

REPORT TO:	FINANCE and MANAGEMENT COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	2nd JULY 2020	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
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SUBJECT:	CORONAVIRUS (COVID-19) FINANCIAL IMPACT	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the financial impact of Covid-19 and deployment of Government Funding as detailed in the report is noted.
- 1.2 That criteria and process for utilising the Covid-19 funding allocation as detailed in the report is approved.
- 1.3 That a Council Tax Discount of up to £300 is awarded to working-age claimants eligible for Local Council Tax Support in 2020/21 and that the cost is funded from the Government's Hardship Fund as detailed in the report.
- 1.4 That the Council's Section 13(a) Discretionary Policy under the Local Government Finance Act 1992 as detailed in **Appendix 1**, to provide support to households and residents facing significant financial hardship, is approved.
- 1.5 That the proposal to review the current Local Council Tax Support Scheme in 2020 is deferred until 2021.
- 1.6 That further reports are brought back to the Committee to provide an update on the financial situation and to assess the longer-term impact of Covid-19 as it emerges.
- 1.7 That an initial assessment is made to ascertain the impact on the Council's Base Budget and Medium-Term Financial Plans.

2.0 Purpose of the Report

- 2.1 To provide an update regarding the financial implications on the Council emerging from the Coronavirus Pandemic.
- 2.2 This includes an overview of additional Government funding and how it has been utilised, an initial assessment on the Council's financial plans arising from additional expenditure and a reduction in income, together with proposed changes to Policies in Revenues and Benefits.

3.0 Executive Summary

- 3.1 The Coronavirus Pandemic and the Government's lockdown in March, have affected the District, although the Council has received significant funding from the Government to support local businesses, households and residents.
- 3.2 The Council received more than £18 million from the Government to support local businesses in the form of additional rate reliefs and cash grants, which have been credited to, or paid out directly to, eligible businesses in the District.
- 3.3 In addition, the Government have paid the Council approximately £600,000 to act as a Hardship Fund to support residents with their Council Tax, who have faced financial hardship due the crisis.
- 3.4 This will allow the Council to reduce the Council Tax of approximately 3,000 residents for 2020/21 up to a maximum of £300 per household.
- 3.5 The crisis has also directly affected the Council's finances through additional expenditure to enable the Council to respond to the lockdown and a loss of expected income across Council services, compared to that budgeted.
- 3.6 Although detailed figures are still emerging at this stage, it is likely that the Council will have enough reserves to act as a buffer in the short-term. This can be supplemented from a general Government grant of approximately £1.1 million to support spending pressures at the Council's discretion.
- 3.7 However, the longer-term effect on the Council's financial position is still to emerge. It is considered that this will depend on two main factors:
 - The longer-term effect of people's ability to pay Council Tax and Business Rates beyond the initial lockdown period.
 - The knock-on effects on the national and local economies and how this may affect future funding settlements for local government.
- 3.8 The second factor is already a key financial risk to the Council, given the outstanding Fair Funding Review and future changes to the funding of local authorities from 2021.
- 3.9 It has been confirmed by the Government that the Fair Funding Review will be delayed by a further year to 2022. In the meantime, the Government intend to consult with local authorities later in the year regarding the details of the Local Government Financial Settlement for 2021/22.

4.0 Detail

- 4.1 The Government's Budget on 11 March 2020, set out its plan to protect the Economy from the emerging (at that time) Coronavirus crisis. Following the Government's lockdown on 23 March in response to the spread of Covid-19, they announced a range of further financial measures to protect businesses, employees and the general population.
- 4.2 Subsequently, several funding streams were allocated to local authorities. Specific funding allocations provided to the Council and how these have been deployed, are detailed in the following sections.

Support for Local Businesses

Business Rate Reliefs 2020/21

- 4.3 Firstly, the Council received £1.2 million to reimburse councils for the loss of income arising from various rate reliefs and discounts previously awarded by the Government. These reliefs related specifically to the retail sector, together with small businesses with a Rateable Value (RV) of less than £12,500.
- 4.4 Normally, these reliefs would be paid on account during the year, but to recognise potential cash flow problems for local authorities, it was paid upfront, in total, as a lump sum.
- 4.5 It should be noted that this was not new funding, as it had already been announced by the Government last autumn and was included in the Council's Budget for 2020/21.

