

Report to Business & Transformation Scrutiny Panel

Agenda Item:

A.2

Meeting Date: 3 June 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework YES
 Public / Private Public

Title: COVID-19 UPDATE
 Report of: CORPORATE DIRECTOR OF FINANCE & RESOURCES
 Report Number: RD 09/21

Purpose / Summary:

This report provides the Panel with an update on the impact COVID-19 has had on the Council's financial and governance arrangements.

Recommendations:

Members of the Panel are requested to note the contents of this report.

Tracking

| | |
|-----------|------------------|
| Scrutiny: | BTSP 3 June 2021 |
|-----------|------------------|

1. INTRODUCTION

- 1.1 As Members will be aware, the Government introduced a series of financial support and grant schemes to provided funding to individuals, businesses and public bodies affected the pandemic. This report provides an update to the report issued and considered by BTSP in January 2021 (RD51/20) on COVID-19 issues that have affected the Council's financial and governance arrangements, with **Appendix A** listing the support schemes which the Council either had to administer, or those which the Council was a direct beneficiary.

2. COUNCIL'S RESPONSE TO THE PANDEMIC

There were 2 main aspects of the initial response in terms of financial and governance arrangements which are summarised below:

2.1 Emergency Decisions

- £500,000 was released from General Fund Reserves to support any additional expenditure that the Council was likely to incur as a result of the pandemic.
- All office-based staff were instructed to begin working from home where possible.
- All creditor invoices were paid immediately upon receipt.
- All debtor recovery procedures were suspended but these are now operating normally.
- Casual contracts were placed on a fixer term contract up to September 2020.
- Compliance with Procurement Policy Notices to support contractors.

2.2 Impact on the Control Environment

- Changes made to a number of systems to ensure appropriate controls were in place to the financial transaction certification and approvals processes.
- New procedures were put in place for the receipt, scanning and certification of creditor invoices which provided a robust audit trail and ensured appropriate delegations for approval were being followed.
- A similar process was also implemented for payments that are required to be made electronically (BACS), in areas such as payroll and housing benefits.
- Financial monitoring arrangements were implemented to record all spend and identify shortfalls of income.

3. FINANCIAL IMPACT & FUNDING RECEIVED

Monthly returns are provided through DELTA to the MHCLG, with the latest return being submitted on 29th April 2021 showing the final outturn position. The return is split between additional expenditure incurred and income shortfalls.

3.1 Additional Expenditure

3.1.1 The following table shows a breakdown of the additional expenditure incurred to the end of March 2021:

| | April to March £ |
|-------------------------|---------------------|
| Staffing / Agency Costs | 372,118.44 |
| Cleaning / PPE | 144,089.07 |
| Premises Costs | 53,800.13 |
| Contractors | 21,492 |
| Transport Costs | 69,109.08 |
| IT Equipment | 40,579.14 |
| Office Supplies | 20,084.36 |
| Signage | 4,283.33 |
| Miscellaneous | 3,974.28 |
| Equipment Rental | 2,531.25 |
| Grants | 39,225.50 |
| Other | 714.53 |
| Total | 772,001.11 |

3.1.2 In addition, there were anticipated additional costs incurred on Capital projects such as the Sands and Civic Centre estimated at £1,000,000, and the potential of support for contractors.

3.2 Losses of Income

3.2.1 The most significant element of financial losses has been incurred against income projections.

3.2.2 The Government announced in the summer that there would be a co-funding mechanism to allow recovery of some of these losses by a compensation package whereby the Government would cover 75% of losses beyond 5% of planned income. However, the net losses on a budget head would be claimable which related to sales, fees and charges only with no reimbursement of commercial income through this scheme. The table at 3.3.1 below shows that we anticipate claiming £554,372 through this scheme for 2020/21.

3.2.3 At the start of the restrictions in March 2020, adversely affected budget heads were identified, and monitoring arrangements were put in place to assess the potential losses. The table below provides details of the losses on income incurred to the end of March 2021 from sales, fees and charges. It should be

noted that the figures shown are gross income and are before any savings achieved on expenditure as a result of the restrictions.

