

Impact of Covid-19 on Local Authority Finances

Overview and Scrutiny Commission
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Outline of presentation

- Support to businesses
- Support to individuals
- Increased council service costs
- Reduced council income
- Forward look

Support to businesses - general

- Wide range of Government measures aimed at maximizing business survival / protecting jobs;
 - Some administered directly by central government, e.g. coronavirus job retention (furlough) scheme, coronavirus statutory sick pay rebate scheme, VAT deferrals
 - Some administered by private companies with Government underwriting, e.g. business interruption and bounce back loans through major banks
 - Additional NNDR reliefs and business grants administered by local authorities
 - Procurement policy changes to protect income through service disruption for suppliers to all public bodies

Support to businesses - a) NNDR

- Major changes announced in March 2020 Budget, further changes since then
- Further discounts to rates bills totaling £9.7bn nationally, through;
 - Increased / expanded retail discount applying to shops, hospitality and leisure businesses and childcare providers, with no rateable value threshold limit
 - Increased discounts (£5,000) for pubs
 - 100% relief for public lavatories

Support to businesses - b) grants

- Small Business Grants Fund and Retail, Hospitality and Leisure Grants announced by Government in March, focused on small businesses occupying premises with RV up to £51,000
- Discretionary Local Authority Grant scheme announced in May, intended to support small businesses who do not directly pay business rates
 - Grants £10,000 or £25,000 / local determination
 - Total Government funding up to £13bn
 - Businesses supported c.875,000
- New Burdens funding [between £130k - £300k initially per council] to local authorities for undertaking new responsibilities to administer the schemes

Support to businesses - c) suppliers

- Cabinet Office has issued Procurement Policy Notes covering supplier relief due to Covid-19
 - Apply to all contracting authorities (including councils)
 - Cover goods, services and works contracts being delivered in UK
 - Policy objective – “to ensure suppliers at risk are in a position to resume normal contract delivery once the outbreak is over”
 - Key principle – suppliers will continue to be paid as normal (even if service delivery is disrupted or suspended) at least until end June [*subsequently extended*]
 - In return, suppliers are expected to act on an “open book” basis and continue to pay employees and sub-contractors

Support to businesses - c) suppliers

- Targeted support also provided by Government (some through local authorities) for specific sectors, e.g.
 - Care homes / providers (recognizing increased costs generally and including ASC Infection Control Fund £600m)
 - Bus services operators (initial funding of £167m in addition to continuing existing funding such as concessionary fares)
 - Trams, light rail and “lifeline” transport links to Isle of Wight / Isles of Scilly (£30m)

Support to individuals

- As part of the Government's aim to protect the most vulnerable, councils have been asked to;
 - Provide support for 2.2m clinically vulnerable people who are shielding, contacting them to ensure they can access basic care needs and food
 - Help rough sleepers into alternative accommodation
 - Ensure domestic abuse services are well supported
 - Administer a £500m hardship fund to reduce council tax bills for economically vulnerable households
- Schools have been open to support children of key workers and vulnerable children

Increased council service costs

- Government recognizes that councils are facing financial pressures due to Covid-19 - both increased costs and reduced income
 - In addition to the funding for specific sectors, Government has allocated £3.7bn of un-ringfenced funding to councils and committed to covering a proportion of some types of lost income
 - Monthly returns are being requested from councils to assess the scale of the impact – capturing actual impact to date, expected impact over the course of the year and cashflows
 - Current indications are that the additional funding will be insufficient to cover the full impact on council finances