Business Rates: Retail Discount

- 4.6 The 50% discount that had been granted in previous years, was increased to 100% for 2020/21. This discount was also extended to include all businesses in the retail sector regardless of size, and brought in the leisure/hospitality sector, estate/letting agents, together with non-local authority providers of childcare, i.e. nurseries.
- 4.7 This will support an additional 630 businesses in the District at a value of approximately £2.4 million.

Business Rates: Discount for Pubs

- 4.8 The current scheme that had granted a discount of £1,000 in 2019/20 to pubs with a RV of less than £100,000, was increased to a discount of £5,000 in 2020/21. However, this has now been replaced with the Extended Retail Relief scheme (as above) to give 100% relief for business rates.

No Additional Cost to the Council

- 4.9 It should be noted that these reliefs and discounts awarded by the Government are paid for nationally and the loss of income is reimbursed to local authorities as part of the local government funding system.
- 4.10 In addition, the Government also paid local authorities "*new burdens funding*" to administer the various relief and discount schemes. The Council received £15,000, and it is expected that a proportion of this will be paid to the software supplier to make the necessary system changes.

Cash Grants for Businesses

- 4.11 The Government provided further support to businesses through cash grants which were administered by local authorities. As part of a £12.3 billion national pot, the Council received £15.2 million for distribution to local businesses in South Derbyshire.
- 4.12 The eligibility criteria for the grants was:

- Businesses receiving Small Business or Rural Rates Relief received a grant of £10,000.
- Businesses in the retail, hospitality and leisure sectors received a grant of **£10,000**, where their RV is less than £15,000 or a grant of **£25,000** where their RV is between £15,000 and £51,000 (*any business with a RV above £51,000 did not receive a grant*).

4.13 To-date, this funding has been paid out to 1,120 businesses with a value of approximately £13.2 million. Known eligible businesses who are still to claim have been contacted. Currently, it is estimated that the Council will eventually pay out approximately £15 million.

4.14 On 1 May, in response to feedback from local authorities, the Government extended the scheme to support other small businesses who were outside the original eligibility criteria.

4.15 The Government announced a limit of 5% of the original allocation of £15.2 million to fund a discretionary scheme, firstly utilising any underspend from the original allocation and claiming any additional amount from the Government. This gave the Council approximately £700,000 for the discretionary scheme.

4.16 The Government identified the following micro/small businesses as priority for the scheme.

- Those in shared spaces who are not the ratepayer.
- Regular market traders
- Small charities
- Bed and breakfast establishments that pay Council Tax (and not Business Rates)
- Any other business type based on local economic need.

4.17 The main criteria were that the business must employ less than 50 people and be able to demonstrate that they had a significant income drop due to Covid-19.

4.18 This scheme is subject to an application process and the Council has received approximately 90 applications for support which are now being processed.

4.19 Should all the funding not be utilised in the first round of applications, it is possible that the Council may reopen the application process and widen the criteria for applications.

Reopening High Streets Safely Fund

4.20 On 1 June, the Government announced further grant funding to support the safe reopening of high streets and other commercial areas. The money allows local authorities to put in place additional measures to establish a safe trading environment.

- 4.21 The funding is being drawn down by the Government from the European Regional Development Fund and the Council has been awarded up to a maximum of £95,419, which is available to 31 March 2021.
- 4.22 The money is aimed at funding additional costs incurred by the Council of communications, information, signage and works associated with putting in place safe distancing measures, etc. The funding is not aimed at providing additional support for individual businesses.
- 4.23 To-date, a small amount of money (£3,000) has been expended on town centre signage with plans for further spending under review.

