COVID-19 Pandemic – Financial Implications
at November 2020

The Revenue Budget for 2020/21 that was approved in February 2020, was agreed before the impacts of the COVID-19 pandemic on the UK became apparent. It does not therefore consider the significant additional financial impacts that are now faced during 2020/21 on service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.

Government Funding

The Government originally indicated an intention to fully-compensate councils for the financial impacts of COVID-19, however it remains unclear whether this commitment is just in relation to the additional costs incurred or whether it will also cover loss of income.

To date, relative to the scale of forecast financial impacts, the Council has received a the financial support as summarised the table below from Government and other agencies to offset the impacts on its budget.

Table 4.1: EMERGENCY GRANT (not ring-fenced)	**£m**
Emergency Grant allocation 1 • Equates to 64p per household.	0.042
Emergency Grant allocation 2 • Equates to £22.70 per household.	1.481
Emergency Grant allocation 3 • Equates to 3.09p per household.	0.203
Emergency Grant allocation 4 • Equates to £2.25 per household.	0.148
	1.874

Table 4.2: OTHER SPECIFIC GRANTS AND FUNDING ALLOCATIONS	**£m**
Rough Sleepers accommodation funding. • In addition, £39.7k has been received from Surrey County Council from their Emergency Grant allocation to contribute to the cost of temporary accommodation for rough sleepers.	0.002 0.040
Next Steps Accommodation Funding - £180.3k • Contribution towards B&B costs	0.180
Reopening High Streets Safely Fund • Allocated to prepare for the reopening of non-essential retail	0.132
Emergency Assistance Grant for Food & Essential Supplies • Allocated via Surrey County Council	0.089
Compliance & Enforcement Grant • For enforcement of measures to support public health including social distancing	0.058
Test & Trace Scheme - for payments to individuals who have to self-isolate and are unable to claim benefits • general claims	0.048

• discretionary claims • admin funding	0.029 0.027
Clinically Extremely Vulnerable Funding • share of Surrey County Council grant allocation	 0.067

Income Compensation Scheme

In addition the Council is able to claim for reimbursement of a proportion of some COVID-19-related income losses. There terms of this reimbursement are quite specific:

- The scheme involves a 5% deductible rate, whereby authorities will absorb losses up to 5% of their planned (budgeted) 2020/21 sales, fees and charges income, with the Government compensating them for 75p in every pound of relevant loss thereafter. By introducing a 5% deductible Government argued that it is accounting for an acceptable level of volatility, whilst shielding authorities from the worst losses.
- Income from commercial activities is not eligible of reimbursement under the scheme
- Claims have to be certified by the Council's Chief Financial Officer and may be subject to audit.

This Council's share of income funding had not been confirmed at the time of preparing this report; the first claim for £1.086m (for eligible income losses in April to July) has been submitted.

The total COVID-19 Emergency funding allocated so far to this Council to cover expenditure incurred and lost income is therefore in the region of £2.5 million and a further £1.0 million has been claimed for income losses so far. However, as set out below, the forecast costs and loss of income forecast will potentially exceed the grants awarded.

Through the Local Government Association, Surrey Leaders, the Society of District Council Treasurers and the Surrey Treasurers' Association we have continued to make clear to the MHCLG and HM Treasury the scale of the financial impact and the case for additional funding.

While the Government published 'Our Plan to Rebuild' in May 2020 it remains uncertain as to how long the lockdown restrictions are likely to last and when the Recovery phase will end.

This means that accurate forecasting of the full financial impacts for this Council is remains challenging at this time and other updates will be provided through in-year financial monitoring and budget reports.

At the time of preparing this report, while the pandemic continues, there is also not yet confidence that that these financial impacts will not continue into 2021/22; or whether Government funding support will continue.

Other COVID-19 Funding

The Council has also received the following funding from Government:

- Council Tax Hardship funding - £0.755m
- Business Grants funding - £23.8m
- Business Grants funding – Discretionary Scheme - £1.13m
- Business rates – extended retail relief funding - £18.69m
- Business rates – nursery/local newspapers relief funding - £0.700m
- November 2020:
    - Local Restrictions Support Grants - £2.975 million (grants to businesses on the rating list)
    - Additional Restrictions Support Grants - £22.095 million (grants to other businesses)

How they are being utilised is explained in the sections on the Collection Fund and Business Grants below.

