ANNEX 3

Covid-19 Response and Recovery
Forecast Financial implications at May 2020

1. 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.

<u>Government Funding</u>

2. 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.

3. To date, relative to the scale of forecast financial impacts, the Council has received fairly limited financial support from Government to offset the impacts on its budget.

   - **Emergency Grant allocation 1 - £42k**.
     This equates to 64p per household.

   - **Emergency Grant allocation 2 - £1.481m**
     Equivalent to around £22.70 per household.

   - **Rough Sleepers accommodation funding - £2k.**

4. In addition, £40k has been received from The County Council from their Emergency Grant to contribute to the cost of temporary accommodation for rough sleepers.

5. The total COVID-19 Emergency funding allocated so far this Council to cover expenditure incurred and lost income is therefore £1.525m. However, as set out below, the forecast costs and loss of income forecast are significantly in excess of the grants awarded.

6. 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.

7. While the Government has now published 'Our Plan to Rebuild' it is 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 not possible at this time and other updates will be provided through in year financial monitoring reports.

Other COVID-19 Funding

8. The Council has also received the following funding from Government:

- **Council tax hardship funding - £0.754m**
- **Business grants funding - £23.0m**
- **Business grants (discretionary scheme) funding - £1.1m**
- **Business rates relief funding - £18m**

How they have been allocated is explained in the sections on the Collection Fund below.

Expenditure Pressures

9. 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.

10. 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.

11. To date the financial impacts have been modelled based on lockdown restrictions lasting for four months from April to July 2020 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 next return to MHCLG was due to be submitted on 19 June. The figures quoted in this report for cost and income pressures are based on actual figures and forecast at the time of preparing the 15 May MHCLG return.

12. The forecast additional expenditure for April to July 2020 is summarised in the table below which follows the categories specified by MHCLG for the monthly financial data return:

Table 1: MHCLG Expenditure Category	**FY £M**	**Type of Expenditure Incurred**
Housing Rough Sleepers	0.138	Temporary accommodation for Rough Sleepers and additional demand for B&B accommodation
Environment & regulatory – waste Management	0.029	Garden Waste changes – admin costs Vehicle Hire – cemetery
Finance & Corporate	0.021	Staff remote working – IT systems and support

Table 1: MHCLG Expenditure Category	FY £M	Type of Expenditure Incurred
Finance & Corporate Other - PPE (non-Adult Social Care) April 2020	0.078	Cost of staff redeployed from fee earning roles to support relief work
	0.049	Staff and Volunteer Training and Professional Support
	0.084	Purchase of PPE for staff and volunteers
Other - excluding service areas listed	0.778	Publicity materials – e.g. social distancing banners Support for Shielded Residents – including welfare calls, visits, foodbank and meals Provisional Cost of support for Leisure Services Provider Funding support - Voluntary Sector contributions
Total	**£1.177m**	

Income Reduction Pressures

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

14. 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 2: MHCLG Income Category	FY £M	Type of Income Loss
Cultural & Related SFC losses	0.398	Harlequin – income reduction Leisure Services Provider - reduced Management Fees
Planning & Development SFC losses	0.700	Reduction in Planning Fee income
Other SFC income losses Total	0.311	Reduction in Car Parking income
Commercial Income Loss Total	0.367	Commercial Rents – income reduction (including Redhill Market)
Other income losses	0.485	Garden Waste - income reduction
Total	**£2.260m**	

15. The main areas impacted include:

- Car parks usage and income from season tickets has fallen 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 until the end of July is forecast to reduce by £234k 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 has been reviewed and an extension has been agreed, reducing forecast income by £200k. A further impact is the reduction on forecast parking ticket revenue: the predicted loss of income until the end of July is £36k

- 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 - £88k.

- The increased risk to recovery of commercial rental income is estimated to be £215k

- The Revenues, Benefits and Fraud team are forecasting a reduction in recovery costs of £127k while magistrates courts are 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 £470k reduction in income.

16. 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 early in the financial year and the pandemic 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.

<u>Property Rental Income</u>

17. The Council has actively engaged with its tenants to support the transition back to normal trading and where appropriate has had discussions on repayment plans for the March and June quarters over the next 12 months.

