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| Item No. 11. | Classification: Open | Date: 8 February 2021 | Meeting Name: Audit, Governance and Standards Committee |
| Report title: | | Covid-19 Pandemic: Update February 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 updated position of the impact of the Covid-19 pandemic on spending and income and the government grants to support the council's financial losses.

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 and an update on any additional government funding.
3. This report updates the committee by comparing the October data reported to the November committee, to the December data submitted to the MHCLG.

GOVERNMENT GRANTS

4. The position reported to the November 2020 committee, was that there had been four tranches of general government funding to support local authorities. Southwark's share of all four tranches was £33.6m. The government announcement of a fourth allocation of funding included a promise of further support of £100m for leisure facilities. Allocations are based on a bidding process with decisions to be made at the end of February 2021.
5. Appendix A has been updated to include additional grants (changes to this appendix since the November report have been highlighted in grey). 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.
6. The council have submitted the first claim of £4.1m for income losses in sales, fees and charges (SFC), which relate to the period from April to July 2020, and a second claim of £3.6m for August to November 2020. There will be one final claim for December 2020 to March 2021. Overall expected grant income is difficult to assess as grant will be clawed back at the end of the year for any income recovered.

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

Table 1: Estimated Reported Additional Costs of Covid-19, October to December 2020

| Service area | Estimated Increased Spending October Return | Estimated Increased Spending December Return | Difference between October and December | Description of significant changes in expected cost pressures from October to December |
|---|---|--|---|--|
| | £m | £m | £m | |
| Adult Social Care (ASC) | 9.6 | 10.6 | 1.0 | Additional demand funded through the Clinical Commissioning Group (CCG) |
| Children's services | 1.8 | 2.0 | 0.2 | |
| Education Services | 1.5 | 1.9* | 0.4 | Costs of free school meals in October half term |
| Highways and Transport | 1.7 | 1.7 | 0.0 | |
| Housing | 15.8 | 17.5 | 1.7 | Increases in numbers, prevention costs and incentives to the private sector |
| Environment, Planning and Public Health | 6.7 | 8.3 | 1.6 | Additional costs associated with the additional grant of £1.6m for Public Health |
| Culture | 3.9 | 3.9 | 0.0 | |
| Corporate | 0.8 | 0.8 | 0.0 | |
| Other | 11.0 | 11.0 | 0.0 | |
| Total increase in spending | 52.8 | 57.7 | 4.9 | Additional costs relating to additional funding of £2.6m (net nil impact); £2.3m additional expected costs |

* rounding of figures

7. Table 1 compares the estimated increased cost figures in the December return from that reported in the October return. The expected increase in expenditure has risen by £4.9m from £52.8m to £57.7m. The increase in expenditure represents additional Covid-19 related responsibilities as well as estimated additional cost pressures in existing services.
8. Table 2 compares the potential loss of income between the October and December returns to MHCLG. This shows a reduction of £0.8m from £43.1m to £42.3m, mainly driven by improvements in the collection of parking income through the easing of lockdown restrictions.

Table 2: Estimated Reported Additional Income Losses, October to December 2020

| Income source | Losses in income October return £m | Losses in income December return £m | Difference between October and December £m | Description of significant changes in losses from October to December |
|--|---|--|---|---|
| Business rates | 10.5 | 10.5 | 0.0 | |
| Council Tax | 8.6 | 8.8 | 0.2 | |
| Commercial Income | 0.9* | 0.5 | -0.4 | Better collection rates for commercial income. |
| Other income | 4.1 | 4.0 | -0.1 | |
| Sales, fees and charges | | | | |
| Highways and Transport | 3.8 | 2.9 | -0.9 | Parking losses continue to be reduced following fewer lockdown restrictions to November. Potential to increase again as London entered tier 4 and currently in a national lockdown. |
| Cultural | 4.1 | 4.5 | 0.4 | Expected increases in losses as lockdown restrictions were extended and cultural events and leisure adversely affected. |
| Planning & Development | 1.7 | 1.8 | 0.1 | |
| Other sales, fees and charges, income losses | 9.4 | 9.3 | -0.1 | |
| Total income losses | 43.1 | 42.3 | -0.8 | Net improvement of £0.8m. Future losses uncertain given that London moved to Tier 4 in December and currently in a national lockdown. |

* rounding of figures

Housing revenue account (HRA)

9. 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 £13.2m in December, a £2.8m improvement on the October estimate of £16 m.
10. Table 3 updates the expected shortfall. This is updated for known funding to date and changes in expected income losses and increased expenditure. The difference between both the council's current estimate of income losses and additional expenditure and government grant to date has decreased by £5.4m to £23.6m in December. The shortfall movement arises mainly from an increase in the grant funding.