Expenditure Pressures
Since the outset of the pandemic the Finance Team has been tracking the financial impacts of the Council's COVID-19 response. New cost codes have been established to identify expenditure and an income and expenditure impacts model has been set up.

These detailed records are being maintained so that the impacts are readily identifiable to facilitate reimbursement wherever possible either from the Government or from Surrey County Council. For example, the costs incurred when providing support to residents in Category A (shielded) which is the responsibility of the County Council.

The financial impacts have been modelled based on lockdown restrictions lasting throughout 2020/21 in line with the parameters specified in the MHCLG's monthly COVID-19 financial impacts monitoring return. These assumptions are subject to regular review. The most return to MHCLG covers the period to 30 September. The figures quoted in this report for cost and income pressures are based on actual figures and full-year forecasts at 30 September.

The forecast additional expenditure for 2020/21 is summarised in the table below which follows the categories specified by MHCLG for the monthly financial data return:

Table 4.3: MHCLG EXPENDITURE CATEGORY	**Full Year Forecast at 30.9.20 £M**	**Type of Expenditure Incurred**
Housing Rough Sleepers	0.288	Temporary accommodation for Rough Sleepers and additional demand for B&B accommodation

Table 4.3: MHCLG EXPENDITURE CATEGORY	Full Year Forecast at 30.9.20 £M	Type of Expenditure Incurred
Environment & regulatory – waste Management	0.099	Garden Waste – admin costs and vehicle hire
Finance & Corporate	0.076	Stationery, marketing materials and licensing for outdoor seating
Finance & Corporate	0.001	Vehicle Hire – cemetery
Other - PPE (non-Adult Social Care) April 2020	0.055	Staff remote working – IT systems and support
Other	0.441	Staff and volunteer Training and Professional Support
Other	0.002	Revs and Bens Compliance and Checks for Business Grants
Other - shielding	0.288	Voluntary Action Reigate & Banstead - VARB and YMCA Welfare Calls over a 10-week period Shielded Food Parcels and Communication
Other - PPE (non-Adult Social Care) April 2020	0.097	Purchase of PPE for staff and volunteers
Other - excluding service areas listed	0.152	Publicity materials – e.g. social distancing banners Funding support - Voluntary Sector contributions Provisional Cost of support for Leisure Services Provider Support for Shielded Residents – including welfare calls, visits, foodbank and meals
Total Forecast Impact 2020/21	**1.498**	

<u>Income Reduction Pressures</u>

In addition to incurring additional expenditure, the Council is also impacted by a significant reduction in budgeted income streams.

Overall, COVID-19 financial impacts are forecast to be more significant for the Council's income budgets compared to the additional expenditure incurred. This is in line with other district and borough councils, which tend to rely on fees and charges income as a greater portion of their budget.

Table 4.4: MHCLG INCOME CATEGORY	**Full Year Forecast at 30.9.20 £M**	**Type of Income Loss**
Recreation & Sport	0.263	Leisure Services Provider - reduced Management Fee
	0.254	Community Centres – room hire, activities, catering
Cultural & Heritage	0.889	Harlequin – ticket sales, room bookings, event catering and concessions
Planning & Development	0.360	Planning Fees
Commercial Income losses	0.319	Commercial Rents – (including Redhill Market)
Other Sales, Fees & Charges income losses	2.213	Car Parking charges
Waste Management	0.477	Garden Waste charges
	0.251	Trade Waste charges
Other Sales, Fees, & Charges income losses	0.171	Reduction in Revenues & Benefits income from external Clients
	0.034	Private Hire licence fees
Total Forecast Impact 2020/21	**4.713**	

The main areas impacted include:

- Car parks usage and income from season tickets fell significantly following closure of council car parks on 30 March and the announcement that councils were required to make parking free for key workers.

  Income from Pay and Display is forecast to reduce by £1.3 million compared to budget. whilst the bulk of expenditure associated with car parks, such as business rates and insurance, will still be incurred. The Council's policy with regard to residents who have paid for annual parking permits was reviewed and an extension was agreed, reducing forecast income by £200k. In addition many local businesses have applied for refunds on prepaid permits for staff.

