

Financial Impact of COVID-19	
	Background
1.	<p>This report follows on from the financial monitoring report to the end of July 2020 and highlights the budget challenges arising out of the COVID-19 crisis in-particular.</p> <p>The financial pressures being experienced are unprecedented, which will be the case at many authorities. COVID-19 has had an impact across services on many budgets, in terms of demand for support in areas such as both Adults and Children's social care as well as many other services producing much higher than expected costs. At the same time, income has fallen significantly in many areas such as car parking and commercial property rental income. The impact from COVID-19 has also meant planned budget savings for 2020/21 could not be implemented.</p>
2.	<p>This report looks at the forecast impact and summarises the budget shortfall arising directly from COVID-19 pressures. It also looks at what areas Government have and may yet fund, what is 'at risk' without further funding and makes proposals to address the current estimated shortfall.</p>
	<u>Revenue: COVID-19 Shortfall</u>
3	<p>The budget pressure arising out of the additional costs, loss of income and unachieved savings due to COVID-19 are set out in detail at Appendix 1 of this report. They are further summarised in Annexe 3.1 to this report, which also provides information on the total costs including those incurred from 2019/20. The timing of the lock down starting in late March meant that costs were incurred towards the end of the last financial year. Council services are doing all they can to minimise and manage the costs arising, but inevitably there are major impacts across the authority, especially for social care related services.</p>
4	<p>The costs incurred in 2019/20 of £0.5M were covered by applying part of the Government grant received, resulting in no net additional cost. Correspondence from Government relating to the three tranches of general grant support announced so far stated that funding would support:</p> <ul style="list-style-type: none"> • Meeting the increased demand for adult social care and enable councils to provide additional support to social care providers. • Meeting the extra demand and higher business as usual costs of providing children's social care. • Providing additional support for the homeless and rough sleepers. • Providing support to those at higher risk of severe illness from COVID-19 • Meeting the demand pressures from other services.
5	<p>Government has also brought out a compensation scheme for lost sales, fees and charges arising from COVID-19. This makes it clear that certain types of income loss will not be covered, such as commercial property rental income. Also, in the draft scheme a 5% 'top slice' from budgets for sales fees and charges would be deducted for authorities to absorb, to reflect normal volatility in budgets. Eligible losses would then be split 25% for the authority to bear and 75% to be compensated. At the time of writing, the final compensation proposals have only just been issued by Government, and officers are still working through its implications.</p>

