

## REPORT TO THE EXECUTIVE



<b>DATE</b>	<b>7<sup>th</sup> July 2020</b>
<b>PORTFOLIO</b>	<b>Resources and Performance Management</b>
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## Covid-19 – Potential Financial Impact on the Revenue Budget 2020/21

## PURPOSE

1. To update the Executive on the potential financial impact on the 2020/21 revenue budget following the Coronavirus pandemic.

## RECOMMENDATION

2. The Executive is recommended to adopt the following resolution:

That Full Council be recommended to note:

1. that the current forecast financial impact of Covid-19 as shown is noted, and the financial impact is modelled and updated regularly to inform action plans to deal with the loss of income and increased expenditure.
2. that Officers continue to work on a number of options to mitigate the potential financial impact and bring forward options for decision as appropriate. A review of some service provision may be necessary if additional Central Government funding is not forthcoming.
3. that the Council, along with other District councils and industry groups continue to lobby Central Government for additional funding.

## REASONS FOR RECOMMENDATION

3. Due to the impact of the Coronavirus pandemic the Council is looking at a projected budget deficit of £3.4m over the current financial year due to increased expenditure and loss of income. This equates to 22% of the Councils current net budget. Currently any shortfall in funding will have to be met from reserves, however further significant government intervention will be required as the current level of reserves is not sufficient to fund the estimated deficit. Consideration has only been given to the short-term impact of the pandemic and there is a high probability that the impact

will be longer-term spanning future financial years, with increased costs and income losses. This may have an impact on future service delivery. An analysis of our MTFS will be carried out in September and an updated MTFS position will be forecast.

4. This is an additional interim report focusing on the high-level impact of the Coronavirus pandemic. The Revenue Budget Monitoring Report for Quarter 1 which is due to be presented to the Executive in August 2020 and Full Council in September 2020 will provide a more detailed financial picture.

<b>SUMMARY OF KEY POINTS</b>
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5. **Background**

At the end of March 2020, the government took the decision to close all schools, ban 'non-essential travel' and close 'non-essential' businesses to encourage social distancing and control the spread of Coronavirus. As a consequence, this has had serious financial implications for this authority (and local authorities nationally) due to increased cost pressures and also pressures due to a reduction in income. These reductions in income received and the additional costs pressures incurred by the Council will have an impact on the Council's cash flow.

6. The financial consequences of the Coronavirus pandemic are not limited only to local authorities but also extends to residents and businesses of the borough who also require financial assistance. This report addresses the current assistance provided to residents and businesses of the borough.

7. **Central Government Funding**

Over recent weeks the Government has announced a series of financial interventions to help support local authorities and their residents/businesses during the current Coronavirus pandemic. Of these financial interventions this Council has received a direct funding allocation of £1.042m out of a central government fund of £3.3bn. Of our £1.042m allocation, £6k is a ringfenced grant towards tackling homelessness and £79k is ringfenced as part of the 'Re-opening High Streets Safely' scheme. The balance (£957k) is un-ringfenced funding to assist with reductions in income received and additional cost pressures incurred by the Council. This allocation was received in two tranches, with £75k received in Tranche 1 and £882k in Tranche 2. In the lead up to the allocation of Tranche 2 monies there was significant lobbying from District councils about not only cost pressures but also pressure arising from great reductions in income. As a result, the grant will need to cover both. As a council and a sector, we are continuing to lobby central government for additional funding. A breakdown of this funding can be seen below:

<b>Funding</b>	<b>£m</b>
Share of £3.2m Homelessness Funding (ringfenced grant)	(0.006)

Tranche 1 - Share of £1.6bn allocated from £5bn Coronavirus Fund – Burnley allocation for homelessness	(0.075)
Tranche 2 - Share of additional £1.6bn funding announced on 18 <sup>th</sup> April 2020 – non-ringfenced grant	(0.882)
Share of £50m Re-opening High Streets Safely Fund (ringfenced grant)	(0.079)
<b>TOTAL</b>	<b>(1.042)</b>

8. Other support relates directly to business rates and council tax payers, and is passported directly to these recipients either in the form of a grant payment or applied directly to council tax or business rate bills. The Council cannot retain any of these monies. Details of this financial support can be seen below:

