

COVID-19 Pandemic – Financial Implications

at January 2021

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 financial support as summarised the table below from Government and other agencies to offset the impacts on its budget.

Table 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 3.11p per household.	0.203
Emergency Grant allocation 4 • Equates to £2.27 per household.	0.148
	1.874
Emergency Grant allocation 5 (for 2021/22 pressures) Equates to £9.78 per household.	0.638
	2.512

Table 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	0.058

Table 2: OTHER SPECIFIC GRANTS AND FUNDING ALLOCATIONS	£m
<ul style="list-style-type: none"> For enforcement of measures to support public health including social distancing 	
Clinically Extremely Vulnerable Funding <ul style="list-style-type: none"> share of Surrey County Council grant allocation 	0.067
Contain Outbreak Management Fund (allocation from SCC) <ul style="list-style-type: none"> £3/£8 allocated to RBBC 	0.446
New Burdens 1	0.001
New Burdens 2	0.059
Environmental Health COVID-19 Response	0.079
Local Council Tax Support Grant – 2021/22 allocation	0.190
	1.343

Income Compensation Scheme

In addition the Council is able to claim for reimbursement of a proportion of some COVID-19-related income losses. The 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.

Funding 2020/21 – Summary

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 received and the second claim for £1.044 million for August to November 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 £2.1 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 it is expected that that the financial impacts of the pandemic will continue into 2021/22. The Government confirmed in the Provisional Settlement announcement that it will provide a fifth round of Hardship funding (£0.638 million) in 2021/22 and will fund income loss claims for the first quarter.

Other COVID-19 Funding

The Council has also received the following funding from Government:

Table 3: OTHER COVID FUNDING FOR DISTRIBUTION	£m
Council Tax Hardship funding	0.755
April 2020 - Business Grants funding	23.800
May 2020 - Business Grants funding – Discretionary Scheme	1.156
Business rates – extended retail relief funding	18.694
Business rates – nursery/local newspapers relief funding	0.701
Local Restrictions Support Grants (Closed) - grants to businesses told to close by the Government during the November/December lockdown	2.095
Additional Restrictions Support Grants - grants to other affected businesses during the November/December lockdown	4.296
Test & Trace Scheme - payments to individuals who have to self-isolate and are unable to claim benefits	0.048
• general claims	0.052
• for discretionary claims	0.027
• administration funding	
Local Restrictions Support Grants (Open) - grants to other leisure, hospitality, hotels and B&Bs due to Tier 2 controls in December 2020	0.210
Christmas Support Payment - for closed 'wet' pubs	0.045
Local Restrictions Support Grants (Closed) - grants to businesses told to close by the Government in Tier 2 in December 2020	0.015
Local Restrictions Support Grants (Closed) – grants for ongoing business closures when in Tier 4	TBC
Closed Business Lockdown Payment – for one-off grants of £4k-£9k for businesses forced to close during national lockdown in January 2021	6.282

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 recent return to MHCLG covers the period to 31 January. The figures quoted in this report for cost and income pressures are based on actual figures and full-year forecasts at 31 January.

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: MHCLG EXPENDITURE CATEGORY	Full Year Forecast at 31.1.21 £M	Type of Expenditure Incurred
Housing Rough Sleepers	0.294	Temporary accommodation for Rough Sleepers and additional demand for B&B accommodation
Environment & regulatory – waste Management	0.124	Garden Waste – admin costs and vehicle hire
Finance & Corporate	0.077	Stationery, marketing materials and licensing for outdoor seating
	0.001	Vehicle Hire – cemetery
Other	0.060	Staff remote working – IT systems and support
	0.534	Staff and volunteer Training and Professional Support
	0.002	Revs and Bens Compliance and Checks for Business Grants
Other - shielding	0.527	Voluntary Action Reigate & Banstead - VARB and YMCA Welfare Calls over a 10-week period Shielded Food Parcels and Communication
Other - PPE	0.163	Purchase of PPE for staff and volunteers
Other - excluding service areas listed	0.178	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

Table 4: MHCLG EXPENDITURE CATEGORY	Full Year Forecast at 31.1.21 £M	Type of Expenditure Incurred
		welfare calls, visits, foodbank and meals
Total Forecast Impact 2020/21	1.958	

Forecast expenditure pressures for 2021/22 are £100k plus for ongoing homelessness support (extra bed & breakfast costs and provision of loans for rent deposits in advance).

Income Reduction Pressures

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 5: MHCLG INCOME CATEGORY	Full Year Forecast at 31.1.21 £M	Type of Income Loss
Cultural & Related Sales, Fees & Charges (SFC) losses	0.333	Harlequin – income reduction
	0.263	Leisure Services Provider - reduced Management Fees
	0.072	Community Centres
Planning & Development SFC losses	0.243	Reduction in Planning Fee income
Highways and Transport Sales, Fees & Charges (SFC) losses - other	2.218	Reduction in Car Parking income
Commercial Income Loss Total	0.333	Commercial Rents – income reduction (including Redhill Market)
Other income losses	0.478	Garden Waste - income reduction
	0.210	Commercial Waste - income reduction
Other SFC income losses	0.182	Reduction in Revenues and Benefits Income from Third Party Clients
Total	4.332	

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 £1.5 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 £240k. In addition many local businesses have applied for refunds on prepaid permits for staff.

A further impact is the reduction on forecast penalty ticket revenue: the predicted loss of income until the end of March 2021 is £130k for off street parking and £169k for on street parking.

- 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 £40k. 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.
- Property rents are forecast to be lower than budget in 2021/22, primarily the Travelodge hotel in Redhill and the Old Town Hall in Reigate.

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.