Council Tax Support

- 4.24 On 11 March, the Government announced that it was providing councils in England with a share of a £500 million Hardship Fund to be used to support economically vulnerable people and households in their local area. The Council received £606,000 of this funding, all of which much be spent locally to help residents and households facing potential hardship.
- 4.25 The Government's expectation was that most of this funding would be used to provide Council Tax relief, alongside existing Council Tax support schemes. The Government stipulated that councils provide a minimum of £150 to further reduce the Council Tax bills of all working-age claimants who receive Local Council Tax Support (LCTS) in 2020/21.
- 4.26 Whether residents have been directly or indirectly affected by Covid-19, does not affect their eligibility if they receive support through the LCTS Scheme.
- 4.27 As the Council's LCTS Scheme already offers a significant level of support to low income households relative to other areas, the award of a further £150 to all working-age claimants in the Scheme, will cost £228,000 from the available £606,000. Many claimants pay much less than £150 in any case, so their bill will be reduced to zero for 2020/21.
- 4.28 Whilst the Government stipulated a minimum award of £150, it did not stipulate a maximum amount that can be awarded and gave councils the flexibility to set a higher award and to use other methods to distribute any remaining funding.

Expanding the Scheme

- 4.29 As at 1 April 2020, there were just over 2,800 claimants in the Council's LCTS Scheme. The Government's expectation is that these households are supported as much as possible in the current circumstances.
- 4.30 Due to the amount of funding available, the Council can reduce the Council Tax by up to £300 for all these claimants for 2020/21. This would cost approximately £351,000 and is therefore affordable with the allocation of £606,000.
- 4.31 This would then leave an amount of just over £250,000. It is proposed that this amount is set-aside and used during the remainder of 2020/21 to support other households and residents as detailed below.

Meeting the Cost of New Claims

- 4.32 Since April, the number of claimants had increased from 2,800 to just over 3,000 by 21 June. Based on the current trajectory, the number of claimants could increase further during the remainder of the year.
- 4.33 Depending on people's protection from furlough schemes and other support in the longer-term, the worst-case scenario at this stage is for a total cost of £1/2m, although this would still be below the total allocation of £606,000.

Extend the Council's Discretionary Powers

- 4.34 Under Section 13a of the Local Government Finance Act 1992, the Council can write off Council Tax arrears where residents are suffering significant hardship but have not been eligible for LCTS. This can be made available not only to working-age claimants, but also to claimants of a pensionable age.
- 4.35 Under legislation, the Council has an established Policy under Section 13a and has previously used it in exceptional circumstances. The Policy sets out pre-determined criteria to assess "significant hardship".
- 4.36 Section 13a is a last resort for a Council Taxpayer and can only be used after all other exemptions and discounts have been exhausted.
- 4.37 In addition, the Council could also write-off Council Tax arrears in relation to house moves/new tenancies that have been unable to progress for reasons outside the individual's control and where real hardship has been encountered.
- 4.38 This is particularly pertinent in relation to Covid-19, given the Government has advised against house moves. It is also pertinent to "*force majeure*" events and natural disasters, such as flooding.
- 4.39 The Council's usual approach is to allow homeowners to pay any outstanding Council Tax from the proceeds of the sale of the home, but where private tenants are concerned, often real hardship can occur.
- 4.40 During 2020/2021, the Hardship Fund could be used to fund Council Tax write-offs in this respect, where Covid-19 can be demonstrated to be an underlying issue that has prevented a move in/out and where real hardship has been encountered.
- 4.41 If an extension of the Council's Discretionary Powers under Section 13a as detailed above is approved, the Council's Policy will need to be amended. A draft Policy is to reflect all the proposals above, is detailed in **Appendix 1**.

Changing the Basis of the LCTS Scheme

- 4.42 As previously reported to the Council, it had been planned to review the basis of the Scheme in 2020 with a view to implementing a new Scheme from April 2021. This was due to the impact of Universal Credit, together with upgrades to the Council's software to a cloud-based system, which will provide opportunities for more efficient processing and a simpler Scheme.
- 4.43 However, the implementation of the Hardship Fund has meant that software suppliers has been required to develop system changes to meet the processing

requirements for local schemes. These have taken longer than anticipated to implement and has affected all authorities.

- 4.44 Consequently, the work required to move to a cloud-based system has been delayed until the autumn. This will not allow adequate time to test a new LCTS and meet the timetable required for options to be reported and considered, consulted upon and then agreed by Full Council ahead of March 2021.
- 4.45 Therefore, it is proposed to delay the review of a new LCTS Scheme until 2021 and the implementation of the revised scheme to 2022.