<b>Funding</b>	<b>£m</b>
Retail, Hospitality & Leisure Discount and Nursery Relief	(11.567)
Business Support Grants	(26.510)
Discretionary Business Support Grants	(1.215)
Share of £500m Hardship Fund (Council Tax)	(1.475)
<b>TOTAL</b>	<b>(40.767)</b>

9. For information, the Local Government Association (LGA) have given the following commentary on 29<sup>th</sup> May 2020, on the measures Government have taken to support Councils and concern over the position going forward:-

*“Our analysis of your latest monthly return to the Ministry of Housing, Communities & Local Government (MHCLG) show that the extra costs and losses of income incurred by local government, as a whole, over the past three months amounted to £3.2 billion, which, at a national level, has been met in full by the two tranches of vital emergency funding provided so far. This is positive and a testament to councils’ campaigning efforts – and to the Secretary of State, Robert Jenrick, for listening to us.*

*However, given that councils need to know they can balance their budgets this year if they are to avoid the need for in year savings and cuts to services, we are seeking an assurance that all additional costs and losses incurred as a direct result of COVID-19 will be funded by the Treasury. According to our analysis of the returns to MHCLG, councils could need as much as £6 billion more to cover the costs of coping with the pandemic during this financial year.”*

10. **Revenue Budget 2020/21**  
Based upon current estimates, the impact on this year’s budget and cashflow will be significant, especially with regards car parking income, rental income, treasury investment income and Council Tax/Business Rates income.
11. Table 1 shows a current forecast overspend of £3.4m for this financial year. This is after funding totalling £1.042m received from Government over four tranches as part of their efforts to support Local Authorities has been taken into consideration. A more detailed breakdown is included in Appendix 1, with commentary.

The money from Central Government is welcome, however, even with this funding the forecast overspend represents 22% of the Council's net budget for 2020/21. The Council would not have the financial resources to cover these losses if the impact of the virus was prolonged and sustained over the current financial year, and without further significant financial support the Council would not be able to meet this level of challenge. Due to the ever-changing environment the budget position is fluid and is being continually monitored and reviewed. More detailed forecasts will be provided throughout the year as part of the budget monitoring reporting cycles.

**Table 1 – Revenue Budget forecast 2020/21**

Forecast	Estimated Full Year Budgetary Impact 2020/21 £
Total Expenditure	941,046
Total Loss of Income	3,517,642
<b>Net impact on Revenue Budget</b>	<b>4,458,688</b>
<b>Total Government Support</b>	<b>(1,041,757)</b>
<b>Total Budgetary Impact</b>	<b>3,416,931</b>

12. The key areas of additional expenditure incurred to date include the purchase of laptops and licenses to facilitate homeworking, purchases of PPE, upgrades to the revenues & benefits system regarding council tax support, costs relating to the administration of the business support grant scheme, expenditure relating to burials and also costs involved in setting up Burnley Hub. This expenditure is being funded from current contingency budgets. Future forecast expenditure relates to providing financial support to Burnley Leisure (potentially £615k – see paragraph 21), increased public funeral costs and costs relating to council owned vacant properties. The aforementioned contingency budgets are not sufficient to fund future forecast expenditure. Some of this expenditure will be funded from Government funding received as well as using Council reserves.

Expenditure in relation to Homelessness (£81k) and 'Re-opening of the High Street Safely' (£79k) are both funded from Government Grants.

13. The Government has confirmed that New Burdens Funding will be received to cover the additional costs incurred in relation to administering the business grants scheme and also costs relating to changes to housing benefits, council tax and business rates as initiated by Government. It is currently not known what our allocation of this funding will be.
14. The key areas of income loss are projected to be Business Rates & Council Tax, and rental & licensing/events income. These are detailed above and assumes a net budget pressure for 2020/21 of £3.4m. The forecast assumes a continuous and sustained financial impact on the authority in the short term - through the current financial year (April 2020 to March 2021). However the Council does not have sufficient reserves to cover the £3.4m forecast deficit. It is also probable that there will be a long-term profound impact on future income and expenditure and service delivery.