Increased council service costs

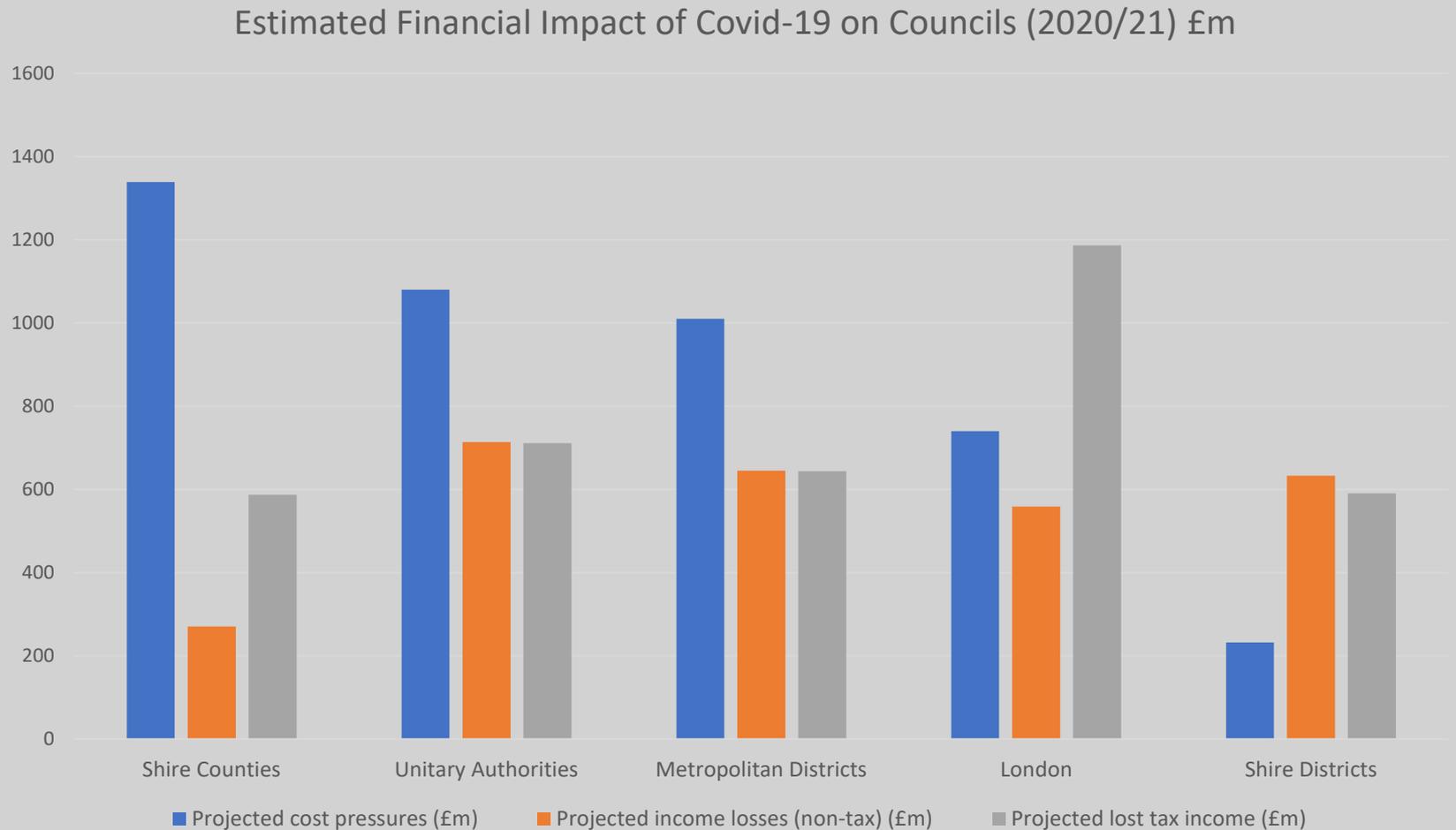
- The Government has stated that the extra funding is targeted at the following activities councils have been asked to deliver;

Adult social care	Children's services
Public health services	Fire and rescue services
Waste collection services	Shielding those clinically vulnerable
Homelessness and rough sleeping	Domestic abuse
Supporting the NHS	Managing excess deaths

