding from central government to support these additional pressures. The report updates the estimate of the financial impact on the council in 2020-21 and the ongoing budget processes in place to mitigate the financial risk to the council, in the short and medium term.

Government grants

6. There have been three tranches of general government funding to support local authorities. The first two tranches gave a headline total of £3.2bn to support the costs of the pandemic. The third allocation was just £494m bringing the total to £3.7bn. 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. The third allocation used local authorities' reported monthly Covid-19 returns in May and June and distributed on the basis of need and population size. Southwark's share of all three tranches is £23.6m, the third highest grant in London, reflecting both the population size and the needs of the authority.

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 (changes to this appendix since the July report have been highlighted in grey). For example, the estimated third tranche of funding of £500m, and Southwark's share at £3.5m is now updated to an actual allocation of £494m and £3.6m respectively. As previously reported, Appendix A also details measures taken to ease any cash flow pressures on local authorities (no additional funding) and the council's own funded support for residents, businesses and the voluntary sector.
8. The government announcement of a third allocation of funding – the £494m- included a promise of further support for losses in income. There are now further details as to the likely support for losses in income for sales, fees and charges. Authorities will be required to submit claims for actual irrecoverable monthly losses. The first is likely to be in September for income losses that relate to April to July, with further grant claims for the remainder of the 2020-21 year.
9. Only sales, fees and charges that relate directly to council services to residents may be claimed and only those losses that are irrecoverable. The claim does not allow for commercial or rental income losses. The council will continue to lobby for these income losses to be included, as they impact on the council budget, in the same way as all other income losses.
10. The government's view is that councils should be able to absorb a reduction of 5% of their overall sales fees and charges budgets, so grant support would be given only after this 'disregard'. However, the proposed methodology is such that after the 5% disregard councils will be awarded only 75% of losses, leaving a further 25% unfunded. The council has expressed concern at both the assumption that councils can afford to lose 5% of budgets and that support is only at 75% rather than 100%. It is estimated that the potential support for sales fees and charges income losses is in the region of £5.5m- £8m, with a likely estimated grant of £6.5m.
11. It was reported at the July meeting 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. There is no further update on this.
12. It is still expected that further funding will be made available in 2020-21. It may be that the focus moves from supporting additional general increases in costs to specific cost pressures and support for all income losses through specific grant claims for actual losses. 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

13. In order to assess how the initial emergency grants 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. This survey

has now become a monthly fixture, each time with additional questions or requiring further details. Since the June survey, public health expenditure reporting has been split between 'testing, contact tracing and outbreak' and 'other spend' and two questions have been added to determine how much additional expenditure on homelessness and rough sleeping is being recovered through housing benefit and universal credit.

14. Table 1 compares the estimated increased cost figures in the July return to the June figures presented at the last committee. A similar pattern of additional expenditure is evident. There was a reduction in the estimated additional costs in adult social care due to reduced expected costs of PPE. Gross housing costs increased by £6.7m reflecting a change in reporting requirements. A like for like comparison between the months shows an increase of £0.6m. Similarly, the public health expenditure increase reflects a reporting change of £2.5m. Overall, Southwark have reported an increase of £8.1m, of which £8.6m represents reporting changes and £0.5m an estimated reduction in expenditure pressures.

Table 1 Covid-19 Estimated expenditure increases. Comparison between June and July reporting 2020-21

Service area	Estimated Increased Spending June Return	Estimated Increased Spending July Return	Difference between the monthly returns	Description of significant changes in cost pressures
	£m	£m	£m	
Adult Social Care (ASC)	9.2	8.1	-1.1	Reduction in expected costs of PPE from September
Children's services	1.8	1.8	0	
Education Services	1.5	1.5	0	
Highways and Transport	1.6	1.1	-0.5	Revised estimate of costs of social distancing
Housing	8.1	14.8	6.7	Revised reporting of housing costs gross of universal credit and housing benefit. (Net comparable cost of Housing is £8.7m an increase of £0.6m)
Environment, Planning and Public Health	2.3	5.1	2.8	£2.5m is revised reporting of the public health grant
Culture	3.5	4.1	0.6	Increase in contractual costs of the councils leisure centres
Corporate	0.7	0.7	0	
Other	11.8	11.4	-0.4	Reduction in estimated PPE costs in housing
Total increase in spending	40.5	48.6	8.1	£2.5m increase in public health reporting; increase in housing reporting of £6.1m; others combined net decrease of £0.5m

15. Table 2 compares the potential loss of income between the June and July returns to MHCLG. This shows an expected increase of £3.1m to £47.4m of estimated income losses. £1.8m is the expected increasing losses in business rate income. The other increased income losses reflect increased leisure services losses of £1.6m and a net reduction in other areas of £0.3m.