| | Total to End March £ |
|--------------------------------------|-------------------------|
| Sales Fees and Charges | |
| Car Parking income | 789,065 |
| Garden Waste | (25,877) |
| Bulky Waste | 1,464 |
| Planning fee income | 81,670 |
| Building Control Income | 40,722 |
| Building Control Client | 23,061 |
| Old Fire Station | 41,008 |
| Talkin Tarn | 37,066 |
| TIC | 106,022 |
| Special Events | 30,133 |
| Pedestrianisation | 30,781 |
| Pest Control | 18,702 |
| Land Charges income | 9,445 |
| Garage Services | 13,478 |
| Customer Contact Service | 79,400 |
| Total Sales Fees and Charges | 1,276,141 |
| Other Income | |
| Council Tax Costs | 223,396 |
| Hostels - Water Street | 41,219 |
| Hostels - John Street | 256,373 |
| Legal Services income | (3,008) |
| Total Other Income | 517,980 |
| Commercial Income | |
| Commercial Income - Industrial Units | 125,975 |
| Commercial Income - Lanes | 247,484 |
| Commercial Income - Other Properties | 197,183 |
| Market | (22,000) |
| Total Commercial Income | 548,642 |
| Total Income Shortfalls | 2,342,763 |

3.2.4 The biggest area for losses has been car parking income, with the closure of some car parks and the removal of charges being a big factor as well as the closure through national lockdowns of most City Centre shops.

3.2.5 Commercial Income

There have been shortfalls in income incurred on the Council's commercial property portfolio, however it is not known whether these shortfalls are as a direct

impact of COVID, or for example, with the Lanes income, due to wider retail market difficulties that were in place prior to COVID. However, the level of irrecoverable debt is still unclear as this will be affected by the Council's debt recovery procedures which was suspended for a period of time. The current position on debtors is detailed below.

3.2.6 Debt Management

Invoices for Council services, particularly property rentals, have continued to be issued however debt recovery was suspended for a period of time. Reminders are now being sent out and where necessary, there is direct liaison with debtors to provide support in terms of payment holidays, instalments etc.

3.2.7 At the end of March the level of outstanding debt for invoices raised was as follows:

| | Invoices Raised £ | Write Offs £ | Out Standing £ | Recovered £ | % |
|-------------------------|-------------------------|--------------------|----------------------|-------------------|---------------|
| Corporate Support | 293,674 | 0 | 0 | 293,674 | 100.00% |
| Community Services | 5,380,536 | -3,167 | 18,454 | 5,358,915 | 99.60% |
| Economic Development | 571,446 | -222 | 19,513 | 551,711 | 96.55% |
| Governance & Regulatory | 9,306,613 | -22,300 | 83,805 | 9,200,508 | 98.86% |
| Finance & Resources | 813,439 | 0 | 179,594 | 633,845 | 77.92% |
| | 16,365,708 | -25,689 | 301,366 | 16,038,653 | 98.00% |

3.2.8 The main outstanding debts included within the total are as follows:

| | £ |
|----------------------|-------------------|
| Property Related | 256,922.38 |
| Economic Devt | 21,583.60 |
| Bereavement Services | 7,420.00 |
| Other | 15,440.50 |
| Total | 301,366.48 |

3.3 Summary Position

3.3.1 The summary overall position is shown below and shows that there is a General Fund shortfall of £395,210. However, this includes the £1m assumed losses on capital schemes. Of this £750,000 was included in the capital project update for the

Sands and is therefore budgeted within that project and funded from potential borrowing requirement.

| | Charged to Core Services £ | Exceptional Items £ | Total £ |
|---|-------------------------------------|---------------------------|------------------|
| Losses Claimed on Covid Return | 0 | 772,001 | 772,001 |
| Reopening the High Street | 69,773 | | 69,773 |
| Compliance and Enforcement | 51,720 | 0 | 51,720 |
| New Burdens Spend | | 58,911 | 58,911 |
| Sales Fees & Charges Income Shortfalls | 1,276,141 | | 1,276,141 |
| Sales Fees & Charges Reduction in Expenditure | (352,997) | | (352,997) |
| Other Income Shortfalls | 517,980 | | 517,980 |
| Commercial Income | 548,462 | | 548,462 |
| Total Covid Pressures | 2,111,079 | 830,912 | 2,941,991 |
| Funding Received | (169,733) | (1,748,390) | (1,918,123) |
| Other Covid Income Received | 0 | (5,580) | (5,580) |
| New Burdens Funding | (24,404) | (413,300) | (437,704) |
| Test and Trace Support Grant Funding | 0 | (73,762) | (73,762) |
| Sales Fees and Charges Compensation | 0 | (554,372) | (554,372) |
| General Fund Shortfall | 1,916,942 | (1,964,492) | (47,550) |
| Delayed Project Costs | 1,000,000 | | 1,000,000 |
| Released from General Fund Reserves | 0 | (528,000) | (528,000) |
| Funding To be received | (29,240) | 0 | (29,240) |
| Revised General Fund Shortfall | 2,887,702 | (2,492,492) | 395,210 |

4. LONG-TERM IMPACT

4.1 There are likely to be longer term implications arising from the pandemic that will affect the Council financially.

4.2 Income from commercial activities will likely be reduced and rental yields for commercial space/land has seen a downturn already. There is also a likely reduction in income from the Lanes with the loss of Debenhams and also the prospect of lower rentals being offered to maintain occupancy levels.

