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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 This is the second note summarising the expected financial impacts of the pandemic on our budget. General Fund revenue costs are expected to be around £40m, although this is subject to a number of assumptions. Additional capital costs are expected to be £2m to £3m. **Crucially, the note assumes lockdown is over by 31<sup>st</sup> July in all substantial respects, with economic recovery taking longer.** It assumes there is no further period of lockdown. These assumptions are consistent with the assumptions made when returning forecasting information to the Government. **The detail in this note predates the local lockdown announced on 29<sup>th</sup> June.**
- 1.2 At present, unringfenced government funding of £21m has been received out of £3.2bn nationally, which is insufficient to meet costs of £40m. A further sum of £500m has been announced, together with proposals for the government to partially meet some categories of lost income; our shares are not yet known. We also have £0.5m to meet the direct costs of the local lockdown.
- 1.4 Some ringfenced grants have been received to pay for specific schemes announced by the Government. These are described below.

- 1.5 The impact described in this report is divided into the following:
- (a) Additional costs;
  - (b) Lost income from fees and charges;
  - (c) The effect of new grants awarded;
  - (d) The impact on council tax support caseload, and losses in local taxation collection;
  - (e) Impact on the Housing Revenue Account;
  - (f) Impact on capital.
- 1.6 In summary, the impact on the General Fund is estimated as follows:

	<b>20/21 Cost £m</b>
Additional Costs	15.8
Loss of Income from fees and charges	18.4
Council Tax Support	2.0
Local Tax Payments*	2.5
<b>Total</b>	<b>38.7</b>

\* Cash impact only

- 1.7 Some cost increases may prove to be permanent, and will need to be reflected in budget planning for 2020/21.

## **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. Additional Costs

3.1 The table provides our best estimate of the final cost based on the stated assumptions:

	<b>20/21 Cost £m</b>
Adult Social Care – particularly an increase in rates paid to providers to safeguard the market, and PPE.	12.5
Rough sleepers' temporary accommodation.	0.5
Costs of shielding, including the food hub and community mobilisation fund	1.4
Other costs	1.4
<b>Total</b>	<b>15.8</b>

3.2 At present, there is no observed pressure on the budgets of Children's Social Care. However, this may change as children return to school.

3.3 The Council has furloughed a very limited number of staff. In line with Government guidelines, we have furloughed those whose salaries are normally covered by income earned. Savings of £0.3m will be achieved.

### 4. Loss of Service Income

4.1 Estimated losses are as follows:

	<b>20/21 Loss £m</b>
Highways and Transport income, including car parking charges, fines, and bus lane enforcement	3.8
Leisure and cultural services charges, including leisure centres and De Montfort Hall (neither of which will revert to normal as soon as lockdown ends)	6.3
Planning fees	0.9
Corporate Estate rents (it is assumed that some losses will continue for the remainder of the year).	1.5
Schools' and other catering	1.6
Adult Social Care – service user income	2.0
Other income	2.3
<b>Total</b>	<b>18.4</b>

## **5. Available Grants**

5.1 The Government has made available a number of grants.

5.2 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;
- (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. A top up to this funding of £63m (nationally) has been announced, in the form of Local Welfare Assistance Funding – our share is £0.5m.

5.3 The following grants are ringfenced:

- (a) £47.6m 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) Up to £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. The final cost is likely to be around £70m;
- (c) Funding of £3.5m for a discretionary business grants scheme, for those businesses needing support who have "fallen between the cracks" of the business grant scheme. Our scheme has now been designed and is operational – a first round of applications closed on 29<sup>th</sup> June;
- (d) An adult social care control infection fund of £3.7m, most of which will be given to care homes, with a small amount likely to be used for domiciliary care and supported living;
- (e) A test and trace support grant of £2.5m, to meet costs associated with managing and mitigating local outbreaks of covid 19. This is different to sums received to manage the local outbreak, and is directed towards future planning;
- (f) An emergency active travel fund of £1.8m, with the first £0.4m to be used for temporary schemes to support cycling and walking. The balance will be for longer term projects;
- (g) A recently announced fund of £105m (nationally) to work with rough sleepers who have been rehoused during the pandemic, and to seek to

keep them from returning to the streets. Our allocation is not yet known.

## **6. Local Taxation and Council Tax Support**

- 6.1 The impact on local taxation is more difficult to assess. Unlike other income such as parking charges, council tax and rates remain due whether paid on time or not. What ultimately matters is how much needs to be written off as a consequence of the pandemic and the economic hardship that may outlast it.
- 6.2 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. It is unlikely that this assumption will continue to hold for 2020/21.
- 6.3 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. The amounts currently estimated are below previous forecasts, but much will depend on whether there is an upsurge in claims when the national furlough scheme ends. Since the beginning of the year, an additional £0.8m has been awarded for the 20/21 tax year, and we estimate that this will grow to £2m by the end of the year.
- 6.4 In terms of collection, performance has so far been better than expected. The percentage of **business rates** collected at the end of June was 27.9%, compared with 30.1% at this time last year. This may be because a lot of rates are now paid by the Government and no longer need to be collected; there may also be a significant uptick in defaults when Government support to businesses ends. We estimate that arrears will be £1m higher at the end of the year than they would have been without the pandemic.
- 6.5 The percentage of **council tax** collected at the end of June was 24.9%, compared with 27.1% at this time last year. If more people lose their jobs, the impact is likely to be seen initially in a higher level of council tax support awards. Nonetheless, we estimate that arrears at the end of the year will be £1.5m more than would have been the case.
- 6.6 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 significantly affected as district councils collect less rates.

## **7. Housing Revenue Account**

7.1 The impact on the HRA (other than rent arrears) is estimated to be £1.8m. This is primarily due to loss of income from higher void levels, the costs of repairs to empty properties, and the estimated cost of catching up a backlog of repairs which has arisen during lockdown. In addition, it is estimated that rent arrears at the end of the year will be £1.9m higher than they otherwise would have been. As with local tax, this will continue to be collected until deemed irrecoverable.

## **8. Capital**

8.1 A review has been completed in relation to capital and the key issues the authority is likely to experience due to covid. The key issues identified are:

- Increased costs;
- Programme delays;
- Material Availability;
- Contractual Claims.

8.2 As part of this assessment, we considered the latest government guidance and worked on the assumption that social distancing will not be in place from the end of 2020 onwards. Therefore, only schemes which are currently on site or entering contract in 2020 are assumed to be affected. On this basis, additional costs are forecast to be in the region of £2.4m, which is lower than previously envisaged. It is intended that, as and when these additional costs crystallise, decisions will be made to increase the budgets for individual projects.

8.3 To assist the Council in managing any potential increased costs on the current programme the following approach has been taken:

- We have suspended all current acquisition and investment projects;
- We are only going into procurement for projects which are business critical;
- We are progressing maintenance related projects, where buildings are vacant due to the pandemic.

8.4 In addition to increased costs, we are also experiencing average delays of 12 weeks to the current programme.

8.5 In summary, we have completed a detailed review of the forecast additional costs. We will continue to review all contractual claims; and ensure future contracts provide explicit protection in relation to Covid-19 to safeguard the Council's interests, in particular to avoid claims for additional costs.

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

- 9.1 This report is solely concerned with financial issues.
- 9.2 Both revenue and capital costs will be monitored in accordance with our normal cycle, and a full report brought to members at the end of period 4.
- 9.3 It is intended to make a series of adjustments to budgets at the end of period 6 to reflect the costs of the pandemic. This will be reflected in the monitoring report at that time.

**Report Author: Mark Noble**  
**Tel: 0116 454 4041**

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