
To Finance and Corporate Services Scrutiny Board 1

Date 14th October 2020

Subject Financial Position as A Result of COVID-19

Purpose of the Note

1. This note responds to the item in the Scrutiny Board 1 work programme to review the financial position of the Council as a result of the COVID-19 pandemic.

Recommendation

2. Finance and Corporate Services Scrutiny Board 1 are requested to note the contents of the report and make any appropriate recommendations to the Cabinet Member.

Information/Background

3. Key aspects that form the context of this subject include:
 - Some elements of the financial impact will not crystallise for some time (e.g. the impact on Business Rates).
 - It is difficult to separate some of the Covid impacts from the Council's underlying position (e.g. the number and cost of looked after children).
 - The world continues to be affected markedly significantly by COVID-19 and the financial affects remain fluid and subject to future events.
4. The note will consider the following areas:
 - The 2019/20 Outturn position.
 - 2020/21 Quarter 1 financial reporting.
 - Latest Covid Impact within the September return to Government.
 - Business Grants
 - Impact of the national funding position.
 - 2021/22 Financial Issues and Strategy

2019/20 Financial Outturn Position

5. The impact of Covid and the conditions surrounding it only became significant in the final weeks of the 2019/20 financial year. As a result, the financial impacts were relatively modest by subsequent standards at outturn stage. However, the Council did begin to incur some immediate expenditure as part of its emergency response and more strikingly saw immediate impacts upon income sources like car parking, some of which fell almost to nothing almost overnight as a result of lockdown measures. The outturn position also included some assumptions about the effect on collection rates for some of its outstanding debtor accounts although such calculations were broad estimates at best.

6. In overall terms the outturn position included an estimated financial impact totalling £2.9m in the last few weeks of the year. These were funded from the first tranche of emergency funding provided by Government for this purpose. The outturn position approved by Cabinet carried forward the remainder of this grant to fund COVID costs expected within 2020/21. In addition, the underlying outturn position (non-Covid related) was £5.5m and Cabinet agreed to contribute this to a Reset and Recovery reserve. The financial position over the remaining course of 2020/21 will dictate whether this reserve will be needed to directly fund Covid costs or whether it might be available to support the Council's forward-looking financial strategy.

2020/21 Quarter 1 Financial Reporting

7. By the time the Council was reporting its financial position for the first quarter of 2020/21 the Government had announced three tranches of general emergency funding for Covid-related expenditure totalling £24.4m for Coventry. Of this amount £2.9m had already been utilised as part of the 2019/20 Outturn position (see above) leaving £21.5m available.
8. The position reported to Cabinet in August showed a forecast revenue overspend for the year of £28.2m incorporating £26.1m of Covid pressures but before the application of COVID-19 emergency funding. After the use of this grant, the net overspend was **£6.7m**. At this point it had become clear that the Government was also intending to make available, grant to cover part of the Covid-related income loss being experienced by councils. The Council's initial forecast was that it would be able to claim between £2m and £3m for this Covid Income Compensation which would bring down the forecast overspend accordingly to c£4m. This is set out in the table below.

Table 1: Quarter 1 Financial Reporting Position

	Covid Related £m	Non-Covid Related £m	Overall Total £m
Quarter 1 Forecast Overspend	26.1	2.1	28.2
Emergency Covid Funding Available	(21.5)		(21.5)
Net Overspend	4.6	2.1	6.7
Covid Income Compensation (planning estimate)	(2.5)		(2.5)
Remaining Overspend	2.1	2.1	4.2

9. This level of reported overspend is not unusual in the early part of the reporting cycle and on this basis the Director of Finance did not indicate to Cabinet that a Section 114 notice would need to be issued. Section 114 notices impose restrictions on any non-essential

expenditure and some councils across the country were indicating that they might be approaching the point where such action may be required.

Latest Covid Impact Reported to Government

10. Through 2020/21 all councils have been required to report their forecast of the financial impact of Covid in monthly returns to Government. The August return showed an overall impact of £33m. Within this £6m related to estimated Business Rates and Council Tax (Collection Fund) losses for the year although accounting convention ensure that these losses are not taken into account until the following financial year. This means that such losses will need to be included in the budget setting forecasts for 2021/22.

Table 2: Estimated 2020/21 Covid Impact as at August

	£m	£m
Social Care Including PPE and external provider payments	8	
Other Services Including Housing, Shielding and Temporary Mortuary Costs	7	
Total Expenditure		15
Sales Fees and Charges	6	
Property Rents and Commercial Income	6	
Total Income		12
Business Rates and Council Tax		6
Overall Estimated Impact		33

11. Excluding Collection Fund losses the August figures indicate an in-year financial impact of £27m. This compares to the figure of £26m reported at Quarter 1 (see Table above). It is important to understand that the forecasting of such costs and income losses remains very challenging and assumption sensitive. They are likely to continue to fluctuate through the remainder of the year. Some examples of these challenges are considered below:

- Any income earning services for which cash is not paid at the point of delivery will rely on estimates of future collection rates and assumptions about bad and doubtful debt rates. An area such as Commercial Property will be affected by the degree to which customers with outstanding debts remain in business and are able to honour their financial liabilities to the Council. This is more difficult to manage and subject to greater volatility in the current climate of economic uncertainty.
- It is difficult to distinguish in almost all areas, the impact of Covid compared with the circumstances that may have existed if Covid had not occurred. For instance, the number of referrals within Children's Services increased significantly after lockdown conditions eased through the Summer months. However, it is not possible to distinguish to what degree the rise in numbers was due to lockdown conditions or

to what extent the numbers would have risen anyway but were suppressed during lockdown. If such information were known this would have a bearing on future projections of looked after children numbers and costs.