Increased council service costs

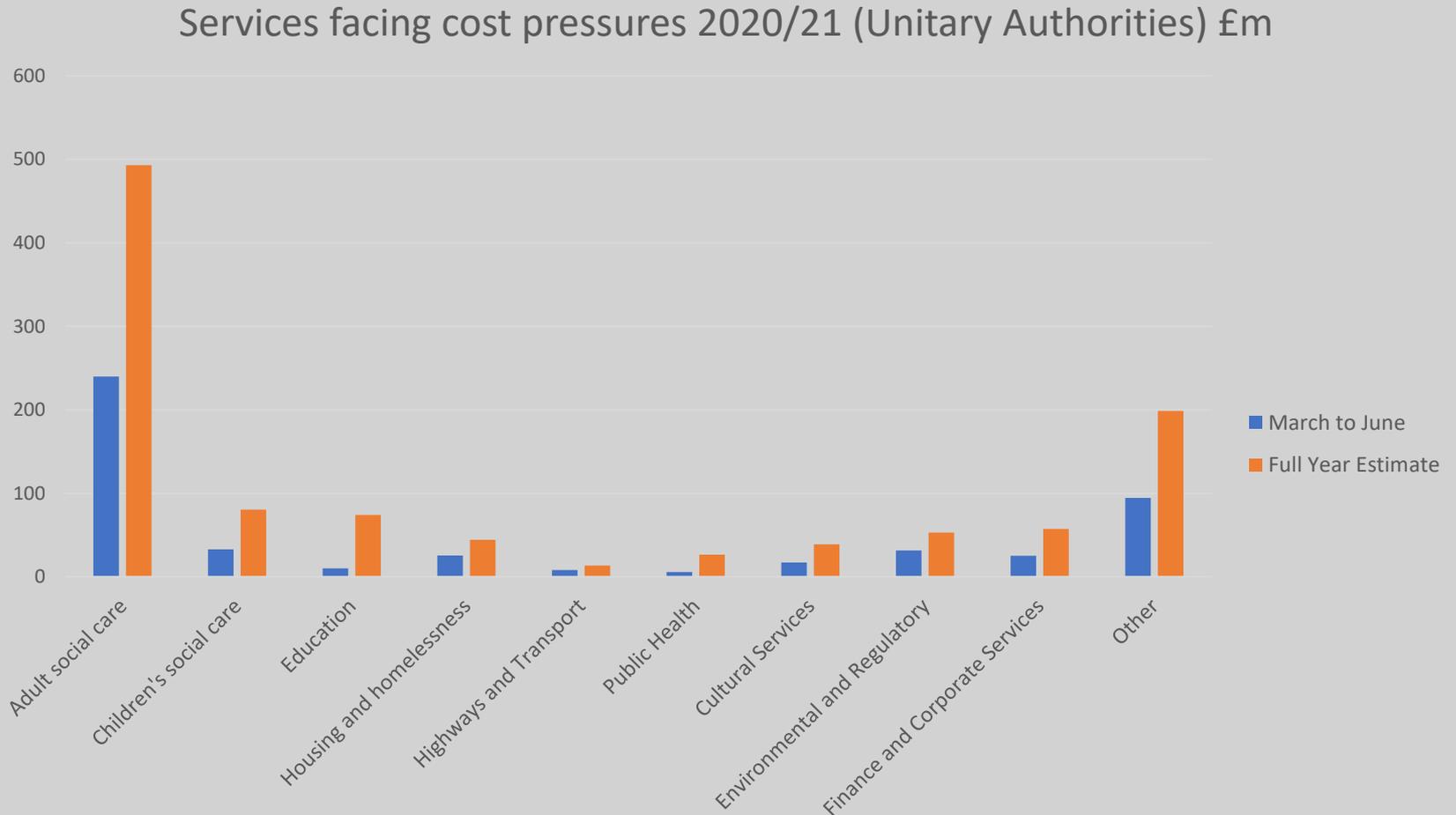
- Responses to the June survey undertaken by MHCLG indicate that;
 - Between March and June, councils incurred £4.8bn of extra cost pressures and income losses as a result of the Covid-19 pandemic
 - Additional costs over the 2020/21 year are forecast to be £4.4bn and income losses £2.8bn
 - Collection fund losses (council tax and business rates income) are forecast at £3.7bn
 - £4bn of funding has so far been provided to councils by Government directly and through CCGs