  A further impact is the reduction on forecast parking ticket revenue: the predicted loss of income until the end of March is £60k

- It is anticipated that across a range of other services including Planning, Building Control, Local Land Charges and Redhill Market income will fall significantly below budget in 2020/21 and there has been a temporary waiver of the monthly management fee received from the Leisure services provider - £263k.

- The increased risk to recovery of commercial rental income is estimated to be £200k. The most significant risk relates to Travelodge which applied for a Company Voluntary Arrangement (CVA), a legally binding agreement with the company's creditors to allow a proportion of the debts to be paid back over time, and some to be written off, typically lasting between two and five years. The Council is in negotiations with another hotel chain to take on the lease.

- The Revenues, Benefits and Fraud team experienced a reduction in recovery costs of £127k while magistrates courts were closed. Their income from contracted work for other councils has also reduced due to decisions by client authorities to pause recovery action.

- Pausing the garden waste collection service from March to June 2020 has resulted in a £477k reduction in income.

It is important to note that the Council's income budgets are not all based on an assumption of a 100% collection rate. Where appropriate, a level of arrears is assumed and a provision is made for bad debts. It is currently too soon to forecast whether the existing bad debt provisions will be sufficient to address all non-recovery as a consequence of COVID-19. An increase in the provision would require a call on revenue Reserves. This will be assessed as part of the year-end financial closedown.

Capital Programme Impacts

The Capital Programme 2020/21 to 2024/25 was approved in February 2020. No material changes to forecast expenditure or capital receipts have been identified to date. The main impacts are likely to be in terms of the timing of expenditure and income as some delays (slippage) may arise. The latest forecasts will be reported as part of quarterly capital programme monitoring and where necessary reports will be presented on specific schemes if any significant impacts are identified.

COVID-19 Pandemic: Summary Financial Implications

Overall the pandemic represents a material financial risk to the Council's budget and financial position. The information presented in this report represents the forecast at November 2020 based on the impacts during the first six months of 2020/21 and is likely to increase as more information becomes available. The financial impacts of a deficit on the Collection Fund (further details below) will add to these pressures.

The current estimate of the net adverse financial impact in 2020/21 is up to £1.0m after taking account of COVID-19 grant funding.

Table 4.5: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21	**Full Year Forecast at 30.9.20 £M**
Additional Expenditure	1.498
Income Losses	4.747
Government Grants	(2.546)
Government COVID-19 Income Reimbursement:	
• April – July Claim	(1.086)
• August – November claim (est.)	(1.000)
• December to March claim (est.)	(1.000)

Table 4.5: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21	**Full Year Forecast at 30.9.20 £M**
Net Unfunded Estimated Cost of COVID19 in 2020/21	**£0.613m**

In principle this can be funded through the Headroom Contingency sum that is included in the 2020/21 budget and other forecast budget underspends during the year, however that would leave no remaining capacity to address other in-year budget risks without having to call on the Council's Reserves.

The Net Revenue Budget requirement for 2020/21 is £18.26m. As a percentage of the net budget requirement therefore, the potential combined net loss of income and additional costs could be more than 5.4%.

An alternative measure (to allow comparison with other councils) is to calculate the impacts in relation to the Council's 'Core Spending Power', the Government's standard measure which takes into account the authority's annual local government settlement funding assessment, forecast council tax income and its new homes bonus allocation. This Council's core spending power for 2020/21 is £18.43m therefore the impact of the COVID-19 pandemic remains in the region of 5.4% of its Core Spending Power.

<u>Options for Mitigation of the Financial Impacts</u>
The main options for mitigating the financial impacts of COVID-19 include:

- Continue to lobby Central Government for additional funding in recognition of the impacts on district Councils and their ability to deliver services. The Council is actively working with other councils and networks on this.

- Look to make offsetting savings and efficiencies where possible before calling on the unallocated balance of the Headroom Contingency Budget of £1.0m that is built into the 2020/21 Revenue Budget. This in turn would require a call on the General Fund Balance to release the resources to do so.

- Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.

- Potentially apply capitalisation to some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. Local authorities are lobbying for greater flexibility from Government in this area. This may include using capitalisation flexibilities to cover costs from forecast future capital receipts and this may include making targeted asset sales to support this.