15. Reductions in the collection of Council Tax and Business Rates represent the biggest risk to the authority. It was originally anticipated that there would be a significant reduction in the levels of collection, however following an analysis of payments received and reliefs awarded as at the end of May 2020 the forecast reduction has been reduced. Following this analysis in year collection rates of 97.5% for business rates and 94.5% for council tax have been revised down to 92.5% and 90% respectively. The Government announcement to award Retail, Hospitality & Leisure Discounts and Nursery Reliefs to qualifying businesses has reduced the amount of business rates to be collected (and in turn reduced the impact of non-collection), as these reliefs are fully funded by Central Government. There is still uncertainty around the future collection of council tax and business rates especially around the impact of the furlough scheme coming to an end or if there is a second wave of the pandemic. The collection of council tax and business rates will continue to be monitored on a monthly basis to ascertain the drop-off of direct debits and cash payments to forecast-forward the level of loss.
17. Accounting for the collection fund is highly complex. Any impact on this years collection will materialise in the next financial year. Additionally, any shortfall in collection will need to be funded in the current financial year. There is also the potential that the tax base may reduce in future years as a result of the pandemic, which will have an impact on future years medium term financial strategy.
17. There is also a significant uptake in Universal Credit, which in turn drives higher rates of Council Tax Support claims. New Universal Credit claims received in May 2020 saw an increase of over 20% compared to the average number of monthly claims received during 2019. However, due to the 5-week processing time of new Universal Credit claims by the DWP, this figure will likely increase. As a consequence, this is a key area that is being assessed and monitored. It is likely that the impact of this will grow as we move forward due to the longer-term financial implications that the pandemic may have on residents.
18. **Cashflow**  
The current situation will also impact on the Council's cashflow, with the current forecast showing a £9.0m reduction in cashflow, as can be seen in Table 2 below. This is largely due to the fact that Burnley Council is a billing authority and collects cash on behalf of County, Fire & Police, as well as for this Council. Although the Council only retains 15.3% of Council Tax, it benefits from the cashflow of collecting it all. However, it also carries the risk of non-collection of it all (i.e. 100%). Measures have been taken to strengthen the Council's liquidity, including recalling deposits, stopping prepayments and other measures. However, this is subject to the impact of collection of Council Tax and Business Rates, which could become worse than forecast. Additionally the Government has reprofiled the payments Councils have to make to them for their central share of business rates. This has helped with cashflow in the first quarter. It is currently forecast that the Council's cashflow will remain in surplus until February 2021, as is detailed in Appendix 2, but will be subject to other assumptions and actual collection rates. However it is hoped this is a 'worse-case' scenario and the cash position improves sufficiently throughout the year.

**Table 2 – Covid-19 Cashflow impact 2020/21**

	Estimated Full Year Cash Flow Impact 2020/21 £
<b>Additional Expenditure</b>	
Additional expenditure & borrowing costs	941,046
<b>Total Expenditure</b>	941,046
<b>Loss of Income</b>	
Rental income	710,440
Parking income	485,059
Council Tax	4,407,635
Business Rates	1,375,071
Court Fees - CT & NNDR	300,000
Green Spaces Events & Licensing Income	229,128
Treasury investment interest	135,000
Other	401,618
<b>Total Loss of Income</b>	8,043,952
<b>Total Cashflow Impact</b>	<b>8,984,998</b>

19. The Council's cashflow position is being closely monitored to ensure that the Council has sufficient cash flow to meet its ongoing commitments.

20. **Pension**

The Revenue Budget Report 20/21 presented in February 2020 outlined the proposal to prepay the 3-year pension deficit payment for the period 20/21 – 22/23 up front in the current financial year and the annual service contribution rate payment up-front each year, as it has done over the previous 3 years. In light of the current circumstances no prepayments have been made with both the annual deficit payment and in-year service contribution payment being made monthly. This is to help maintain sufficient levels of cashflow. A review of whether prepayments will be made in future years will be carried out later in this financial year. In view of the impact that the Coronavirus pandemic is having on the global economy we are expecting the pensions deficit valuation in three years' time to be adverse. This will have to be considered as a future financial pressure.