Table 3: Commercial Rental Income - Forecast by Business Type at June 2020				
Business Type	**No. of Tenants**	**Budget**	**Forecast**	**Shortfall**
Hotel	1	0.317	0	(0.317)
Catering	11	0.214	0.214	-
Retail	2	0.245	0.245	-
Industrial	7	0.861	0.861	-
Other Commercial	3	0.039	0.039	-
Leisure	2	0.139	0.139	-
Nursery	2	0.030	0.030	-
Third Sector	5	0.052	0.028	(0.024)
TOTAL	**33**	**1.897**	**1.556**	**(0.340)**

18. The effect of COVID-19 will become clearer at the June quarter-end where we should be in a better position to understand the transition back to 'normal' trading and assess public confidence as the easement of the lockdown progresses. This in turn will ultimately influence decision-making process on how we support our commercial tenants and confirm the financial impact this may have.

19. The most significant risk relates to Travelodge which has 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 creditors of Travelodge including the Council are opposing the application. If it is successful it could result in a shortfall in the region of £0.317m.

20. The forecast shortfall of £24k for the Third Sector relates to a combination of two Charity Properties where rent free periods have been agreed until the re-opening of the centres.

Capital Programme Impacts

21. The Capital Programme 2020/21 to 2024/25 was approved in February 2020. Work is in progress to review the detailed impacts of the pandemic on individual schemes but to date no material changes to forecast expenditure or capital receipts have been identified. 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 the regular capital programme monitoring reports and where necessary reports will be presented on specific schemes if any significant impacts are identified.

22. In June all authorities received a letter from the Secretary of State on local growth programmes and potential funding. It stated that the Government is keen to explore how the acceleration of central government funding could be used to support the delivery of capital projects in order to stimulate the economy. LEPs are being encouraged to share their ideas with MHCLG, alongside any *'exceptional, additional shovel-ready capital projects'* which can be delivered within 18 months, meet value for money standards and deliver on

two overarching objectives: driving up economic growth & jobs and supporting green recovery. This could include projects around town and city centre modernisation, investment in innovation and improvements to digital connectivity. Deadline for submissions was 18 June. At the time of preparing this report a submission for consideration by the LEP was being prepared based on schemes in the approved Capital Programme.

COVID-19 Pandemic: Summary Financial Implications

23. 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 May 2020 based on the impacts during the first four 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.

24. The current estimate of the net adverse financial impact in 2020/21 is at least £1.0m after taking account of COVID-19 grant funding. In principle this can be funded through the Headroom Contingency sum that is included in the 2020/21 budget, however that would leave no remaining capacity to address other in-year budget risks without having to call on the Council's Reserves.

25. The Net Budget requirement for 2020/21 is £18.26m. As a percentage of the net budget requirement therefore, the potential combined loss of income and additional costs could be more than 5.5%.

26. 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 ranges is 5.4% of its Core Spending Power**.**

Options for Mitigation of The Financial Impacts

27. 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 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 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.

28. A further update on the forecast costs and income losses based on the June MHCLG return and how they might be funded will be included in the updated Medium-Term Plan that is scheduled to be is reported to Executive in July.

<u>Longer Term Outlook</u>

29. 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 debt stands at nearly £1,791.5 billion and is forecast to rise to over £2,000.0 billion. 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.

30. 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.

31. 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, we also need to take into account the fact that in January 2021 the UK’s transition period with the EU comes to an end, and it is not yet clear what the nature of the final exit agreement will be and what impact that will have on the economy.

32. In the labour market it is estimated 8.7 m people are furloughed and classed as economically inactive. It is uncertain how the long-term effects on unemployment rates will work through the economy, however the Bank of England expects unemployment to double by the end of June to 9%. The latter figure may increase as the payments from Government are reduced from 80% to 70% in September and 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.

<u>Collection Fund Impacts</u>

33. 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, town and parish councils and the Government), as well as this Council.

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

Table 4: Forecast Collection Fund Impacts	**Forecast Total Impact**
MHCLG Category:	**£m**
C1 - Income reductions due to pressures caused by COVID-19 - 2 - Council Tax receipt losses – Local Council Tax Support scheme	1.460
C1 - Income reductions due to pressures caused by COVID-19 - 3 - Council Tax receipt losses - payment failure (bad debts)	1.010
C1 - Income reductions due to pressures caused by COVID-19 - 1 - Business Rates cash receipt losses	4.800
Total	**7.270**

35. 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.