Recovery Action

- 4.46 In line with many authorities across the Country, the Council relaxed recovery, in the form of final demands and enforcement, of Council Tax arrears and Housing Benefit overpayments. This was applied in April and has been subject to monthly review, but it is currently planned to gradually re-introduce full recovery from July.
- 4.47 The Council has been approached by many residents regarding a Council Tax “holiday”. This has not been universally applied and has been considered on a case-by-case basis.
- 4.48 Where residents have been furloughed for example and pay their Council Tax by the standard 10 monthly instalments, their payments have been reprofiled to commence in June rather than April. This spreads the 10 payments over the remainder of the financial year to March 2021.

Universal Credit (UC) and Housing Rents

- 4.49 Between January and March 2020, there were 80 new claims for UC amongst Council Tenants. During the lockdown period (25 March to 12 June) there were 116 new claims, the total number of tenants in receipt of UC is currently 575 (about 20% of all tenants).
- 4.50 As at 15 June 2020, rent arrears totalled just under £400,000, which is an increase from £265,000 at the same period in 2019. Arrears have gradually increased over the last year as more tenants have transferred to UC. The impact on the HRA, through the Provision for Bad Debts, will be reflected in the Housing Revenue Account's (HRA) Budget Out-turn for 2019/20. This will be reported to the Committee in July.

The Council's Income and Expenditure

General Funding for Covid-19

- 4.51 As part of a national funding package of £3.2 billion allocated across all local authorities in two tranches, the Council received approximately £1.1 million. Although the Government indicated that it expected this funding to be directed to dealing with additional costs of social care and homelessness, it is not ring-fenced and was intended to help councils address pressures on their services relating to C19, depending on local circumstances at the Council's discretion.

- 4.52 Except for a payment of £10,000 (see below) none of this funding has been specifically deployed, pending the extent of additional costs and loss of income detailed later in the report. This is being kept under review.
- 4.53 The payment of £10,000 was made to the Dame Catherine Harpur's School which provides a vital service to local families and children with special educational needs and disabilities, who did not qualify for a Business Grant. Due to exceptional circumstances, the payment was made in lieu of the Business Grant in accordance with emergency decision-making powers contained in the Coronavirus Act 2020 relating to economic or community-based need for support.
- 4.54 Parish Councils across the Country have been informed separately by the Government that this funding has been distributed to principal authorities and it is available to help meet additional community-based costs. However, this is at the discretion of the Council.

Utilising the Funding

- 4.55 As highlighted above, there have been no firm proposals or requests on how this funding is utilised. As detailed later in the report, the Council is likely to incur some short-term negative effects on its Budget because of C19. Therefore, it is recommended that a sum of £500,000 is set-aside as a contingency to cover additional costs and a reduction in income.
- 4.56 Some local organisations have tentatively approached the Council for financial support and others may emerge. In addition, some businesses and individuals may not benefit from other funding, as they simply fall outside of the eligibility criteria. However, in all these cases, there may be an economic or community-based case for providing support.
- 4.57 Therefore, it is recommended that any requests are considered on a case by case basis in accordance with the following criteria.
- The support is limited to small institutions, businesses and other local community-based organisations.
 - A loss of income or additional expenditure due to C19 is explicitly demonstrated.
 - That a financial contribution will support the local community or protect the local economy.
 - That the amount of support is capped at a maximum of £10,000 per request and is awarded on a purely one-off basis.
 - That an initial budget allocation of £100,000 is set-aside to meet all requests.
 - That the decision to award financial support is delegated to the Chairman of the Committee upon receiving advice from the Section 151 Officer.
 - That any proposed changes to the above criteria are brought back to the Committee for consideration.

- 4.58 It is not clear whether the Government will clawback any unspent money, although they are asking all authorities to account for how the funding is being utilised. Clearly, the situation could change during the year and it will be kept under review with regular updates provided to the Committee.