Further updates on the forecast costs and income and how they might be funded will be included in the quarterly budget monitoring reports and the final 2020/21 budget report in January.

Longer-Term Outlook

The preceding sections have focused on the short-term financial impacts for the Council in 2020/21. Of potentially greater concern is the impact of the projected economic downturn on public expenditure and local government finances and what that means for public sector funding over the longer term.

UK public sector net is estimated to have been £36.1 billion in September 2020, £28.4 billion more than in September 2019 and the third-highest borrowing in any month since records began in 1993.

Once the immediate crisis is over and lockdowns have ended, the IMF have indicated that governments will have to raise taxes and put the brakes on public spending to bring their books closer to balance.

This need to bring down public debt is going to come into play alongside an economic contraction unprecedented in modern times. This will not only place additional pressure on Government funding but is also likely to have considerable impact on the Council's ability to raise additional income.

In recent years, local government has been increasingly relying on business rates as a source of income, which will in future years be less buoyant. In addition to the medium-term impact of the economic effects of COVID-19, in January 2021 the UK's transition period with the EU comes to an end, and it is still not clear what the nature of the final exit agreement will be and what impact that will have on the economy.

In the labour market it is reported that 9.6m people were furloughed and classed as economically inactive at a cost of £41.4 billion. It is uncertain how the long-term effects on unemployment rates will work through the economy. At August 2020 The UK unemployment rate was estimated at 4.5%, 0.6 percentage points higher than a year earlier and 0.4 percentage points higher than the previous quarter.

The number unemployed was expected to increase as furlough payments from Government reduced from 80% to 70% in September and to 60% in October. The scheme closed to all new entrants from 10 June. Any increase in unemployment and / or furloughing of employees will also affect the sums the Council has to pay in Council Tax support, the amount collected in Council Tax and may have further knock-on effects to the business rates base and income from all sources – including car parking, planning and commercial rents.

Collection Fund Impacts

The in-year cash flow impact of business rate and council tax income shortfalls will be accounted for through the Collection Fund and eventually impact on the budgets of all precepting authorities (the County Council, the Police & Crime Commissioner and the Government), as well as this Council.

The latest forecast for Collection Fund impacts were set out in the September financial return to MHCLG

Table 4.6: FORECAST COLLECTION FUND IMPACTS	Forecast Total Impact 2020/21
MHCLG Category:	**£m**
Business Rates losses (after reliefs)	3.450
Council Tax receipt losses	4.200
Total Collection Fund losses	**7.650**

The precepting authorities have a legal right to expect the billing authority to pay over their full precept when it becomes due, regardless of actual collection rate performance or take-up of Council tax support.

In response to COVID-19 the Government has rescheduled the dates when its 2020/21 share of business rates income from the Collection Fund is payable to help ease the initial cashflow impacts on billing authorities. This means that we can defer the payments which were due to have been paid over in April, May and June by six months.

Council Tax Collection

The two main risks to council tax income are:

- An increase in households claiming council tax support

  At the time of preparing this report the number of working age support claimants has increased by 400 claims (11.22%) to 3,964. Pensioner claimants are broadly the same

- If the collection rate falls below 99% due to non-payment.

  At 31 October the impacts on recovery were as follows:
    - 2020/21 debt: at end of October 2020 was 65.45%, down by 1.37% or £1.7m.

The full picture will take some time to confirm however it is forecast that. Despite current strong performance, the council tax Collection Fund will be in a deficit position by year-end 2020/21 as households and businesses find it increasingly difficult to pay as the recession deepens and Government support reduces. This deficit will have to be recovered from the precepting authorities. On 2 July the Government announced that 2020/21 Collection Fund losses may be recovered over three years rather than one; the details of how this will be implemented have recently been confirmed and are being considered.

A further risk to this Council, as the billing authority, is the Collection Fund cash flow risk; if council tax support takes up increases and collection rates fall, then the sums due to be paid to the Government and precepting authorities would be higher than the cash collected. The Government has provided some support by rescheduling the dates when its 2020/21 share of business rates income from the Collection Fund is payable to help ease the initial cashflow impacts on billing authorities however the precepting authorities have confirmed that they expect sums due (based on the original forecasts) to be paid on time and in full.