Table 3: Potential Funding Shortfall, October to December 2020

| Current Estimates | October estimate | December estimate | Difference between October and December | Notes on significant movements |
|--|------------------|-------------------|---|---|
| | £m | £m | £m | |
| Expenditure increases | 52.8 | 57.7 | 4.9 | Additional costs relating to additional funding of £2.6m (net nil impact); £2.3m additional expected costs. |
| Business rates and council tax losses | 19.1 | 19.3 | 0.2 | |
| Sales, Fees and Charges losses | 19.0 | 18.5 | -0.5 | Mainly reductions in expected parking losses. |
| Other Income losses- Commercial, housing rents) | 4.9* | 4.5 | -0.4 | Better collection rates for commercial income |
| Total current estimate of expenditure and income losses | 95.8 | 100.0 | 4.2* | Net increase due to increases in expected costs |
| General Grant funding for expenditure losses. 4 Tranches. | -33.6 | -33.6 | 0.0 | |
| Sales, Fees and Charges | -6.5 | -6.5 | 0.0 | . |
| Support for leisure centre costs | -0.0 | -0.7 | -0.7 | Southwark's estimate share of £100m. Currently in bidding process |
| Business rates and council tax losses | -9.6 | -14.5 | -4.9 | Spending review announced that losses of 75% could be claimed over 3 years. (£4.8m pa) |
| Contain Management and Outbreak Grant | -1.0 | -2.6 | -1.6 | New funding for Tier 2/3 authorities to contain Covid outbreaks |
| Local Government Compliance and Enforcement Grant | -0.2 | -0.2 | 0.0 | |
| Support for Vulnerable families | -0.4 | -0.4 | 0.0 | |
| Rough sleepers initiative | -1.0 | -1.0 | 0.0 | |
| Housing benefit/universal credit and contributions | -5.8 | -5.6 | 0.2 | |
| Infection control grant | -2.2 | -2.2 | 0.0 | |
| Clinical Commissioning Group (CCG) funding of adult social care | -4.0 | -5.0 | -1.0 | Expected funding by CCG of adult social care |
| Public Health Grant | -2.5 | -2.5 | 0.0 | |
| Covid Winter Grant | -0.0 | -1.1 | -1.1 | New funding to support those most in need with the cost of food, energy, water bills and other essentials. |
| Reopening High Streets Safety Fund | -0.0 | -0.3 | -0.3 | Funding to support the safe reopening of high streets/other commercial areas. |
| Clinically Extremely Vulnerable Funding | -0.0 | -0.2 | -0.2 | Funding to support clinically extremely vulnerable (CEV). |
| Estimated additional grant funding for 2020-21 | -66.8 | -76.4 | -9.6 | Grant funding Increased |
| Estimated Potential Funding Shortfall | 29.0 | 23.6 | -5.4 | Overall shortfall decreases by £5.4m mainly due to funding by additional grants. |

* rounding of figures

11. In order to consider the budget impact of this shortfall in 2020-21 we must adjust for Council Tax and Business Rates. Any difference between the budgeted income and actual income for these two income streams is not charged to the General Fund in 2020-21. The shortfall on Council Tax and Business Rates income in 2020-21 would normally all be charged to the General Fund in 2021-22. However, as noted in the Table, the Government is intending to partially alleviate the burden and will fund up to 75% of the shortfall, with the remaining losses being spread against the General Fund in 2021-22 and in the following 2 years.

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 8 January 2020) |

AUDIT TRAIL

| | | |
|---|--|-------------------|
| Lead Officer | Duncan Whitfield, Strategic Director of Finance and Governance | |
| Report Author | Geraldine Chadwick, Interim Technical Accountant. | |
| Version | Final | |
| Dated | 27 January 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 |
| Date final report sent to Constitutional Team | 27 January 2021 | |