The Council's Services

- 4.59 An initial assessment has been made on additional expenditure and loss of income arising from C19. Detailed estimates are still being assessed, but the table below details the areas coming under pressure.

Collection of Business Rates	<p>Most small to medium sized businesses are being supported in some way, as detailed earlier in the report. However, during the first quarter of the financial year, cash payments were approximately 15% down on the equivalent period in the previous year; this equates to around £450,000. Losses are not immediately felt in the General Fund as Business Rates are accounted for in the Collection Fund, with any surplus or deficit being shared with the County Council and the Government; the Council's share is 50%.</p> <p>In addition, as part of the Derbyshire Business Rates Pool, there is a risk that business failures in other parts of the County could affect the income into the County Pool. Without a safety net in place, this could affect the income of the Council if it is required to contribute to losses elsewhere.</p>
Collection of Council Tax	<p>During the first quarter of the financial year, cash payments were approximately 2% down on the equivalent period in the previous year; this equates to around £390,000.</p> <p>Like Business Rates, losses are not immediately felt in the General Fund as Council Tax is accounted for in the Collection Fund, with any surplus or deficit being shared with other Preceptors; the Council's share is 9%. However, this may be offset by the accumulated surplus on the Collection Fund in 2019/20.</p>
Income from Commercial Tenants	<p>A three-month rent holiday (April to June 2020) has been offered to tenants whose business closed due to the Government's lockdown, on the understanding that they would repay the shortfall over the remainder of the financial year.</p> <p>40% of the Council's income is from 4 tenants and these are currently still paying rent. The remaining 60% of rent comes from smaller businesses, comprising 69 tenants in a diverse range of services and trades. 67 of these tenants have been paid a cash grant from the Government of £10,000.</p> <p>44 of the 69 tenants are currently paying full rent. It is considered even with the support being provided, some of these businesses could be vulnerable, especially those in the leisure sector, the extent of which will depend on the impact of social distancing and the</p>

	<p>speed of recovery.</p> <p>At this stage, from a total budgeted rent roll of approximately £700,000, it is anticipated that income could be down by up to £100,000 in 2020/21.</p>
Leisure Centre Management	<p>The Council subsidises Etwall Leisure Centre at a cost of £2,600 per month (£31,200 per year) but receives a profit share payment for Green Bank Leisure of £6,900 per month (£82,800 per year). The Council, therefore, receives a net income of £4,300 per month (£51,600 per year) across the two centres. These are fixed contractual amounts.</p> <p>The Contractor informed the Council that it was unable to pay the profit share for Green Bank whilst the Centre is shut. Therefore, the Council has agreed to suspend the net income of £4,300 per month until the Centre re-opens.</p>
Trade Waste Income	Some businesses have suspended, or cancelled services and to-date income is down by approximately £13,500.
Rosliston Forestry Centre	To-date, loss of income from cabin bookings is approximately £23,700.
Cultural and Community Services Income	To-date, income is down by approximately £80,000, although this is mainly from planned Sport and Play events which have been cancelled. Some of this income may be offset by a reduction in costs and from earmarked reserves.
Planning Fees	<p>The number of applications dipped in April and May compared to normal volumes. In addition, larger applications have become less frequent.</p> <p>Income is down by approximately £83,000 to-date. However, income can fluctuate during the year.</p> <p>In addition, there are earmarked reserves for Planning which have been accumulated in previous years from additional income, which has been set-aside in accordance with Regulations; these could be utilised to finance any deficit if required.</p>
Homelessness/Bed and Breakfast Costs	<p>Additional costs of temporary accommodation are being incurred. However, the Council has separate funding to meet these costs.</p> <p><i>This is subject to a separate report elsewhere on the Agenda.</i></p>
Personal Protective Equipment (PPE)	Additional costs of approximately £18,000 have been incurred to-date, including just under £6,000 in the Housing Revenue Account.
Other Income	To-date, income from Licensing and Land Charges is down by approximately £32,000 and from other Environmental Health

	<p>Services by approximately £10,000.</p> <p>However, additional income is likely to be generated from Recycling as a greater level of food waste and other materials are being presented at the kerbside, for which the Council receives income through “<i>Recycling Credits</i>”.</p>
Waste and Cleansing Services	<p>Additional costs of approximately £25,000 per month are being incurred to ensure working practices adhere to safe/social distancing guidelines.</p>