4.3 The government has provided an additional un-ringfenced grant of £616,032 to manage the impact of the pandemic in 2021/22.

4.3 Going Concern

4.3.1 S114 of the Local Government Finance Act 1988 places a duty on the S151 Officer to report if it appears that the Council has made or is about to make a decision which would involve unlawful expenditure and is likely to cause a loss or deficiency; and where an unlawful item of account is about to be entered. In

effect, if there is, or is likely to be, an unbalanced budget i.e. resources do not meet expenditure in a particular year. There are specific reporting requirements if such a notice has to be issued, with CIPFA proposing a modification for the S151 Officer to make informal confidential contact with the MHCLG to advise them of any such financial concerns, and to communicate any unbalanced budget position due to COVID-19 to the MHCLG at the same time as providing a potential S114 report to the Executive and to the External Auditor.

Cash flow forecasts have been updated to take account of expected lower income from Council Tax and Business Rates over the short to medium term. The Council has sufficient cash-resources in its investment balances to be able to meet its commitments and the council's reserves continue to be held at a prudent level meaning that it has been able to set a balanced budget for 2021/22.

Based upon current estimates of expenditure and income shortfalls, the level of government assistance received and the level of Council reserves, I, as the Council's S151 Officer, do not believe that a S114 notice is required; however this assessment will be revisited periodically once more financial information on budgetary pressures becomes available.

4.4 Impact on Taxation

4.4.1 The pandemic has had a significant impact on the Council's income from both Council Tax and Business Rates and it is likely that there will be further disruption to these funding streams into the medium term.

4.4.2 Collection Fund

As a result of the 100% business rate relief provided to the retail, leisure and hospitality sector, the net business rates payable for 2020/21 has reduced by approximately £23million from £44million to £21million.

4.4.3 The Council has been recompensed during the year for the 100% relief so there will be no cash flow or budget issues; however, the main risk continues to relate to the receipt rates from businesses and how these are affected by COVID-19 and economic recovery following lockdown. Collection rates are reported below, and these will continue to be monitored to assess the financial impact on cash flow, bad debts and the potential for year-end deficits.

4.4.4 The £500million Hardship Fund will provide support to economically vulnerable people and households by providing relief to council taxpayers. The Council's allocation was £989,736 and as at the end of March 2021 £630,650 had been paid

out with our agreed scheme providing a £300 reduction in council tax liability to working age recipients of the Council Tax Reduction Scheme (CTRS); with the balance of our allocation being used to support further applications for council tax support on a case by case basis in line with our Local Hardship Scheme.

4.4.5 A further Local Council Tax Support (LCTS) allocation has been received in 2021/22 totalling £154,735 which when added to the balance from 2020/21 will be used to provide support to council taxpayers through a revised Local Hardship Scheme.

4.4.6 A risk for business rates and council tax is the potential loss of income with the resulting impact on cash flow for the main precepts on the Collection Fund. The technical nature of this fund means that the deficit for 2020/21 will be reflected in the following years (2021/22) budget; however, the Government's deficit scheme means that any deficit can be recovered over a three-year period. In addition, the Government has provided a Tax Income Guarantee Scheme; a one-off grant covering 75% of losses as at 31 March 2021.

4.4.7 Collection rates for Business Rates and Council Tax

| | Collected £ | % of Amount Collectable % |
|----------------|--------------------|---------------------------------|
| Council Tax | 63,686,663 | 95.67 |
| NNDR | 20,375,547 | 94.34 |
| 2020/21 | 84,062,210 | 95.34 |
| Council Tax | 62,143,990 | 97.12 |
| NNDR | 43,138,152 | 97.38 |
| 2019/20 | 105,282,142 | 97.22 |
| Council Tax | 58,790,993 | 97.36 |
| NNDR | 43,904,416 | 98.42 |
| 2018/19 | 102,695,410 | 97.80 |

Members should note that the position as April 2021 for both Council Tax and NNDR are both nearly at pre COVID levels.