21. **Burnley Leisure Trust**

Burnley Leisure was formed in 2015 and is responsible for providing sporting and leisure services across the borough. Membership fees are a major source of income for Burnley Leisure however the current closure of its facilities means this income cannot be collected. Like many other leisure trusts across the country they are facing potentially significant financial challenges due the pandemic. The estimated in-year shortfall for Burnley Leisure is currently forecast £615k. This is a high-level forecast based upon the assumption that Burnley Leisure will not be operational for the full financial year and is therefore subject to change. Burnley Leisure is preparing a recovery plan to identify proposals to mitigate this potential loss of income and continue operations. However, to be clear, a financial contribution from the Council would only be made if Burnley Leisure were unable to enact an effective action plan to manage the financial impact of Covid-19 and any support would require approval from Members.

## 22. **Council Tax Hardship Fund**

As can be seen in paragraph 8, the Council has received a council tax hardship fund grant of £1.475m. This is to help fund vulnerable people and households within the borough. This is a ring-fenced grant with the expectation being that the majority of the hardship fund will be used to provide council tax relief, alongside existing local council tax support schemes. This financial assistance will be applied directly to council tax bills.

23. At present £957k of this grant allocation has been utilised to provide council tax relief. As mentioned in paragraph 16, the number of new Universal Credit claims has increased significantly, which in turn drives an increase in the number of council tax support claimants. As at 15<sup>th</sup> June 2020 the number of claimants in receipt of council tax support was 10,457 in comparison to 9,985 claimants at the same date the previous year. It is therefore anticipated that the full grant allocation will be utilised throughout the current financial year leaving no residual funding for a discretionary local hardship scheme.

## 24. **Business Support Grants**

As part of its measures to assist business during the period of closure, the Government announced a business support grant scheme which offered grants of £10,000 to businesses in receipt of small business rates relief. Business in receipt of retail, hospitality & leisure relief received grants of either £10,000 or £25,000 dependent upon their rateable value. In both these cases these reliefs had to be in effect as of 11<sup>th</sup> March 2020. Local Authorities are responsible for administering this grant scheme.

25. The current estimate of the number of eligible hereditaments in Burnley is 2,218, totalling £24.760m in eligible grant funding. This compares to £26.510m that has been allocated and paid to us.

26. As the Council does not hold all of the required information for the majority of the eligible businesses, we therefore had to approach businesses directly to enable us to make payment. To date (26/06/20) applications have been received from 1,922 eligible businesses, totalling £21.650m (87.4%), and we have made payments to 1,899 eligible businesses, totalling £21.420m (86.5%). This equates to 98.9% of payments made to eligible businesses where we have sufficient information to enable those payments to be made.

A summary can be seen in Table 3 below:

**Table 3 – Business Grants payments as at 26/06/2020**

Business Support Grant	RV	Scheme	Eligible Businesses		Applications Rec'd			Grants Paid		
			No.	£	No.	£	%	No.	£	%
Small Business Grants	1 - 15,000	Scheme 1	1,072	10,720,000	902	9,020,000	84.1%	895	8,950,000	83.5%
Retail, Hospitality & Leisure Grants	1 - 15,000	Scheme 2A	974	9,740,000	858	8,580,000	88.1%	842	8,420,000	86.4%
Retail, Hospitality & Leisure Grants	15,000 - 51,000	Scheme 2B	172	4,300,000	162	4,050,000	94.2%	162	4,050,000	94.2%
<b>Grand Total</b>			<b>2,218</b>	<b>24,760,000</b>	<b>1,922</b>	<b>21,650,000</b>	<b>87.4%</b>	<b>1,899</b>	<b>21,420,000</b>	<b>86.5%</b>

## 27. **Discretionary Business Support Grants**

The Government has recently extended the Business Support Grants Scheme to allow the award of discretionary business grants. Each authority will receive 5% of the business support grant allocation to fund these grant payments, which equates to £1.215m for this Authority. Further details are contained in a separate report.

28. **Treasury Management**

The Monetary Policy Committee's decision to cut the Bank of England base rate from 0.75% to 0.1% in March has had led to a reduction in interest earned on the Council's fixed deposit and notice accounts. This has been further compounded by the Council not engaging in any new fixed deposits in order to maintain adequate levels of cashflow.

