



Report to Business & Transformation Scrutiny Panel

Agenda Item:
A.5

Meeting Date: 7 January 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 51/20

Purpose / Summary:

This report provides the Panel with 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 07 January 2021
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1. INTRODUCTION

1.1 As a result of the pandemic, the Government introduced a series of financial support and grant schemes to provide funding to individuals, businesses and public bodies affected by the pandemic. This report is to provide BTSP with an update on the 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. INITIAL RESPONSE

2.1 Emergency Decisions

2.1.1 At the outset of restrictions in the UK, and prior to the Government's announcements of Emergency Funding to support local government, the Corporate Director of Finance and Resources released £500,000 from General Fund Reserves to support any additional expenditure that the Council was likely to incur as a result of the pandemic. This General Fund reserve is a general working capital/contingency to cushion the Council against unexpected events and emergencies, with £1million earmarked with the reserve for emergency situations/unexpected events such as COVID-19.

2.1.2 All office-based staff were instructed to begin working from home where possible and arrangements were put in place to ensure that, where needed, additional IT equipment was procured to enable staff to follow this work from home instruction.

2.1.3 Decisions were also taken at the time to change the arrangements for the payment of invoices to suppliers and the recovery of debts from customers:

- For creditor invoices, the decision was made to ensure that all invoices were paid immediately upon receipt (rather than the usual 10 and 28 day timescales). This was to ensure businesses received cash-flow for goods and services as quickly as possible.
- Although debtor invoices continued to be issued, the recovery of all debts was also suspended to ensure that businesses had time to pay invoices to the Council whilst they were also under tight restrictions. The recovery of debtor invoices was subsequently reinstated in July 2020, with 'soft' reminder letters being issued, with normal debt recovery procedures resuming in September 2020.

2.1.4 A decision was also made to help those members of staff who, with the implementation of restrictions, may have had no financial security due to being on

casual contracts. The decision was made to put these colleagues on to a 6-month Fixed Term contract up to September 2020.

- 2.1.5 In terms of supporting partnership working, the Council complied with the Procurement Policy Notices issued by the Cabinet Office (PPN02/20 and PPN04/20) which provided guidance on how the Council could support contractors on an open book approach, and through making payments in advance where there is a continuing service provision. The main contractor impacted by the pandemic was GLL; with the closure of Leisure Centres on 16 March, the impact on GLL's ability to trade was significant.
 - 2.1.6 A working group was quickly established to meet with GLL and determine what the impact could be and what GLL would do to mitigate any financial losses. The furlough scheme enabled GLL to recover a significant proportion of their fixed costs. It was agreed that GLL would work on an open-book basis with the Council to monitor the financial impact and decisions were made to offer additional financial subsidies to GLL should the need arise.
 - 2.1.7 This process worked extremely well and GLL were able to offset much of their lost income through cost savings and the furlough scheme. To date, there has been no requirement to pay any additional subsidies to GLL and work continues to assess the impact on an open-book basis. A new £100million government support scheme has since been announced, subject to a bidding process, to provide financial assistance to Leisure Centres operated by a third party.
- 2.2 Impact on the Control Environment
- 2.2.1 With the requirement to work from home being followed, changes were made to a number of systems to ensure appropriate controls were made to the financial transaction certification and approvals processes.
 - 2.2.2 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. This included the ability for managers to be able to certify invoices through email approval. This was developed and implemented quickly and included testing and scrutiny by the Council's internal audit team who were satisfied that the controls put in place were robust.
 - 2.2.3 A similar process was also implemented for payments that are required to be made electronically (BACS), in areas such as payroll and housing benefits. Again,

members of the internal audit team were involved in the checking of the process to approve via email.

2.2.4 In order to monitor the additional spend incurred on any COVID related activity, a group of cost centres was established in the Council's financial management system and notifications of the codes were communicated to all staff. These codes are monitored closely as part of both the normal budget monitoring process, by managers and by SMT, and also to enable completion of the returns to Central Government.