Financial impact on councils



Source: LGA analysis of June returns submitted by councils to MHCLG

Increased council service costs

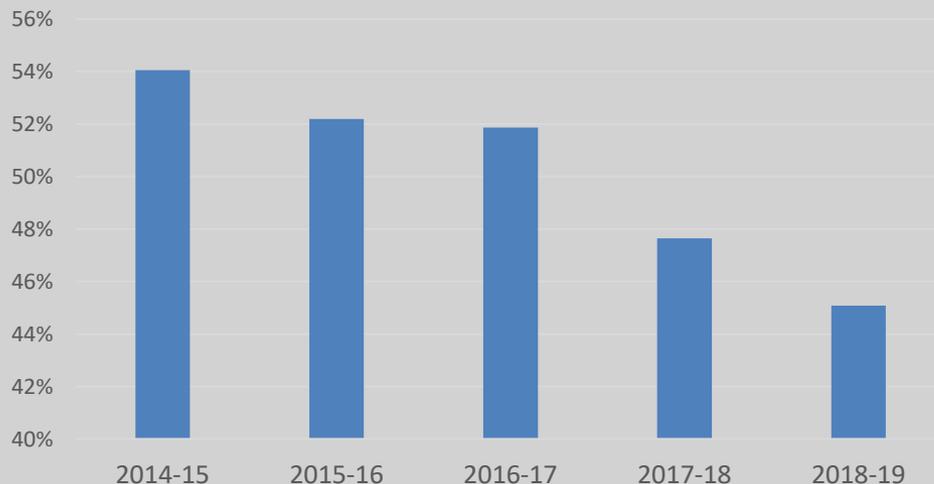


Source: LGA analysis of June returns submitted by councils to MHCLG

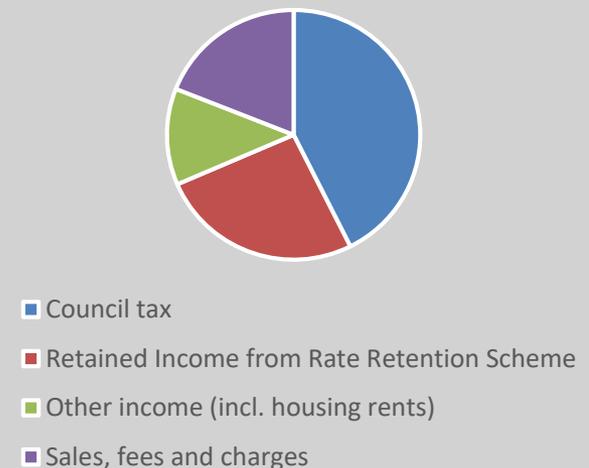
Council income sources

Local councils have become increasingly reliant on locally generated income sources in recent years, which have all been affected by Covid-19

