



OVERVIEW SELECT COMMITTEE

21<sup>st</sup> May 2020

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**IMPACT OF CORONAVIRUS PANDEMIC ON THE 2020/21 BUDGET**

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**Report of the Director of Finance**

1. **Introduction and Summary**

- 1.1 The purpose of this note is to summarise the initial financial impacts of the pandemic on our revenue budget. Costs are expected to be substantial.
- 1.2 Costs shown in this report are early estimates and based on our knowledge in the last week of April. The estimates depend critically on the length of time the lockdown lasts, and the speed of subsequent economic recovery. It is likely that costs will emerge that have not yet been considered, particularly if there is a prolonged lockdown. **The note assumes a lockdown period lasting until 30<sup>th</sup> June, with economic recovery taking longer.**
- 1.3 The understanding of the local government sector is that the Government originally committed to meet extra costs arising. The Government has recently announced that it guarantees funding for actions that it has asked us to carry out, but there is concern that there will not be sufficient to cover all losses, including income losses. The Government is concerned not to cause “moral hazard” by bailing out authorities who have borrowed for commercial investments which are now under-performing. Grants announced so far will be insufficient.
- 1.4 Some grants have been received to pay for new relief schemes announced by the Government.

1.5 The impact described in this report is divided into the following:

- (a) One off costs;
- (b) Additional service costs which will increase as the crisis continues, and may end as we exit lockdown;
- (c) Lost income from fees and charges;
- (d) The effect of new grants awarded;
- (e) The impact on council tax support caseload, and losses in local taxation collection, which are even more difficult to forecast than other costs;
- (f) Impact on the Housing Revenue Account.

1.6 In summary, the impact on the General Fund is estimated as follows:

	<b>20/21 Cost £m</b>
One Off Costs	2.7
Ongoing Costs	At least 7.2
Loss of Income	14.5
Overspend on hardship fund	1.0
Local Tax and Council Tax Support	10.0
<b>Total</b>	<b>At least 35.4</b>

1.7 I expect costs will eventually exceed £40m, for which unringfenced grant of £21m is currently available. Some cost increases may prove to be permanent.

## 2. **Recommendations**

- 2.1 Members of Overview Select Committee are recommended to note the report and make comments to the Director of Finance and City Mayor as they wish.
- 2.2 The Committee is asked to support the City Mayor's stance that we expect the Government to meet the full costs incurred.

### 3. One Off Costs

3.1 Incurred and anticipated one off costs are as follows:

	<b>£m</b>
IT costs to support new ways of working (with potential for significantly more if we now plan to increase our overall organisational resilience)	0.3
Contribution to Fare Share	0.1
Community Mobilisation Fund	0.1
PPE (Adult Social Care)	0.8
Payments to independent social care providers to support cash flow.	1.2
Additional mortuary facilities	0.1
Other	0.1
<b>Total</b>	<b>2.7</b>

### 4. Ongoing Costs

4.1 The table provides our best early estimate of ongoing costs per month, and of the final cost based on the stated assumptions. Where it is clear that costs will continue after lockdown ends, this is indicated. Estimates over and above the monthly cost are necessarily tentative, and there may be emerging costs we have not yet recognised.

	<b>Monthly Cost £m</b>	<b>20/21 Cost £m</b>
10% increase in rates paid to independent providers of adult social care, for support to existing service users. There is a significant risk that we may not be able to reduce rates to pre-crisis levels when the pandemic is over.	1.0	At least 5.0
Care accommodation for existing service users discharged from hospital (the cost for others discharged from hospital will be met by the NHS). The higher cost assumes the need to keep the accommodation for a full year.	0.1	0.3 to 1.0
Rough sleepers' temporary accommodation. This may increase due to lack of move on permanent accommodation the longer the lockdown	0.1	0.7

continues. Estimate assumes that cost will remain for 6 months.		
Food Hub	0.2	0.5
<b>Total</b>	<b>1.4</b>	<b>At least 7.2</b>

- 4.2 At present, there is no observed pressure on the budgets of Children's Social Care. However, this may change as children return to school.
- 4,3 Options to furlough some non-working staff (casuals and those whose costs are met from income) are being explored.

## 5. Loss of Service Income

- 5.1 This is easier to estimate than additional expenditure, and has been measured since the end of March.

	<b>Monthly Loss £m</b>	<b>20/21 Loss £m</b>
Bus lane enforcement	0.1	0.4
Car parking charges (car parks and on-street).	0.5	1.5
Planning fees	0.1	0.3
De Montfort Hall (expected to continue until Christmas)	0.4	3.4
Leisure centres (assumed closed for 6 months)	0.5	3.1
Markets	0.1	0.3
Corporate Estate rents (it is assumed it will take a further 3 months after the lockdown ends before rent income rises, but losses will continue for the remainder of the year).	0.2	1.8
Income in respect of school meals and other catering.	0.3	1.0
Interest on monies invested as part of the treasury management function. Persistently low rates will cost around £1m per year from 21/22.		0.3
Other	0.8	2.4
<b>Total</b>	<b>3.0</b>	<b>14.5</b>

## **6. Available Grants**

6.1 The Government has made available a number of grants.

6.2 The following are unringfenced:

(a) Emergency funding of £20.8m. This has come in two tranches – a tranche weighted towards social care authorities, which comes with a strong expectation that the first call is adult social costs; and a tranche weighted towards district responsibilities. Our position has been not to allocate this money to services, at least until the position becomes clearer;

(b) Hardship funding of £3.7m. Whilst this is unringfenced, the Government expects it to be used to pay £150 to every working age claimant of council tax support, for which we believe the fund will be insufficient (an overspend of £0.6m to £1.2m is currently forecast if caseload increases as expected).