Table 2 Covid-19 Estimated income losses. Comparison between June and July reporting 2020-21

Income source	Losses in income June return £m	Losses in income July return £m	Increase/ (decrease)	Description of significant changes in losses
Business rates	15.6	17.4	1.8	Increasing losses expected for business rate income
Council Tax	8.6	8.6	0	
Commercial Income	7.0	0.9	(6.1)	Commercial rent income reduces by £0.4m and £1.8m moves to HRA, £3.9m moves to other sales, fees and charges lines
Other income	5.0	5.2	0.2	Housing rent losses show small increase
Highways and Transport	3.2	4.3	1.1	Loss of parking fee income estimated to be higher
Cultural	1.9	3.6	1.7	Leisure contract income losses increase of £1.6m to £2.5m, £0.1m moved from commercial income.
Planning & Development	0.6	1.5	0.9	Movement from commercial income
Other sales, fees and charges, income losses	2.4	5.9	3.5	Movement from commercial income
Total income losses	44.3	47.4	3.1	Increased losses from £1.8m from collection fund, other income losses net £1.3m (£1.6m leisure and £0.3m other net reductions)

Housing revenue account (HRA)

16. Housing was identified by councils as one of the main areas where emergency funding was being directed. Although the HRA does not directly impact on the general fund, there are substantial income losses and discussions continue as to how these might be recovered. The estimated income loss and increased expenditure for Southwark are estimated at £17m, which is mainly loss in income from residential rent arrears and is similar across London. The council will be seeking advice and assurance from the MHCLG as to how this will be covered.

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

17. Table 3 updates the expected shortfall. This is updated for known funding to date, and changes in expected income losses and increased expenditure.

Table 3: Comparison of Estimated Funding Shortfall between June and July Returns

Current estimate of expenditure increases and income losses	June estimate	July estimate	Difference between the monthly returns	Notes
	£m	£m	£m	
Expenditure increases	40.5	48.6	8.1	Change in reporting in public health and housing. Net decrease of £0.5m. (Table 1)
Business rates and council tax losses	24.2	26.0	1.8	Increasing losses expected for business rate income
Sales, Fees and Charges losses	8.1	15.3	7.2	£1.6m leisure contract increases, £1.1m increase in parking losses. Other net increase £0.1m. Movements of £4.4m from other categories into SFC.
Other Income losses- Commercial, housing rents	12.0	6.1	(5.9)	Commercial income reduces by a £1.8m movement into the HRA. £0.9m into planning and £3.5m into other sales, fees and charges lines, housing rents and other increases £0.3m.
Total current estimate of expenditure and income losses	84.8	96.0	11.2	£8.6m represents change in reporting requirements; £0.5m reduction in expenditure losses and £3.1m increase in income losses
Current estimate of grant funding				
Grant funding: Tranche 1 and 2	-19.9	-19.9	0	Southwark's share of £3.2bn
Additional estimated share of £500m	-3.5	-3.6	0.1	Actual share £3.649m
Support for Vulnerable families		-0.4	0.4	Southwark share of £63m to support vulnerable families.
Expected further funding for increased expenditure	-7.0	-7.0	0	Initial view of further funding to support expenditure increases (share of £1 bn)
Public Health Grant 'Testing and contact tracing'		-2.5	2.5	New reporting for expenditure in July; included specific grant for consistency, net effect is zero.

Current estimate of expenditure increases and income losses	June estimate	July estimate	Difference between the monthly returns	Notes
	£m	£m	£m	
Housing benefit/universal credit and tenant contributions		-6.1	6.1	New reporting for expenditure in July; included specific grant for consistency, net effect is zero
Business rates and council tax losses	-12.1	-13	0.9	Expected that the spending review will share expected shortfalls in tax revenues. Initial estimate at 50%
Sales, Fees and Charges	-5.8	-6.5	0.7	Grant of 75% to cover losses in sales, fees and charges- details still unknown
Other Income losses	-5.0	0	(-5.0)	Currently looks like no additional funding for commercial income
Estimated additional grant funding for 2020-21	-53.3	-59.0	5.7	Reporting changes increases funding by £8.6m, other net reductions £2.9m
Estimated Potential Funding Shortfall	31.5	37.0	5.5	£2.6m net increases in costs and losses income; £2.9m of net reduction in govt grants

18. The difference between both the council's current estimate of income losses and additional expenditure and government grant to date has increased by £5.7m to £37m from the previous report in July.
19. The increased shortfall arises mainly from anticipated further losses in income and from a reassessment of the methodology of the SFC grant. Currently it looks likely that other income, such as commercial and rental income will not be in scope. The MHCLG is still requiring local authorities to submit monthly returns to establish an ongoing assessment of increases in expenditure and reductions in income. It is anticipated these will continue to be used to provide evidence to support local authorities across the full financial year. This evidence is likely to show that supporting income losses is critical to ensuring that councils' finances are stable in the medium term.
20. Since reporting to the committee in July, there have not been further announcements regarding additional general support for local authorities. This is largely to be expected over the summer months. However, it is expected that the autumn spending review will provide some clarity over further resources that may become available.

Mitigating risks

21. Again, there is no change from the last report as to the financial challenges arising from the pandemic. They 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.

22. The policy and resources strategy report to cabinet on 14 July 2020 initiated 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 council plan will be updated in September and financial remit will be updated as soon as the relevant information is available. This is likely to be in November after the spending review.
23. The annual budget challenges are now underway. Budget savings and targets will be addressed through cabinet member led panel meetings in September, with a second round scheduled for November. As set out in the budget remit report to cabinet, a 'most likely' funding shortfall for 2021-22 is estimated in the region of £26m. To bridge this gap, the budget challenge will target net savings of 10% on net controllable departmental spend. The meetings will first consider the 2020-21 outturn forecast together with the COVID impact on departmental budgets.

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 24 August 2020)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Geraldine Chadwick, Interim Technical Accountant	
Version	Final	
Dated	25 August 2020	
Key Decision?	No	
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	25 August 2020	