6	Annexe 3.1 shows that the total gross impact is estimated at £45.2M from COVID-19 in 2020/21. This total impact is split between areas where Government has supported or there is reason to think will further support with extra funding, and areas we know Government has made clear it will not support with extra funding.																																	
7	<p>After allowing for the balance of £16.4M from the general government grant support already announced and which can be applied to offset the £45.2M total shortfall, the net shortfall remaining is £28.8M (as reported in Appendix 1).</p> <p>Given the significant uncertainty about the ongoing impact of COVID-19, and the timing of when circumstances might return to normal, the base assumption applied is that an impact will continue to be felt this financial year across most areas, but with no allowance made for a potential second wave or a further local or national level lock down. Should such events occur, further costs are probable. The impacts beyond the current financial year are still being systematically assessed.</p>																																	
Addressing the Budget Shortfall																																		
8	Table 1 below summarises how the shortfall identified above of £28.8M will be addressed.																																	
9	<p>Table 1: Reducing the COVID Shortfall 2020/21</p> <table border="1" data-bbox="268 882 1493 1447"> <thead> <tr> <th data-bbox="268 882 336 936"></th> <th data-bbox="336 882 1366 936">Item</th> <th data-bbox="1366 882 1493 936">£M</th> </tr> </thead> <tbody> <tr> <td data-bbox="268 936 336 990">a</td> <td data-bbox="336 936 1366 990">Shortfall (per appendix 1)</td> <td data-bbox="1366 936 1493 990">28.8</td> </tr> <tr> <td data-bbox="268 990 336 1043"></td> <td data-bbox="336 990 1366 1043">LESS:</td> <td data-bbox="1366 990 1493 1043"></td> </tr> <tr> <td data-bbox="268 1043 336 1122">b</td> <td data-bbox="336 1043 1366 1122"><u>Potential</u> Government grant for expenses falling under areas supported (NB this sum is at risk without further support from Government)</td> <td data-bbox="1366 1043 1493 1122">-10.9</td> </tr> <tr> <td data-bbox="268 1122 336 1176">c</td> <td data-bbox="336 1122 1366 1176">SCC estimate of potential income loss compensation from Government</td> <td data-bbox="1366 1122 1493 1176">-4.1</td> </tr> <tr> <td data-bbox="268 1176 336 1229"></td> <td data-bbox="336 1176 1366 1229">Revised total</td> <td data-bbox="1366 1176 1493 1229">13.8</td> </tr> <tr> <td data-bbox="268 1229 336 1283">d</td> <td data-bbox="336 1229 1366 1283">Corporate budget including contingency</td> <td data-bbox="1366 1229 1493 1283">-6.6</td> </tr> <tr> <td data-bbox="268 1283 336 1361">e</td> <td data-bbox="336 1283 1366 1361">Initiatives from improved management of staffing costs (e.g. temporary staff and vacancies) and lower capital financing costs</td> <td data-bbox="1366 1283 1493 1361">-1.5</td> </tr> <tr> <td data-bbox="268 1361 336 1415">f</td> <td data-bbox="336 1361 1366 1415">Period 4 net underspend (after use of social care demand reserve)</td> <td data-bbox="1366 1361 1493 1415">-2.7</td> </tr> <tr> <td data-bbox="268 1415 336 1469">g</td> <td data-bbox="336 1415 1366 1469">Leaving the balance to be met from Corporate contingency budget</td> <td data-bbox="1366 1415 1493 1469">-3.0</td> </tr> <tr> <td data-bbox="268 1469 336 1514"></td> <td data-bbox="336 1469 1366 1514">Net balance</td> <td data-bbox="1366 1469 1493 1514">0.0</td> </tr> </tbody> </table>		Item	£M	a	Shortfall (per appendix 1)	28.8		LESS:		b	<u>Potential</u> Government grant for expenses falling under areas supported (NB this sum is at risk without further support from Government)	-10.9	c	SCC estimate of potential income loss compensation from Government	-4.1		Revised total	13.8	d	Corporate budget including contingency	-6.6	e	Initiatives from improved management of staffing costs (e.g. temporary staff and vacancies) and lower capital financing costs	-1.5	f	Period 4 net underspend (after use of social care demand reserve)	-2.7	g	Leaving the balance to be met from Corporate contingency budget	-3.0		Net balance	0.0
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10	The assumption has been made (on line 9b) that Government will support further costs of £10.9M, which is beyond the grants to SCC announced to date, provided those costs relate to the areas specified in paragraph 4 above and are cited by Government as being areas funding is intended to support. Should this extra funding not occur, it would mean such costs also falling on the council. Therefore, we need to be clear, this is a risk and it will fall to the Council without further Government action. The authority continues to make the case to Government that the funding provided so far is inadequate for the actual and anticipated costs of providing the support Government has outlined it wants from authorities.																																	
11	An estimate of £4.1M has been made (on line 9c) as to the likely amount of compensation for loss of income. This is under review now the final Government scheme on how this will be determined has been published. These assumptions produce a revised total of £13.8M to be sought to meet the in-year shortfall.																																	
12	£6.6M will be found from Corporate budgets (line 9d), which hold sums for contingency and to manage risks and will be applied to cover (i) unachievable Adults' and Children's savings & loss of income due to COVID-19 (£2.80M), (ii) unachievable savings for property investment (£2.75M) and (iii) all non-Adults/Children's savings unable to be implemented (£1.05M).																																	

13	The £1.5M (line 9e) will be found from in-year savings as a result of pro-active management of temporary staffing and other staffing costs. A stock take of the capital programme has also resulted in lower expected borrowing this year, which will produce capital financing savings in the revenue budget that will contribute to this saving (see below).
14	As noted in Appendix 1 paragraph 3 the council holds a total of £7.0M in a social care demand reserve. As reported at period 4, an overspend of £4.16M is forecast in Children & Learning, in large part to due to additional demand arising from looked after children. Applying that reserve to underwrite the overspend in full (as proposed) means at period 4 the net position for the whole council then becomes an underspend of £2.70M (i.e. £1.46M overspend less £4.16M applied from reserves to match the Children's overspend equals an underspend of £2.70M). This underspend can then reduce the shortfall arising from COVID-19 (as per line 9f in the table above).
15	The balance needed to eliminate the shortfall is found from corporate budgets at £3.00M (line 9g). This takes the total from corporate budgets used to £9.6M with the remaining sum left in the corporate budgets covering contingency and other risks would amount to around £2.3M in 2020/21. £2.8M would also be left in the social care demand reserve as uncommitted. This provides a prudent buffer against other social care costs arising given we are only reporting at as period 4 i.e. four months into the financial year.
16	The above proposals to address the shortfall would have no impact on the uncommitted sum within the Medium Term Financial Risk Reserve, which would remain at £25.8M and be available for any further risks, COVID-19 related or otherwise. The balance on the General Fund (of £10.1M), regarded as a safe minimum, is also unaffected.
Council Tax and Business Rates – Impact from COVID-19	
17	The £45.2M financial pressures for 2020/21 do not include anything for shortfalls in council tax or business rates income from COVID-19. The forecast for the Collection Fund as at the end of July 2020 is provided in paragraphs 29 to 34 of Appendix 1. Early indications are these could prove to be significant costs with a potential for a medium term adverse impact on the council's income.
18	Any losses arising will be carried forward as a deficit on the Collection Fund to be recovered in future years. The Government has set out an intention to allow local authorities to recover the deficit over 3 years, however it will not be providing details of the scheme until the Autumn and this mechanism would merely spread the adverse financial impact, not provide additional funding. The council will need to take the Collection Fund deficit into account in setting its 2021/22 budget and over the medium term. There is a major risk that if the income from business rates and council tax remains relatively 'flat' the levels of growth assumed for future budgets won't be achieved, adding to future budget shortfalls.
<u>Capital</u>	
19	A considered stock take has taken place of all major items in the capital programme to review the impact of COVID-19 on their timescale due it its practical impact, for example in the construction industry with social distancing slowing timescales down. A part of the review has also been to determine which projects could be re-prioritised with a review to reducing borrowing needed to fund capital in 2020/21. Reducing borrowing means a lower cost of capital financing with savings compared to budget being the outcome.
20	<u>No decision</u> has yet been taken to remove any item from the capital programme. However, a list provided in Annexe 3.2 of programme items where it is proposed to delay some expenditure previously planned for 2020/21 until 2021/22 or after. <ul style="list-style-type: none"> • Areas where expenditure is proposed to be slipped total £5.0M (with £4.9M of