Forecast income pressures for 2021/22 are:

- Community Centres - £0.200m
- Harlequin - £0.180m
- Parking - £1.200m
- Commercial Waste - £0.160m
- Property Rents - £0.270m.

Leisure Support Scheme

In late December 2020 Sports England published details of the Government's scheme for assisting outsourced Leisure providers with the costs of recovery/reopening between December 2020 and March 2021. The Council has worked with GLL on a bid submission. The Council may be able to claim up to £0.270 million on behalf of GLL. No other funding has been made available to cover GLL's losses since the start of the pandemic but the Council has agreed to waive payment of the 2020/21 management fee from GLL; this is included in the income loss claim to MHCLG.

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 are being 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 January 2021 based on the impacts during the first nine 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 financial impact in 2020/21 is currently cost neutral after taking account of COVID-19 grant funding.

Table 6: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21	Full Year Forecast at 31.1.21 £M
Additional Expenditure	1.958
Income Losses	4.332
Government Grants <ul style="list-style-type: none"> • Emergency Grant - £1.874m (excludes £638k for 21/22) • Other Grants and Contributions - £1.343m 	(3.217)
Government COVID-19 Income Reimbursement: <ul style="list-style-type: none"> • April – July claim • August – November claim • December to March claim (est.) 	(1.086) (1.044) (1.000)
Net Forecast Unfunded Estimated Cost/(Surplus Funding) of COVID-19 in 2020/21	(£0.057)

It should be noted that the accuracy of the above forecast depends on the completeness of COVID-19 income and expenditure forecasts and the outcome of Government funding decisions. The final position will not be confirmed until the budget outturn for 2020/21 is known.

This latest forecast of the net financial impact means that there is less risk of having to call on revenue Reserves to fund a shortfall in funding.

Looking forward to 2021/22 the most significant impacts are forecast to relate to ongoing income losses (as explained above). Early indicative forecasts of income losses, additional costs and Government funding support are set out in the table below.

Table 7: FORECAST COVID-19 FINANCIAL IMPACTS 2021/22	Forecast at 31.1.21 £M
Additional Expenditure <ul style="list-style-type: none"> • Homelessness support 	0.100
Income Losses <ul style="list-style-type: none"> • Community Centres - £0.200m • Harlequin - £0.180m • Parking - £1.200m • Commercial Waste - £0.160m • Property Rents - £0.270m 	2.010
Government Grants <ul style="list-style-type: none"> • Emergency Grant Other Grants and Contributions 	(0.638)
Government COVID-19 Income Reimbursement: <ul style="list-style-type: none"> • April – June claim (est) 	(0.750)
Net Forecast Unfunded Estimated Cost of COVID-19 in 2021/22	£0.722m

As for 2021/22 it will be important to continue to monitor and report these forecasts as part of in-year budget monitoring.

Options for Mitigation of the Financial Impacts

The main options for mitigating the ongoing 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.
- 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.
- As a final resort, 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 continue to be included in the quarterly budget monitoring reports in 2021/22.

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 borrowing is estimated to have been £34.1 billion in December 2020, £28.2 billion more than in December 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 came to an end, and it is still not clear what impact the exit agreement will have on the economy.

The Office for National Statistics reported that GDP declined by 2.6% in November 2020 as Government restrictions reduced economic activity and was 8.5% below pre-pandemic levels. The services sector acted as the main drag on growth in November, with industries such as retail and accommodation accounting for nearly 80% of the fall.

In the labour market it is reported that 9.9m people were furloughed and classed as economically inactive at a cost of £46.4 billion. It is uncertain how the long-term effects on unemployment rates will work through the economy. At October 2020 The UK unemployment rate was estimated at 4.9%, 1.2 percentage points higher than a year earlier and 0.7 percentage points higher than the previous quarter.

The Government's furlough scheme has been extended to 30 April 2021. When it ceases, any increase in unemployment and / or furloughing of employees is likely to 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.

At 31 January 2021:

- Council Tax Collection was down by 1.52% compared to January 2019
- Business Rate Collection was down by 1.34% compared to January 2019.

Business Support Grants

Announced	Scheme	Funding Allocation ¹	Payments Made at 31.1.21	
		£m	No	£m
April 2020	First business support grant scheme – closed in September 2020	23.800	1,714	22.540
May 2020	Scheme Extension – closed in September 2020	1.156	161	1.130
November 2020	Local Restrictions Support Grants (Closed)	2.095	614	1.007
	Additional Restrictions Support Grants	4.296	117	0.200
December 2020 / January 2021	Local Restrictions Support Grants (Open)	0.210	88	0.071
	Christmas Support Grant	0.032	26	0.026
	Local Restrictions Support Grants (Closed)	0.015	30	0.030
	Local Restrictions Support Grant (Closed) (Tier 4)	TBC	602	0.599
	Closed Business Lockdown Payment	6.282	598	2.968
	Local Restrictions Support Grants (Closed) Addendum (Tier 5)	3.142	598	1.484

Note 1: Grant funding allocations are not directly linked to the number of eligible applicants – for the majority of grants surplus funds are paid back to Government/under-allocations will be reimbursed.

Test & Trace Payments

The authority has also been responsible for making payments under the NHS Test & Trace Scheme to individuals who have to self-isolate and are unable to claim benefits

- The funding allocations are £0.071m for general claims plus £0.052m for discretionary claims plus £0.027m administration funding
 - At the time of preparing this report 182 claims had been processed totalling £0.091m.

Other COVID-19 Financial Implications

In April 2020 the Government announced that implementation of the Relative Needs & Resources (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. This was confirmed in the provisional Settlement announcement in December. It also indicated that the removal of Negative Revenue Support Grant was also delayed (and possibly no longer proceeding).