29. The Council also has £2m invested in two property funds – Hermes and CCLA. These are long-term investments over a minimum period of 10 years with the aim being to provide both high levels of interest income over the life of the investments along with long-term capital appreciation. The Coronavirus pandemic is likely to impact on both interest income and the capital value of the funds. There is a risk that the funds asset values will fluctuate over the life of the investment which is why a long term approach has been taken with regards these investments. Further detail will be given in the Treasury Outturn Report.

30. **£50m Re-opening of High Streets Safely**

The Government has recently announced the '£50m Re-opening of High Street Safely' fund to support a range of measures on high streets and other retail areas, including information for businesses and customers, street markings and signage to allow the high street to re-open in a safe and welcoming manner once government guidelines allow. The fund is to help Council's deal with immediate pressures and measures currently in place to support social distancing within towns and cities. The Council's grant allocation is £79k.

31. **Reserves**

As previously mentioned, the current forecast budget gap is £3.4m based upon estimated increase in costs and loss of income. Without government intervention the Council is unable to fund this budget deficit from within its financial resources. Table 5 below shows the current estimated balance of the Council's reserves as at 31<sup>st</sup> March 2020 along with future commitments:

**Table 5 – Reserves position**

	<b>Strategic Earmarked Reserves</b>	<b>General Fund Reserve</b>	<b>Revenue Support Reserve</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 01/04/19</b>	3,537	1,379	304	5,220
<b>Approved use 2019/20 *</b>	687	0	100	787
<b>Estimated balance as at 31/03/20 *</b>	4,224	1,379	404	6,007
<b>Future commitments and risk</b>	(3,636)	0	(404)	(4,040)
<b>Estimated balance remaining</b>	<b>588</b>	<b>1,379</b>	<b>0</b>	<b>1,967</b>
<i>* This figure may change once 2019/20 carry forward requests have been approved.</i>				

32. The current forecast budget deficit, driven by the pressures from Covid-19, is estimated at £3.4m. As can be seen above, the availability of reserves after taking into account commitments, is insufficient to meet this demand. Further funding will be required from Central Government to bridge this gap.
33. Earmarked reserves are held for specific purposes either as a strategic reserve to give flexibility in the use of corporate resources or as specific ring-fenced reserves for operational needs. It is anticipated that a substantial part of the Council's strategic earmarked reserves will be at, or below, their recommended minimum level once future commitments and risks have been met. If the use of reserves is required to help bridge the forecast budget deficit, this will impact upon the Council's ability to meet future commitments and risks.
34. General Fund reserves are held to provide short term emergency funds for exceptional circumstances and to cover risks that could impact the Council as a going concern. The current level of the Council's General Reserve is set at £1.379m as outlined in the Council's 2021-25 Medium Term Financial Strategy. This is the level recommended by the Council's external auditors.
35. The Revenue Support Reserve is essential to provide resilience for the Council in light of reduced funding. This allows the authority adjust to meet the pressures of reductions in Government funding, as well as awaiting the outcome of central government's funding review, which will govern local government funding from 2022/23 onwards. There is currently a 10-year programme to build up the Revenue Support Reserve from the General Fund to ensure future financial resilience. However this programme will be seriously impacted by the short- and long-term financial pressures caused by the Coronavirus pandemic if government intervention is not received.

36. **Risks**

- a) Many assumptions have been made when assessing the budget implications, for example, level of cost increases/income reductions and the duration of time that these pressures will have an impact. At the present time there are many future unknowns which may impact upon the current forecast.
- b) Unless additional Government funding is received, based upon the current financial projections the Council will not be able to meet the current forecast overspend.
- c) The current financial projections are focused on the 2020/21 financial year only. There is a risk that there may be an impact on the 2021/22 financial year and beyond.
- d) At present it is forecast that the Council has sufficient cash flow up until February 2021 to meet its in-year commitments. If the current forecast significantly worsens then this will have an impact on the Council's ability to meet these commitments. It is hoped the cashflow position improves throughout year.

**FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

37. As shown in the body of the report and appendices.

**POLICY IMPLICATIONS**

38. None

**DETAILS OF CONSULTATION**

39. None

**BACKGROUND PAPERS**

40. None

**FURTHER INFORMATION**

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