Local Council Tax Support Scheme (LCTS)
The Government has allocated a hardship fund for those households that are struggling financially as a result of COVID-19 and this Council has been allocated additional funding of £0.754m. Those households that are already on LCTS but still pay a contribution towards their Council Tax are being credited with an additional £150 of support. These LCTS credits were processed in April and revised bills were sent to individual households reflecting the lower amounts due.

In addition, Government Hardship Funding of £754,507 has also been provided to make short term discretionary payments to those that are affected by the LCTS and are struggling financially. This funding is being distributed on a case by case basis as people contact the Council to discuss their situation. At 31 October £415,252 had been allocated to 3,177 households.

Business Rates
Business rates are collected by this council with the majority of income received being paid over to the Government along with a share to the County Council.

In May 2020 the Government extended 100% rate relief to all businesses in the leisure and hospitality sector, regardless of size. This has reduced the sums to be collected during 2020/21 from £54m to £35m.

- The majority of businesses have now received the 100% Expanded Retail, for retail, hospitality and leisure, which totals £18,693,015 (1,010 businesses) .
- Nurseries have now received relief which totals £700,624 (25 nurseries).

The details on how local authorities are to be compensated for this income reduction are still to be confirmed by Government, but at this stage it is expected that the Government will reimburse the 19.4 million reduction in full.

It is currently unclear how businesses will clear any arrears of business rates due, but it is assumed that cash collected will fall and arrears will increase. An assessment will therefore need to be made about the provision for bad debt which may arise in 2020/21 and beyond and any changes to the appeals provision going back to 2010 in some cases. This will influence the level of income to the General Fund in 2020/21 to 2022/23.

To help mitigate this type of risk the council has already established a ‘Government Funding Reduction Risks‘ reserve which currently has a balance of £3.28m. In principle this Reserve is available to help offset fluctuations to income paid from the Collection Fund to the General Fund as well as the impacts of other funding changes including ‘Negative RSG’, the Business Rates reset and the planned Fair Funding Review. However, the scale of COVID-19 risks was not taken into account when the Reserve was created and it will be necessary to review its adequacy as part of the next Medium-Term Financial Plan review.

Unlike Council Tax where all income losses relating to the borough's income share fall on this council, as part of the local government funding system, the Government sets a 'floor' below which an authority's business rates income will not drop as a result of a national 'safety net' mechanism.

Business Rates Recovery
At 30 October the impacts on recovery were as follows:

- 2020/21 debt: at the end of October 2020 collection performance was 68.7%, up by 0.85% compared to October 2019.

It is difficult to assess the underlying position due to the value of COVID-19 reliefs that have been awarded.

Cash Management.
Unlike some authorities which are facing a severe cashflow crisis, this Council remains in a good position to fund service provision without resorting to short-term borrowing.

Business Support Grants
In April 2020 the Government paid £23.8 million to the Council to administer the business support grant scheme. When the scheme ended in September 2020 £22.54 million had been paid to 1,714 local businesses. This first round of grants was only available to companies on the rating list at mid-March 2020.

The Government subsequently announced an extension to the scheme for those businesses who may pay rent to a landlord, which includes rent and a contribution to rates. For that reason, they would not appear on the rating list. These businesses include:

- Businesses in shared office premises
- Permanent market traders with fixed asset costs
- Charities in small properties
- Bed and breakfast businesses that pay council tax

Funding of £1.156 million was made available for these grants. When the scheme ended in September 2020 £1.130 million had been paid to 161 businesses.

In November 2020 further funding was provided for grants to be distributed to businesses affected by the November lockdown:

- Local Restrictions Support Grants - £2.975 million (grants to businesses on the rating list); and
- Additional Restrictions Support Grants - £22.095 million (grants to other businesses).

Other COVID-19 Financial Implications
On 28 April the Government announced that implementation of the Fair Funding Review and the move to 75% Business Rates Retention planned for 2021/22 was deferred for at least a year. Both changes had been identified in the Council's MTFP as potentially adding to the authority's budget pressures in future years.

The current assumption is that this means the loss of Negative Revenue Support Grant (is also being pushed back a year; this will probably only be confirmed when the outcome of the Spending Review20 is announced in the late Autumn.