5. RISKS

The risks in terms of business rates and council tax are set out in the report; however a further risk to the Council's budget is the overall cost of COVID-19 in terms of additional costs and shortfalls of income and how this compares to the level of emergency funded provided to date, and any further funding package. The economic recovery of the city and surrounding areas is part of the Recovery Strategy and any financial impact will need to be closely monitored.

6. CONSULTATION

None

7. RECOMMENDATIONS

Members of the Business and Transformation Panel are requested to note the contents of this report.

8. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

The financial impact will form part of any future Medium-Term Financial Planning process.

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Appendices **Appendix A – Government Support Schemes**
attached to report:

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS:

Legal – There are no legal implications arising from the Report

Property Services – not applicable

Finance – contained within the body of the report

Equality – not applicable

Information Governance – not applicable

Appendix A

| Scheme | Amount of award | Scheme details |
|---|--|--|
| Extended Business Rates Support | £1,986,378 initial award for 50% relief Approx. £21million will be received in 2020/21 | 100% BR relief to occupied retail, leisure and hospitality properties. No rateable value limit on this relief for: <ul style="list-style-type: none"> shops, restaurants, cafes, drinking establishments, cinemas and live music venue, assembly and leisure, or hotels, guest and boarding premise and self-catering accommodation Revised BR Relief scheme implemented for 2021/22 |
| £500million Hardship Fund | £989,736 (£359,100 transferred into an earmarked reserve as at 31/03/21). Allocated £154,375 for 2021/22 | To support economically vulnerable people and households by providing relief to council taxpayers. To reduce the council tax liability by a further £150 to working age recipients of CTRS and/or use the funding to deliver increased financial assistance to outside the council tax system through Local Welfare or similar schemes. County wide scheme approved to provide all working age CTRS claimants with a reduction of up to £300 and a local Hardship Scheme established to provide discretionary relief on a case by case basis. |
| Emergency Funding for Local Authorities | Tranche 1 - £58,738 Tranche 2 - £1,073,801 Tranche 3 - £196,335 Tranche 4 - £478,254 2021/22 - £616,032 | To meet pressures across services, as a result of reduced income, rising costs or increased demand due to COVID-19. Monthly returns submitted to the MHCLG |
| Sales, Fees and Charges | £554,372 claimed to date | Co-payment mechanism for irrecoverable sales, fees and charges. Subject to claims to the MHCLG. |
| Rough Sleeping Contingency Fund | £1,650 initial allocation | Reimbursement for the cost of providing accommodation and services to those sleeping on the streets to help them successfully self-isolate. Subsumed within the emergency grant funding. |
| Next Steps Accommodation Programme | £46,600 | To support rough sleeping initiatives ring-fenced for 2020/21 |
| £10 million Cold Weather payment | | For Rough Sleepers |

| | | |
|--|--|---|
| Small Business Grant Fund (SBGF) | £30,032,000 (repaid £2,054,075) | All businesses in England in receipt of Small Business Rate Relief and Rural Rate Relief will be eligible for a £10,000 payment (subject to other eligibility criteria) |
| Retail, Hospitality and Leisure Grant Fund (RHLGF) | (included in above) | Businesses in receipt of the expanded retail discount with a rateable value of less than £51,000 will be eligible as follows: <ul style="list-style-type: none"> • properties with a RV of up to £15,000 will receive a grant of £10,000 • properties with a RV of over £15,000 and less than £51,000 will receive a grant of £25,000 • properties with a RV of £51,000 or over do not qualify |
| Discretionary Business Support Grant Fund | (included in the above) | Discretionary scheme to small and micro business not covered by SBGF and RHLGF, with relatively high fixed property related costs; significant reductions in income; whose RV is less than £51,000; not in receipt of other government grant funds; and other eligibility criteria. Although discretionary, MHCLG have requested for certain types of business to be prioritised. Discretionary Policy adopted by the Council. |
| £50million Reopening High Streets Safely Fund | £95,875 (subject to claims - £69,773 claimed in 2020/21) | ERDF funding provided (subject to claims) to cover all eligible costs such as: <ul style="list-style-type: none"> • Development of an action plan for how the local authority may begin to safely open their local economies; • Communications and public information activity; • Business facing awareness raising activities; • Temporary public realm activities |
| Test and Trace Support Payments: <ul style="list-style-type: none"> • Programme Costs • Administration costs | £46,500 £5,000 £110,000 £0 £26,919 £0 £30,251 £16,592 | Funding for test and trace support payments to provide £500 to those individuals on low incomes who have been told to self-isolate by the NHS, subject to certain eligibility criteria. The funding is made up of a main scheme, administrative funding and a small amount for discretionary payments (for cases whereby an individual does not qualify for the main scheme). A discretionary policy has been developed in order to try and spread the limited discretionary funds to as many people as possible. |