- The future longevity and depth of Covid conditions will affect any predictions of future financial impacts. A return to normalcy would have a relatively clear and traceable effect on the use and financial position of car park income for instance, but without knowing when and to what extent such conditions will return has a marked impact on predictions of future returns.

Business Grants and Business Rates Reliefs

12. One of the Chancellor's early measures in the wake of COVID-19 was to extend Business Rates relief to all businesses with a rateable value below £51,000 and all businesses in the retail, hospitality and leisure sectors. This has resulted in reliefs totalling £49m, 100% of which have been processed by the Council.
13. In addition, small business grants and retail, hospitality and leisure business grants of either £10,000 or £25,000 were announced in the first weeks of the pandemic with a significant logistical effort aimed at processing payments as quickly as possible through local councils. Coventry City Council has subsequently processed £48m of such grants to Coventry businesses which represents 90% of those eligible per rating records. This level of performance was in line with figures achieved at a national level. The scheme relied upon businesses applying for the grant and significant publicity was undertaken, including a letter to every potentially eligible business. Rating information was only one measure of business eligibility for the grants as, for instance, national smaller shop chains only applied on a few chosen shops to keep within the State Aid limits. The scheme has now been closed by the government.
14. A further Local Authority Discretionary Grant Fund of £2.7m to 471 non-Business Rate paying businesses that have suffered a significant fall in income due to coronavirus has also been allocated and paid out by the Council.
15. A total of £4.5m has been made available as part of the government backed CBILS (Coronavirus Business Interruption Loan Scheme) through Coventry and Warwickshire Reinvestment Trust (£2.5m from CCC and £2m in funds which the Council manages on behalf of CWLEP).
16. All the Council's business support functions have remained open during lockdown by moving to online working. A £9.2m extension has been secured recently to the Council's European funded business support programmes which will now run until mid-2023 and officers are working with funders to tailor these schemes to challenges businesses are facing because of Covid.
17. Also a specialist grants' pot has been added to the Council's ERDF business support programme which funds:
 - Access specialist professional advice to assist recovery after Covid-19. For example advice in relation to human resources, accountants, legal, financial, IT / digital, etc. and /or

- Purchase of minor equipment to adapt or adopt new technology in order to continue to deliver business activity or diversify.

Over £500k has been allocated to 209 business through this scheme which is now fully utilised and we are making the case to government for further cash for this grant pot which has been very popular.

Impact of the National Funding Position

18. The Government has moved away from its very early commitment to do 'whatever it takes' to manage the financial impact of Covid to one of requiring councils to 'share the burden' of the pandemic. Although the Council's forecast Covid related shortfall for 2020/21 is not as significant as those of other councils it is currently facing not only this shortfall, but also the carried forward Collection Fund impact in Table 2 plus any other ongoing Covid effects (either legacy issues if Covid has largely subsided by next year or continued effects if it is still largely prevalent).
19. The workload and diversionary impact of the pandemic plus the uncertainty it has added into the overall national financial position has caused a delay to medium term financial planning position of many councils including Coventry. Work is underway to develop the Council's budget strategy for 2021/22 although this work is facing a uniquely challenging set of circumstances.
20. There is now some uncertainty over whether the Government will be able to fulfil its plans to set out a multi-year spending review following the postponement of the Autumn budget and setting out of a Winter Economy Plan. In addition, the Government has postponed a Fair Funding Review for local government and further reform of Business Rates ahead of 2021/22. The cancellation of the Autumn Budget for 2020 also means that currently, there is no clear timetable for when councils will receive indications of the overall financial envelope for local government funding next year nor the draft settlement for individual councils. Recent precedents suggest that this information may not be known until late relatively close to the end of 2020.
21. As well as the core funding position for local government, a provisional settlement would contain a range of other information on which financial planning decisions would be based. These include the level of continued grant support for Adult Social Care; the level and trajectory of the New Homes Bonus; a range of smaller specific grants support local government services including homelessness, benefits administration and Adult education; the level of any Council Tax referendum limits; any new measures to allow councils to spread collection fund losses over multiple years; any continuation of support relating to ongoing Covid expenditure or income losses; and other policy measures such as the National Living Wage which the Council would feel the effects of as both an employer and a buyer of services.
22. This set of circumstances combined with the uncertainty for councils of the direct impacts of Covid mean that they are facing a perfect storm of uncertain financial information heading into their budget setting processes. Most of these measures have a potential range of outcomes which can vary by millions of pounds between the best-case and worst-case. As

a result, the council's potential overall best-case and worst-case scenarios are tens of millions of pounds adrift from each other.

Financial Issues and Strategy

23. The Council's Cabinet will receive informal briefings through the Autumn which will incorporate the latest forecasts and detailed proposals for balancing the 2021/22 Budget.
24. In terms of the broad range of measures to be progressed through October, this will include the following:
 - A technical review of all major assumptions to refine what are considered to be the reasonable range of financial outcomes in each.
 - Identify in-year (2020/21) expenditure control measures to identify and capture any deliverable underspends that can then be freed up for use in 2021/22.
 - Scrutinise reserve flexibility to identify one-off resources that could be used to match against one-off expenditure pressures in 2021/22.
 - Identify any initial expenditure pressures emerging through 2020/21 and test the extent to which these can be managed down.
 - Revisit approved savings that are due to begin or increase in 2021/22 and test whether these are deliverable.
 - Identify any new budget flexibility or potential new savings including any from key workstreams including Commercialisation, Digitalisation and Place Based working.
25. As the work develops this will lead to the formal Pre-Budget Report to be considered by Cabinet prior to Christmas. A presentation to accompany this note will be given at the meeting of Scrutiny board setting out some of the financial parameters that officers are currently considering ahead of member briefing.

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