3. FINANCIAL IMPACT & FUNDING RECEIVED

Monthly returns are provided through DELTA to the MHCLG, with the latest return being submitted on 11th December 2020. An assessment of the annual impact is very difficult to predict but as more data is collected each month, the position becomes clearer and therefore the estimates of lost income and additional costs incurred may change. 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 November 2020:

	April to November £
Staffing / Agency Costs	280,254.97
Cleaning / PPE	97,566.17
Premises Costs	39,284.81
Contractors	21,492
Transport Costs	43,679.40
IT Equipment	23,586.17
Office Supplies	18,052.03
Signage	4,156.33
Miscellaneous	3,513.85
Equipment Rental	2,531.25
Other	112.00
Total	534,228.98

3.1.2 As well as this, there is likely to be additional costs incurred on the Sands Project (as previously reported to Executive, BTSP and Council) of £750,000 for this year; 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.
- 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 November 2020 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 November £	Forecast Year End £
Sales Fees and Charges		
Car Parking income	488,546	732,819
Garden Waste	(25,877)	(25,877)
Bulky Waste	1,464	1,464
Planning fee income	126,928	190,392
Building Control Income	47,478	71,217
Building Control Client	16,055	24,083
Old Fire Station	41,008	41,008
Talkin Tarn	37,531	56,296
TIC	76,739	115,108
Special Events	30,133	30,133
Pedestrianisation	22,920	34,380
Pest Control	12,278	18,417
Land Charges income	17,471	17,471
Garage Services	10,298	15,447
Customer Contact Service	52,950	79,425
Total Sales Fees and Charges	955,922	1,401,783
Other Income		
Hostels - Water Street	25,998	38,996
Hostels - John Street	168,366	252,548
Legal Services income	2,591	3,886
Total Other Income	196,955	295,430
Commercial Income		
Commercial Income - Industrial Units	(10,687)	(16,030)
Commercial Income - Lanes	134,036	650,791
Commercial Income - Other Properties	129,295	193,943
Market	6,680	10,020
Enterprise Centre	(22,078)	(33,117)
Total Commercial Income	237,246	805,607
Total Income Shortfalls	1,390,123	2,502,820

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. It is likely that, of the net losses incurred, over half will be as a result of lost car parking income.

3.2.5 Commercial Income

There is also an expectation of losses being incurred from commercial income and in particular from the rental income the council receives on its assets. However,

the level of irrecoverable debt is still unclear as this will be affected by the Council's debt recovery procedures, which, as outlined above, 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 November the level of outstanding debt for invoices raised after 1 January 2020 was as follows:

	Invoices Raised	Write Offs	Out Standing	Recovered	%
	£	£	£	£	
Corporate Support	245,122	0	3,887	241,235	98.41%
Community Services	3,683,142	-2,281	202,924	3,477,937	94.43%
Economic Development	413,932	0	36,586	377,346	91.16%
Governance & Regulatory	4,544,974	-235	43,180	4,501,559	99.04%
Finance & Resources	742,969	0	244,881	498,088	67.04%
	9,630,139	-2,516	531,458	9,096,165	94.46%

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

	£
Property Related	211,560.34
Other Local Authorities	250,434.00
Other	69,463.66
Total	531,458.00

3.3 Summary Position

3.3.1 The summary overall position is shown below and shows that there could be an additional call on reserves of £873,780 if further support from government is not received and losses/additional expenditure to the end of the year are as forecast.

	Total to November £	Forecast to Year End £
COVID Expenditure	534,229	701,176
RBS New Burdens	46,956	170,000
Capital Project Costs	500,000	750,000
Contingency	0	438,000
Sales Fees and Charges	955,922	1,401,783
Other Income	196,955	295,430
Commercial Income	237,246	805,607
Total Shortfalls	2,471,308	4,561,996
Savings on Expenditure	(261,591)	(397,965)
Compensation for Sales Fees and Charges	(381,037)	(613,153)
Net Position	1,828,680	3,550,878
Grant Received to date	(2,007,098)	(2,007,098)
New Burdens Funding	(170,000)	(170,000)
General Fund Balance	(500,000)	(500,000)
Net Potential Shortfall / (Funding Remaining)	(848,418)	873,780

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 potential loss of Debenhams and also the prospect of lower rentals being offered to maintain occupancy levels.
- 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 as 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 is 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.