- 4.60 A full assessment is currently being made of the issues detailed in the above table, together with the impact on the Council’s Base Budget and Medium-Term Financial Plans (General Fund and HRA).
- 4.61 The loss of income and may be temporary and it is expected that it will start to pick up, depending clearly on the easing of the Government’s lockdown. An update will be reported to future Committees.
- 4.62 Although detailed figures are still being assessed at this stage, it is likely that the Council will have enough reserves to act as a buffer in the short-term. This can be supplemented from the general Government grant of approximately £1.1 million to support spending pressures, as detailed earlier in the report.
- 4.63 Based on the latest Medium-Term Financial Plan (MTFP) reported to the Committee in February 2020, the projected General Fund Reserve as at March 2025 was £2.8 million. After meeting further spending approvals and pending commitments, the Reserve is projected to reduce to approximately £2.2m, which is still above the approved minimum level of £1.5m.
- 4.64 The HRA’s General Reserve is forecast to go no lower than £2.9m over the life of the current HRA Financial Plan to 2030, which is above the minimum level of £1m.
- 4.65 In addition, both the General Fund and the HRA are expected to report positive out-turns for 2019/20.

Longer-term Implications

- 4.66 However, the longer-term effect on the Council’s financial position is still to emerge. It is considered that this will depend on two main factors:
- The longer-term effect of people’s ability to pay Council Tax and Business Rates beyond the initial lockdown period.
 - The knock-on effects on the national and local economies and how this may affect future funding settlements for local government.
- 4.67 The second factor is already a key financial risk to the Council, given the outstanding Fair Funding Review and future changes to the funding of local authorities from 2021.
- 4.68 It has recently been confirmed by the Government that the Fair Funding Review will be delayed by a further year to 2022. In the meantime, the Government intend to

consult with local authorities later in the year regarding the details of the Local Government Financial Settlement for 2021/22

Other Impacts

- 4.69 The potential buyer of the former Depot Site on Darklands Road has deferred the redevelopment of the site until later in the year. Therefore, the sale has also been deferred with a longstop date of 31 December 2020 having been agreed to complete the sale, after which the developer will be in default. The Council has secured a non-refundable deposit of £45,000.
- 4.70 Although the Council is not reliant on the capital receipt in its financial plans, it does potentially reduce the overall amount available in the future for new capital investment.
- 4.71 In addition, the Council agreed to suspend the annual repayment of a loan amounting to £2,500 from the Melbourne Sporting Partnership. The payment was due in April but was initially deferred to June 2020 and is now being reviewed.
- 4.72 The Loan is for £25,000 repayable in equal instalments of £2,500 per year over 10 years from 2017 to 2027.

Annual Accounts Timetable

- 4.73 Due to the Covid-19 crisis, the Government have approved Regulations to delay the publication of the 2019/20 Accounts. The draft accounts for Audit which are normally due by 31 May each year, have been deferred until 31 August 2020. The final published Accounts following Audit have been deferred until 30 November 2020.
- 4.74 As usual, the Budget Out-turn position will be reported to the Committee later in July. The draft Accounts, following Audit, are expected to be reported to the Committee at its meeting in November.

5.0 Financial Implications

- 5.1 As detailed in the report.

6.0 Corporate Implications

Employment Implications

- 6.1 None

Legal Implications

- 6.2 None

Corporate Plan Implications

- 6.3 None directly, although maintaining the financial sustainability of the Council, its residents, and the local economy, will enable the Corporate Plan (2020 to 2024) to be delivered in the long-term.

Risk Impact

- 6.4 Conversely, if the financial position of the Council is adversely affected in the long-term, this could affect the Council's ability to deliver some elements of its Corporate Plan. The position will be kept under review.

7.0 Community Impact

Consultation

- 7.1 None required.

Equality and Diversity Impact

- 7.2 None

Social Value Impact

- 7.3 None

Environmental Sustainability

- 7.4 None

8.0 Background Papers

- 8.1 None