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**To** Finance and Corporate Services Scrutiny Board 1

**Date** 24<sup>th</sup> February 2021

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**Subject** Financial Impact of COVID-19

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### **Purpose of the Note**

1. This note responds to the item in the Scrutiny Board 1 work programme to update Scrutiny Board of the financial impacts on the Council resulting from the COVID-19 pandemic.

### **Recommendation**

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

### **Information/Background**

3. Key aspects that form the context of this subject include:
  - 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:
  - Overall level of 2020/21 Covid funding
  - Latest Covid Impact within the January return to Government.
  - 2020/21 Quarter 3 financial reporting.
  - Business Grants
  - 2021/22 Budget Impacts

### **Overall Level of 2020/21 Covid Funding**

5. The Government has made a series of funding announcements throughout the period since March 2020 resulting in upwards of 45 separate Covid grant funding streams including those for business grants. The summarised table below provides the latest information available on the non-business grant funding streams announced for the City Council. The top block (£47m) shows grants for which the expenditure will be incurred directly by the Council. The second block (£10m) represents amounts for which direct expenditure is incurred mostly by partner organisations. A further £2.8m was received and applied in the 2019/20 financial year and is not included in the table.

**Table 1: Covid Grant Funding For Services**

	<b>2020/21 Grant Value</b>	
<b>Funds Council Expenditure</b>	<b>£m</b>	
Emergency Funding (4 tranches)	(30.3)	Available to support general expenditure. Quarter 3 position indicates that this will all be required.
Contain Outbreak Management Fund (6 tranches)	(8.9)	Supports test & trace, monitoring, communications, compliance, support for vulnerable groups and support to local economy and public health.
Sales, Fees and Charges Income Loss (2 tranches)	(3.5)	Available to support general expenditure. Quarter 3 position indicates that this will all be required.
Covid Winter Grant Scheme	(1.3)	To support those in need with the costs of food, energy, water bills and associated costs. Further costs assumed to be incurred to year-end.
Community Testing (Lateral Flow Testing)	(0.6)	Supports Community Testing (LFT) programme. Assume all required to deliver local arrangements.
Community Champions Funding	(0.5)	To support hard to reach communities most vulnerable from COVID to access vaccines and receive support. Bid based.
Emergency Assistance Grant for Food & Essential Supplies	(0.5)	Help for those struggling to afford food and other essentials. Further costs assumed to be incurred to year-end.
Next Steps Accommodation Programme (CCC revenue element)	(0.4)	To prevent housed rough sleepers returning to the streets.
Re-Opening High Streets Safely Fund	(0.3)	To support the safe re-opening of high streets. Claim based.
Home to School Transport	(0.2)	Claims based additional cost of socially distanced travel.
Compliance and Enforcement (Surge) Grant	(0.2)	Supports additional compliance and enforcement activity.
Clinically Extremely Vulnerable	(0.2)	To fund costs of supporting CEV individuals (through November).
Business Grants New Burdens Funding	(0.2)	Administration of Small Business Grant Fund and Retail Hospitality and Leisure Grant Fund
Unaccompanied Asylum Seeker Children Funding	(0.1)	For costs incurred June to November. Bid based.
	<b>(47.2)</b>	
<b>External Provider or Programme Spend</b>		

Adult Social Care Infection Control Fund (4 Tranches)	(5.5)	Funding for care homes and providers to help with the costs of infection control.
Test and Trace Support Grant	(2.0)	To support local (sub-regional) test and trace arrangements - in Coventry's case alongside Solihull and Warwickshire.
Hospital Discharge Scheme (2 tranches)	(1.0)	Funding to cover additional cost relating to faster discharge from hospital.
Adult Social Care Workforce Grant	(0.8)	To support staffing costs in Care Sector
Adult Social Rapid Testing Fund	(0.7)	To support the rollout of Lateral Flow Device testing in care homes.
	<b>(10.0)</b>	
<b>Total</b>	<b>(57.2)</b>	

6. Most of these grants represent final allocations that have been made to the City Council. Several of them show initial allocations that are subject to monitoring or verification processes that may result in subsequent adjustment to the final level.
7. The grants incorporate both specific funding streams which are intended to be targeted to specified types of expenditure and general funding to cover overall costs or income losses. The latter category of funding is represented by the shaded lines and total £33.8m.