4.3.2 The Draft Local Government Finance Settlement for 2021/22 has just been received, with the details still being analysed; however, the following has been announced in terms of additional support in respect of COVID-19:

- Lower Tier Services grant of £388,791 for 2021/22;
- £616,032 for any COVID-19 expenditure/income shortfalls in 2021/22;
- an allocation of £154,000 in respect of providing support to Council taxpayers for those least able to pay;
- The Sales, fees and charges scheme has been extended into the first quarter of 2021/22.

Other COVID related funding was announced in respect of Help for Rough Sleepers and a local tax income guarantee scheme for irrecoverable losses this year to help compensate councils for lost council tax and business rates income; however, no allocations have been announced, as yet.

4.3.3 The impact of COVID on the Council's finances will also depend upon the level of restrictions occurring in the first half of 2021, but with expectations of mass immunisations occurring in this time period, there are still likely to be some legacy impact on the council's income in particular.

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 £21million from £44million to £23million.

4.4.3 The Council will be recompensed during the year for the 100% relief so there will no cash flow or budget issues; however, the main risk relates to the receipt of the £23million payable 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 our agreed scheme will provide 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.

4.4.5 The main risk relates to how the expected overall increase in CTRS claimants, and the associated cost of CTRS relief, will be funded and be provided to the Council. An increase in claimants directly impacts on the council tax base and ultimately the yield from council tax, with the cost of the current CTRS scheme being shared between the main preceptors. Similar to business rates, the collection rates for council tax are reported below and will be closely monitored for cash flow, bad debts and increases in CTRS claimants.

4.4.6 A further 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 any 2020/21 deficit will be reflected in the following years budget; however, the recent Government announcement means that any deficit can be recovered over a three-year period.

4.4.7 Collection rates for Business Rates and Council Tax

To: November 2020		Collected £	% of Amount Collectable %
2020/21	Council Tax NDR	49,192,575 15,490,365	73.69 69.39
Total		64,682,940	70.93
2019/20	Council Tax NDR	48,481,684 32,725,217	75.60 73.68
Total		81,206,901	74.81
2018/19	Council Tax NDR	45,736,691 34,038,681	75.66 75.93
Total		79,775,372	75.77

4.4.8 It is worth noting that a 1% reduction in council tax and business rate income would have the following impact:

	Net Debit £	1% Change £	County Council £	Cumbria Police £	Carlisle CC £
Council Tax	66,983,399	669,834	496,548	91,566	81,720

	Rating Income £	1% Change £	Central Government £	Cumbria County Council £	Carlisle CC £
Business Rates	20,299,227	202,992	101,496	20,299	81,197

5. RISKS

The risks in terms of business rates and council tax are set out in paragraphs 4.4.5 and 4.4.6; 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 future 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 attached to report: Appendix A – Government Support Schemes

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
£500million Hardship Fund	£989,736	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	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	£381,037 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	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	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"> • £25million Programme Costs • £10million Administration costs • £15million Discretionary payments 	£46,500 £26,919 £27,492	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 (£27,000) to as many people as possible.

Test & Trace	£96,000 (via CCC)	Funding provided to Upper Tier Councils (£1,717,862 for Cumbria County Council) with funding being provided to support local Marshalls.
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.
Local Restrictions Support Grant (Closed) (Sector) (Closed Addendum)	£2,343,708 £17,165	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. Funding provided to support nightclubs, dance halls and discotheques, sexual entertainment venues, hostess bars etc.
Additional Restrictions Grant (Discretionary)	£2,173,560	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	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.
New Burdens Funding	£170,000 £76,500 £24,404	Un-ringfenced – SBGF & RHLGF Un-ringfenced – local restrictions grant Un-ringfenced – Ctax Hardship Fund & Business Rate Reliefs