	<p>associated borrowing). The slippage with capital schemes forecast in Appendix 2 of this report is likely to also produce a reduction in borrowing, though for prudence this is not yet estimated as a saving as the schemes may yet progress more quickly than expected.</p> <ul style="list-style-type: none"> • Additional grant funding of £2M from Government (School Condition Allocation) has been received recently for 2020/21. It is proposed that £1M of this would be applied to Sholing Technical College renovation work in place of borrowing by the council. • A further £0.75M of new developer contributions has been received and it is proposed to apply this funding for Transport Schemes in the programme, again saving the council from borrowing an equal sum. <p>By delaying this spending, the anticipated need for borrowing will be reduced and a total budget saving of around £0.11M would be expected in-year. The final sum saved for 2020/21 will only be confirmed once the borrowing takes place, as the authority minimises its costs by not borrowing sums in advance. The expected saving contributes to the £1.5M target to be found from initiatives mentioned in table 1 above and paragraph 13.</p>
21	A full review of the total capital programme will take place which will be reported to the February 2021 Council meeting on the budget, when changes to the capital programme are agreed.
	Next Steps – Budget and Financial Planning 2021/22 and beyond
22	The Council continues to be required to submit monthly returns to Government on its COVID costs and other financial impact arising from the crisis. The return made for the end of July is attached at Annexe 3.3 for information.
23	<p>It is recognised that COVID-19 will have continuing and significant implications for the council's budget in the short, medium and longer term. As is already evident above, the crisis is impacting on costs, income streams and on the capacity and ability to implement planned savings. It therefore will have implications for the financial sustainability of the council over the longer term.</p> <p>Work is underway to enable the council to fulfil its statutory duty of agreeing a balanced budget for 2021/22, and for that to be part of a refresh of the council's medium term financial strategy. However, more risk and uncertainty than ever before will inevitably be a part of the background to that work and deliberations and ensuring a secure financial position for the council over the medium term will be a serious challenge.</p>
24	The current Medium Term Financial Strategy (MTFS), as agreed in February 2020, will be assessed in detail with assumptions previously made for 2021/22 re-assessed in the light of COVID-19 and any additional cost pressures taken into account. A further uncertainty is the absence of any Spending Review from Government, or any indication of future funding or multi-year funding settlement. The Government has announced that a Spending Review will take place in the Autumn, however it is unclear what period this will cover. As a reminder, in February the MTFS estimated a budget shortfall of £3.9M in 2021/22 rising to £10.2M in 2022/23. Should Government support not align to the new budget pressures felt via COVID-19, then the financial challenge of delivering a balanced budget will only increase.
25	Equally important will be reviewing the capital programme as the effects of COVID-19 will almost certainly have an impact on the delivery of the capital schemes included in the HRA and General Fund. There is a potential for difficulties in procuring contractors at expected prices and timescales. Issues around social distancing and capital schemes will also need to be reviewed, in terms of working practices and any practical effect if this is needed as a feature in planned spend on new or existing infrastructure or improvement works.

SUPPORTING DOCUMENTATION

Annexes

3.1	Summary of COVID-19 budget pressures
3.2	Amendments to the Capital Programme
3.3	Government Return (as at end of July 2020) on financial impact of COVID-19