| | | |
|--|--|---|
| <ul style="list-style-type: none"> Discretionary payments | £27,942 £31,558 £25,000 £51,000 | |
| Contain Outbreak Management Fund – Contact Tracing (Test & Trace) | £96,304 (via CCC) Tranche 1 £134,768 (via CCC) Tranche 2a £67,384 (via CCC) Tranche 2b | Funding provided to Upper Tier Councils (£1,717,862 & £3,798,949 for Cumbria County Council) with funding being provided to support compliance with, and enforcement of, Covid-19 regulations and guidance. |
| Contain Outbreak Management Fund – Contact Tracing (Test and Trace) | £158,975.95 (direct allocation to Districts) | To provide funding to Councils to be used for test, trace and contain activity. |
| Compliance and Enforcement | £55,848 | To provide funding to support the work the Council is doing to support communities comply with guidelines, including encouraging marshals or their equivalents. |
| Contain Outbreak Management Fund: Compliance Tranche 1 | £85,000 (Enforcement) £143,000 (Self-Isolation Grants) | To provide funding to Councils to be used for test, trace and contain activity. |
| Local Restrictions Support Grant (Closed) (Sector) (Closed Addendum) | £2,343,708 £17,165 £440,386 | Support for businesses mandated to close by Government including non-essential retail, leisure, personal care, sports facilities and hospitality businesses (5 th November – 2 nd December 2020). Tiered funding based upon rateable value. Funding provided for 2020/21 Tier 2 from 1 st November to 4 th November, and 2 nd December onwards. Funding provided to support nightclubs, dance halls and discotheques, sexual entertainment venues, hostess bars etc. |
| Additional Restrictions Grant (Discretionary) | £2,173,560 £965,392 £907,736 (top up announced for 2021/22) | Discretionary funding during the second national lockdown. Local Discretionary Policy developed for those businesses not legally required to close but which are severely impacted by local restrictions. Can be used to support businesses outwith the business rates system. Funding provided for 2020/21 and 2021/22 |
| Local Restrictions Support Grant (open) | £102,851 £402,029 £283,788 | Support aimed at hospitality, hotel, bed & breakfast and leisure businesses not legally required to close but which are severely impacted by local restrictions on socialising. Tiered grants payable |

| | | |
|---|--|--|
| | | depending upon rateable value payable during Tier 2 status and then the second national lockdown. |
| Christmas Support for wet led pubs (CSP) | £57,600 | An additional £1,000 Christmas grant for 'wet-led pubs' in tiers 2 and 3 who will miss out on much needed business during the busy Christmas period. |
| Local Restrictions Support Grant (Closed Business Lockdown) | £7,029,000 | To provide a one-off top up grant for businesses mandated to close during national restrictions from 5 January 2021 including non-essential retail, leisure, personal care, sports facilities and hospitality businesses |
| Local Restrictions Support Grant (Closed) Addendum | £3,515,562 £3,682,970 (16/02/21 – 31/03/21) | To provide support to businesses including non-essential retail, leisure, tourism, personal care, sports facilities and hospitality businesses that have been required to close under national restrictions from 5 January 2021. |
| Restart Grants | £8,784,189 | To provide support to businesses that have been affected by national restrictions and need support to reopen and start trading safely as the restrictions ease. Grants of up to £6,000 to non-essential retail business premises, to help them reopen and start trading safely. Grants of up to £18,000 to hospitality, accommodation, leisure, personal care and gym business premises, which may open later under plans set out in the roadmap and will be more impacted by restrictions when they do reopen (1 st April 2021 to 31 st July 2021). |
| | | |
| New Burdens Funding | £170,000 £76,500 £24,404 £166,800 | Un-ringfenced – SBGF & RHLGF Un-ringfenced – local restrictions grant Un-ringfenced – Ctax Hardship Fund & Business Rate Reliefs Un-ringfenced – LRSG, Christmas Support Payments for wet-led pubs and the Closed Business Lockdown Payment |