### **Latest Covid Impact Reported to Government**

8. Through 2020/21 all councils have been required to report their forecast of the financial impact of Covid in monthly returns to Government. The Council's January return showed an overall impact of £52m. A further £5m related to estimated Business Rates and Council Tax (Collection Fund) losses for the year although accounting convention demands that these losses must be accounted for in the following financial year. These Collection Fund losses have been included in the Council's budget setting forecasts for 2021/22.

**Table 2: Estimated 2020/21 Covid Impact as at January**

<b>Area of Financial Impact</b>	<b>£m</b>
Adult Social Care	10.9
Children's Social Care	7.2
Commercial Income (Rents, Dividends and Investments)	6.6

Highways and Enforcement Fees and Charges	5.5
Other Fees and Charges	4.9
Environmental (Mortuary and Waste Disposal/ Collection)	4.3
Direct Covid Costs and Community Support (Shielding, PPE, Food and Emergency Assistance)	3.8
Finance (long-term debt impairment and HB subsidy impact)	3.0
Housing	2.7
Public Health (incl Test and Trace)	2.1
All Other Services (incl Culture and Education)	1.0
<b>Total</b>	<b>52.0</b>

9. The level of grant funding in Table 1 includes assumed Contain Outbreak Management Funding allocations over the remainder of the financial year which are still being announced in arrears. The Council has the flexibility to carry this funding forward into the 2021/22 financial year. The application to which this funding will be put and therefore the expected cost, is not yet known.

### **2020/21 Quarter 3 Financial Reporting**

10. The quarter 3 financial monitoring position includes figures showing Covid funding of £33.8m and associated Covid pressures of £34.2m representing a shortfall of £0.4m. It should be noted that the grant figures represent only the 4 tranches of emergency funding and the 2 tranches of sales fees and charges income loss from the table above and any costs not covered by a specific Covid grant (one further sales fees and charges income loss claim will be made at year-end covering the final 4 months of the year). All the other specific grant streams are assumed will be matched by corresponding expenditure within services such that no budgeting variation has been reported for these elements.
11. The position reported to Cabinet on February 16<sup>th</sup>, 2021 showed a forecast revenue overspend for the year of £33.3m incorporating the Covid pressures referred to above. After the application of general Covid grant funding the net underspend was **£0.5m.**

**Table 3: Quarter 3 Financial Reporting Position**

	Covid Related £m	Non-Covid Related £m	Overall Total £m
Quarter 3 Forecast Overspend	34.2	(0.9)	<b>33.3</b>
Emergency Covid Funding Available	(33.8)		<b>(21.5)</b>
Net Overspend	0.4	(0.9)	<b>(0.5)</b>

12. This position confirms the position adopted earlier in the financial cycle that the Director of Finance would not need to issue a Section 114 notice. 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. However, although the Council appears to be approaching a position whereby it can manage its Covid financial pressures in the current year on a forecast basis it is important to understand the caveats to this position.
13. The forecasting of some areas of costs and income losses remains assumption sensitive, even at this relatively late stage of the financial 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 can be difficult to distinguish 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 has increased significantly this year but 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. This continues to be a factor in calculating 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**