36. 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.

<u>Council Tax Collection</u>

37. 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 from 2,442 to 2,607 (6%). Pensioner claimants are broadly the same

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

  At 3 June the impacts on recovery were as follows:
  - 2019/20 debt: at the end of May 2019 collection performance was 20.31% recovered compared to a monthly target of 20.60%
  - 2020/21 debt: at end of May 2020 collection performance was 19.32%, down by 0.99% at £1.23m.
  - 2,142 payers have requested to defer payments – representing 3.47% of households
  - 73% of households pay by direct debit. Reminders will be issued from June to non-payers. 134 DDs were returned as unpaid on 1 June 2020, compared to 231 on 1 June 2019.

38. The full picture will take some time to confirm however it is forecast that the council tax Collection Fund will be in a deficit position by year-end 2020/21. This deficit will have to be recovered from the precepting authorities in future years.

39. 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 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.

<u>Local Council Tax Support Scheme (LCTS)</u>

40. 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 are being sent to individual households reflecting the lower amounts due.

41. In addition, Government funding 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.

<u>Business Rates</u>

42. 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.

43. 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 £36m.
    - The majority of businesses have now received the 100% Expanded Retail, for retail, hospitality and leisure, which totals £18,442,835 (942 businesses).
    - Nurseries have now received relief which totals £659,152.19 (24 nurseries).

44. 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 £18m reduction in full.

45. It is currently unclear how businesses will clear any arrears of business rates due, but it is currently 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.

46. To help mitigate this type of risk the council has already established a ‘Government Funding Reduction Risks‘ reserve which currently has a balance of £2.4m. 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’ 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 Medium Term Financial Plan review.

47. Surrey Chief Finance Officers are also discussing options to manage this cashflow impact using a collective cashflow support arrangement. Local government finance consultants have been commissioned to provide analyses of the risks to Surrey councils of reductions in business rates income and have are modelling a range of scenarios.

48. 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.

<u>NNDR Recovery</u>

49. At 3 June the impacts on recovery were as follows:

- 2019/20 debt: at the end of May 2019 collection performance was 23.32% recovered compared to a monthly target of 23.00%
- 2020/21 debt: at end of May 2020 collection performance was 23.82%, up by 0.5%.

<u>Cash Management.</u>

50. At the end of May 2020, 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.

<u>Business Support Grants</u>

51. In April 2020 the Government paid £23m to the Council to administer the business support grant scheme. To date over £21.6m has been paid to local businesses. This first round of grants was only available to companies on the rating list at mid-March 2020.

52. 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

53. The Council's scheme has been published on its website and payments are expected to commence in July.

Other COVID-19 Financial Implications

54. 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 has been 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.

55. Clarification is outstanding regarding whether this means the loss of Negative Revenue Support Grant (worth £1.5m for this Council) is also being pushed back a year; this will probably only become clear when the outcome of the Spending Review 2020 is announced in the Autumn.

56. If Negative Revenue Support Grant is postponed as well, all of this will remove an anticipated budget pressure of £2.2m in the 2021/22 Budget, which will help offset any residual council tax and business rates Collection Fund impacts in that year.

57. Further details will be reported when the updated Medium-Term Financial plan is presented to Executive in July.

Revenue Reserves

58. The latest forecast for Reserves is being prepared as part of the Medium-Term Financial Plan refresh. A key development, as reported when the Budget 2020/21 was approved in February, is the action that has been taken to revise the General Fund Balance to reflect the sum that is specifically required to be held for this purpose, being 15% of the net revenue budget, plus the £1.256m that has been allocated to support the budget in 2020/21. The remaining funds have then been redistributed across other earmarked Reserves to support delivery of corporate priorities and mitigate financial risks.

Table 5: Forecast Revenue Reserves Balances	**Balance at 1-Apr 19**	**Movement in 2019/20**	**Balance at 31-Mar 20**	**Pension Contribution Apr-20**
General Fund Balance	**12.547**	(3.598)	**8.949**	(4.693)
Earmarked Reserves	**25.042**	7.603	**32.645**	(1.507)
Total	**37.589**	**4.005**	**41.594**	**(6.200)**