6.3 The following grants are ringfenced:

(a) £44.5m to meet the costs of new rate reliefs for retail, leisure and hospitality businesses and for nurseries. All reliefs have now been awarded, and are fully funded;

(b) £85.0m for the Government's business grant scheme. This is a scheme whereby small businesses, and medium size businesses in the retail, leisure and hospitality sector are entitled to grants of £10,000 or £25,000. This has been a difficult scheme to implement, given the need to collect details of businesses (particularly bank accounts), implement fraud checks, and interpret changing government guidance. We have been concerned that BEIS (who are responsible for this scheme) will seek clawback of sums paid which subsequently turn out to have been made due to fraud/error or in breach of state aid rules. BEIS has very recently provided some assurance, but we have yet to see the small print;

(c) The Government has recently announced further funding of £617m nationally for those businesses needing support who have "fallen between the cracks" of the business grant scheme. This includes those who are not registered as the ratepayer but have property related costs (e.g. tenants at business centres where the landlord pays the rates). Our allocation is currently unknown.

## 7. Local Taxation and Council Tax Support

- 7.1 The impact on local taxation is more difficult to assess. We anticipate a reduction in the amounts we receive in the coming months, but this does not of itself amount to a shortfall of income – sums charged remain due and can be collected long after the year ends.
- 7.2 In the past, we have found that 98% to 99% of rates and council tax for any given year is ultimately collected, albeit long after the year end. The key question then is how much extra tax we will need to write off as a consequence of the pandemic and the economic hardship that may outlast it. Actual collection performance will inform this assessment over the coming months, but at present it is little more than informed speculation.
- 7.3 The most significant factor, however, is the amount of additional **council tax support** we will have to award to those who lose income, meaning that they pay less council tax. Since government reforms in 2013/14, council tax support has ceased to be reimbursed by the Government and is now met by us from the General Fund budget, with partial recognition of the cost in our finance settlement. The cost of council tax support awarded at the beginning of the year was £24m (our share, after allowing for police and fire, being £21m). Any estimate of additional cost is very speculative, but we may see this cost rising by £6m to £8m if the lockdown lasts 3 months and the economic impact of the crisis lasts longer. We are already seeing unprecedented demand.
- 7.4 Total collectible **council tax** is £147m. Our share (after allowing for police and fire) is £124m. If we estimate that an additional 2% will ultimately remain uncollected, and after allowing for extra council tax support and the hardship grant, income would fall by £2.1m. In the first instance, this charge will hit our collection fund in 20/21, and will not be felt by the general fund until 21/22.
- 7.5 Given the extra relief awarded, the amount of **business rates** to be collected this year has fallen from close to £120m to £74m. Rates collection is expected to be hit harder than council tax collection, as businesses either fold or are unable to pay rates once they reopen. A reasonable estimate at this stage would be that an additional 5% of rates proves to be uncollectable (although based on a lower figure than expected). Given that we bear 49% of this cost locally, this would amount to a cost of £1.4m. Like council tax, this will not hit our general fund until 21/22.
- 7.6 The Council, together with the other Leicestershire authorities, is part of a **business rates pool**. This is a voluntary feature of the business rates retention scheme: the effect of the pool is that rates growth which district councils would otherwise have paid to the Government becomes available locally. By agreement, this funding is managed by the LLEP and has recently amounted

to some £7m to £8m per year. The surplus for 20/21 is likely to be severely affected as district councils collect less rates.

## **8. Housing Revenue Account**

- 8.1 The main areas of loss identified so far are closure of hostel dormitory beds and safe space, lost income at the Dawn Centre and lost rent. This is estimated to cost £140,000 per month for the length of the crisis.
- 8.2 The other area of potential concern is increasing rent arrears. Around £47m per year is collectible after deducting housing benefit. If 10% of tenants defer paying their rent, arrears will increase by £0.1m each week.
- 8.3 There will be a knock-on effect of delays to repairs and maintenance and improvement works, where the workforce continues to be paid but non-essential work is on hold. Some additional costs such as communal cleaning are also being incurred. There is expected to be a longer term impact once the crisis is over, with a catch up period of repair work.
- 8.4 Regard should also be had to the spending of right to buy receipts, as property acquisitions and new build works are deferred. As things stand, the required level of receipts will now not be spent by the end of June, so a mandatory payment plus accrued interest would become due to Government. This is under active discussion with MHCLG officials.

## **9. Financial and Legal Implications**

- 9.1 This report is solely concerned with financial issues.

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