Grants as a % of total council income



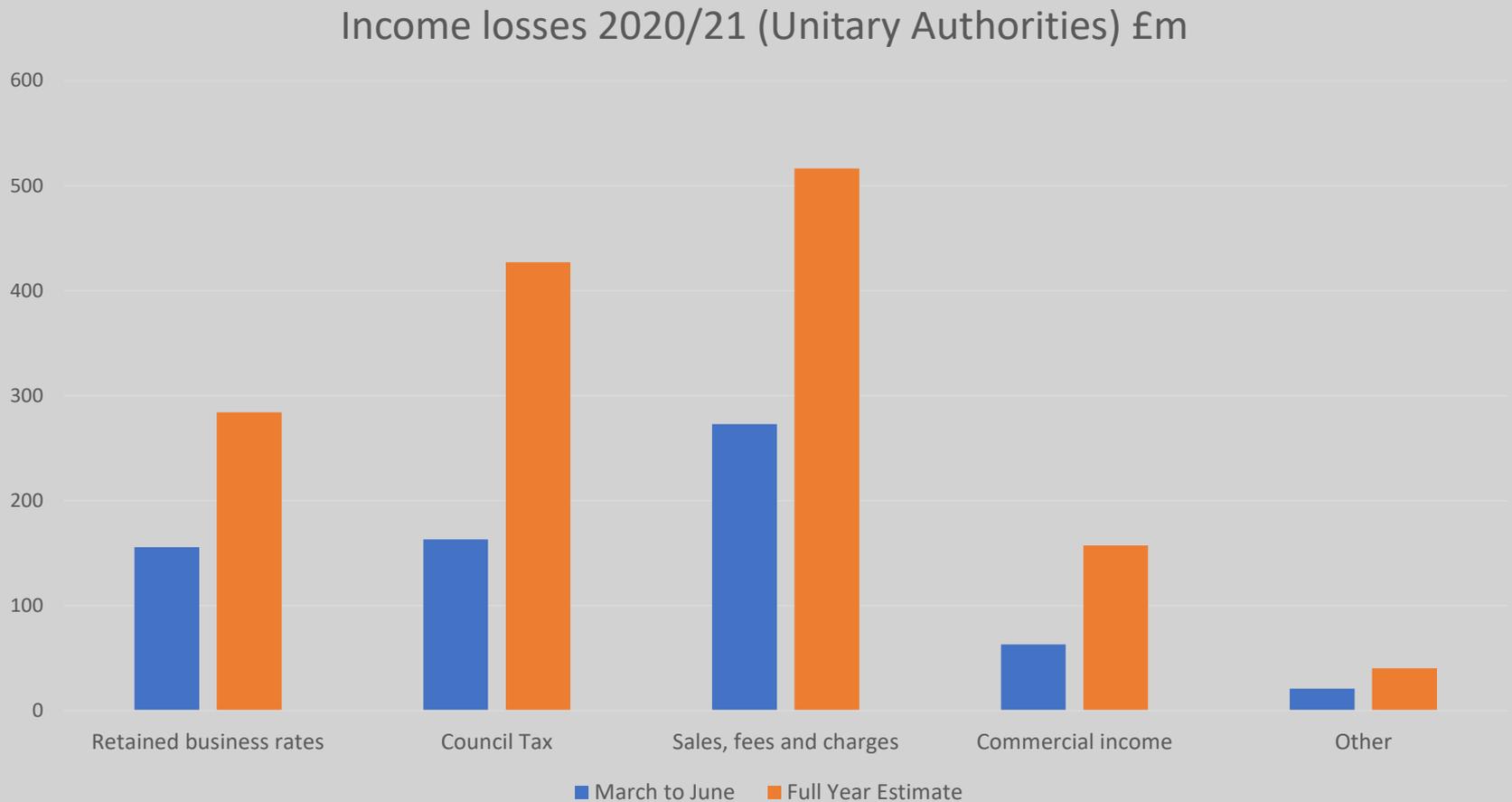
Locally generated council income



Council income losses

- Councils are protected from the immediate impact of council tax and business rates losses in the current year due to the collection fund mechanism
- Government has indicated it will allow current year collection fund losses to be recouped over 3 years, rather than all in 2021/22
- Government has also announced its intention to mitigate councils' losses from sales, fees and charges income (grant will be made to cover 75% of irrecoverable losses after an initial 5% deductible)
 - Details still unclear, particularly around baseline budgets / leisure facilities operated by third parties

Council income losses



Source: LGA analysis of June returns submitted by councils to MHCLG

Summary of overall position

- Vast majority of councils are living “beyond their means” in the current year
- S114 (bankruptcy) notices have been averted (at least for a time) by Government cashflow support and promises of additional in-year funding
- Position is being tracked closely by monthly returns to MHCLG capturing actual positions and projections to end of 2020/21
- Increasing concerns from councils about 2021 onwards

Bracknell Forest summary position

- Estimated additional costs incurred to date;

	March £m	April £m	May £m	June £m	July £m	Total £m
Extra costs	0.1	0.8	0.8	0.9	0.7	3.3
Lost income *	0.4	0.9	0.6	0.6	0.5	3.0

- Government funding already received - £6.5m
- Additional Government funding (amounts unclear) expected for lost income and through Health
- Funding also available from Corporate Contingency (£2m) and reserves
- Current year will be difficult but looks manageable

* Sales, fees and charges

Forward look

- Government is providing significant additional funding in current year – unclear how long current pressures or funding will last
- Long-planned national funding changes have been deferred (again) until 2022
- LGA is urging Government to address long-term funding for councils generally and adult social care in particular
- The Prime Minister has stated there will not be a return to austerity, some independent commentators doubt this can be avoided

Forward look

- Spending Review is planned for the Autumn, expected to cover a 3 year period
- Timing suggests local government funding settlement for 2021/22 will not be announced before December
- Councils need to prepare to set balanced budgets for 2021/22 by February 2021, in a climate of unprecedented uncertainty
- Report to the Council's Executive on 25 August will set out Bracknell Forest's expected position and outline responding strategy



Questions?