14. The previous Covid update to Scrutiny Board outlined the extended Business Rates relief to all businesses with a rateable value below £51,000 and all businesses in the retail, hospitality and leisure sectors in the early part of 2020/21. This resulted in reliefs totalling £49m, 100% of which have been processed by the Council. In addition, the initial small business grants, retail, hospitality and leisure business grants and local authority grants totalling £50.9m were paid to c4,500 Coventry businesses over the summer.
15. Following the initial round of business support grants the Government have introduced a variety of further grants to support businesses through the different levels of restrictions seen since October 2020. The Council is responsible for the administration of these grants. The attached appendix below provides details of each grant and includes the purpose of the grant, the amount given to the Council to administer and the amount of grant paid to businesses to date. The total number of businesses supported does not represent individual businesses as many businesses will have been eligible for multiple grant streams.
16. These schemes are at different stages of maturity with decisions and allocations still being processed. For instance, Additional Restrictions Grant funding is available to businesses until 31<sup>st</sup> March 2022 and has been incorporated into a package of support that will extend beyond the immediate cash grants. The Council has been provided with an initial allocation of funding for Coventry businesses but there are several reasons why these allocations will not all be paid out. The allocation of funding for non-discretionary grants was calculated using the description code of properties in the rating list. However, not all of these properties would qualify for a number of reasons. For instance, properties may not have been occupied prior to lockdown whilst some larger companies do not apply for the funding. The Council continues to receive and process applications.
17. Council services continue to facilitate and lead on a range of other support measures. This includes: promoting of Coronavirus Business Interruption Loans (CBILS) and Bounce Back Loans with 6,750 Coventry businesses securing £263m of loans to date; submitting Kickstart placement applications to DWP; actively supporting Small and Medium size Enterprises with challenges presented by Covid; provision of business start-up support; and assistance in areas across innovation, green business; skills and employment support for individuals.

## **2021/22 Budget Impacts**

18. In addition to the significant funding provided by Government through 2020/21, the Final Local Government Settlement announced on February 10<sup>th</sup> included further grants to support the Council's 2021/22 Budget which in-full or in-part referenced Covid conditions for their inclusion. This funding currently totals c£18m and incorporates:
  - £11.3m 2021/22 COVID-19 Expenditure Pressures Grant
  - £3.9m Local Council Tax Support Grant
  - £2.5m 2021/22 Social Care Grant

- £0.6m Lower Tier Services Grant

19. Set against this, the Council's Budget assumes £9m of identified income loss and expenditure pressures and £12m of revenue foregone within its Council Tax and Business Rates position. There is an expectation also of further financial pressure through the year in areas such as Children's Services and Car park income which were not included in the Budget but which are expected will need to be funded from the COVID-19 Expenditure Pressures Grant shown above.
20. Based on this position, the Council 's Budget has already borne a £3m Covid funding shortfall which is likely to increase (based on current forecast expectations) unless further Government funding is announced. The trend of any further shortfall will be affected by the longevity and depth of the pandemic and any further lockdown restrictions and the degree to which economic conditions rebound to anything like previous levels.
21. The fact that a shortfall exists between funding and the expected financial impact of Covid is not unexpected. The Government has been clear that it has only sought to compensate councils for 75% of their calculated loss of sales fees and charges income and 2020/21 local tax losses. In addition, the Government's compensation mechanism has explicitly excluded commercial income such as dividend loss. It is clear through these approaches that the Government's approach has expected councils to share the burden of Covid financial losses. This has been exacerbated within the Government's scheme to compensate councils for income foregone within the Council Tax and Business Rates Collection Fund (the Local Tax Income Guarantee scheme). Initial calculations indicate that the design of the scheme (measuring losses between start year budget and end of year outturn) is unlikely to provide any significant funding for Coventry despite a local estimate of this loss being c£7m.
22. The Council's 2021/22 Budget proposals (considered by Council on 23<sup>rd</sup> February) have incorporated the circumstances outlined here such that the Council should be able to absorb the financial impacts of Covid on current estimates. The trajectory of the pandemic and the vaccination programme over the coming months will dictate the extent to which further financial turmoil is experienced at least in the relatively short-term. The 2022/23 Budget Setting process begins almost immediately and will include as part of its consideration the legacy impacts of Covid, the assessed threat of further outbreaks over the medium term and the interaction of new variants and the extent and success of future vaccination strategies. With the exception of one or two specific examples (e.g. dividends) the Council's medium term position does not include significant impacts and the extent to which this is a robust position will be kept under review as the year progresses.

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