Report of the Director of
Governance & Partnerships

Agenda Item No: 3
Meeting: 27th July 2020

NORTH LINCOLNSHIRE COUNCIL

CABINET

COVID-19 FINANCIAL IMPACT ASSESSMENT

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. The Covid-19 pandemic has required the Council to continue to adapt to meet the needs of people and place.

1.2. Actions taken at a national and local level impact on the Council's service delivery models.

1.3. This report considers the impact to date of Covid-19 on the Council's in-year and medium term financial plans.

2. BACKGROUND INFORMATION

2.1. On Wednesday 26th February 2020, the Council approved a Financial Strategy which set the framework for its revenue and capital investment plans in 2020/21 and over the medium term. The financial strategy is designed to support successful delivery of the Council Plan and the Local Plan, maximising outcomes for the people and place of North Lincolnshire.

2.2. The medium term financial plan represents an amalgamation of financial and non-financial assumptions which form the basis of how much resource the Council expects to have available to invest in its priorities and to ensure it continues to meet local need well.

Covid-19 Pandemic

2.3. Since the budget was set, the emergence of the Covid-19 pandemic has changed the way of life for the entire country, with the national focus on containing the virus and saving lives. Emergency national measures have been implemented including a lockdown leading to many businesses closing for a prolonged period. The measures have had implications for the economy, public borrowing which transcends to local areas. Therefore the Council needs to consider how COVID-19 has impacted on the financial plans.

2.4. Reflecting the unique nature of the pandemic, the Government have taken unprecedented steps to provide financial support to businesses and individuals through this period administered and supported by the Council. This includes granting full business rate relief to retail, leisure, and hospitality properties, providing grant funding to hundreds of thousands of businesses as well as other measures. North Lincolnshire businesses have received £18m extra business rate relief and have been awarded £32m in business grants.

2.5. Local Government have received additional grant funding in acknowledgement of the unprecedented financial pressures facing the sector. North Lincolnshire Council have received £11.2m from the £3.7bn national allocation. There have also been sector specific grants allocated, all of which are considered further in appendix 1.

2.6. The assumptions which supported the Council's medium term financial plans are continuously being re-assessed in light of the financial impact of the pandemic. A level of income was expected to be generated from council tax and business rates which reflected the local economy pre-Covid. Likewise the pandemic has enforced a change in service delivery models which presents a variation on cost expected because of various factors, such as: lost income, increased need and therefore demand.

2.7. The Council's activities and services are funded through nationally allocated grant funding and locally generated business rates and council tax. The national economic outlook that existed when the budget was set has changed significantly and requires the Council to re-assess its taxbase setting assumptions.

2.8. The Government and the independent Office for Budget Responsibility (OBR) are continuously assessing the state of the national economy to improve their understanding of the extent to which the economy has been affected by the pandemic. The extent of impact on the economy nationally and locally could mean that the Council might not be able to generate as much from the local taxbase as it had planned, and this in turn could mean that the Council has less resource to spend on its priorities beyond 2020/21. Likewise, national public finances may require significant change in policy in the medium term to ensure they are sustainable. Local and national factors will determine the amount of funding to fund Council services going forward.

2.9. The impact from Covid-19 has been more extensive on some services creating a sustainability and resilience risk for the council in the medium term. Council run services operating commercially have not benefited from the financial support mechanisms that would have been available to similar organisations run independently, therefore reliant on the emergency government grant. The experience of Covid-19 has demonstrated the benefits of increased economies of scale, where some service delivery resilience would be enhanced through spreading of fixed cost base and increase staff base. Looking ahead opportunities have emerged throughout this period in the response at a community level. It has been clear that communities are able to lead and deliver at a local level, with direct knowledge and understanding of community needs changing the role that the council would have traditionally had.

2.10. Officers have made use of scenario analysis to understand how funding levels might change with different assumptions to those that supported the medium term financial plan. However, it is too early in the financial year to draw meaningful conclusions. It is proposed that a fuller update be brought before Cabinet in September, which will incorporate:

- Data covering a longer period, allowing trends to be better supported and conclusions to be made with greater certainty
- Any new relevant Government policies that have been announced over the summer
- Economic updates that have been published and announced in the meantime by HM Treasury or the Office for Budget Responsibility
- Any other local intelligence that helps inform our understanding.

3. OPTIONS FOR CONSIDERATION

3.1. To receive an update on how Covid-19 is impacting the financial plans of the organisation.

4. ANALYSIS OF OPTIONS

4.1. The analysis is outlined in the background information in section 2 and in appendix 1.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1. The financial model under which Local Government operates means that risk management is fundamental to everything the Council does. The Council is constrained in its ability to significantly increase resources and is statutorily led on large areas of need led spending which can be volatile. Financial plans and the actions taken by the Council therefore must be adaptive to ensure the Council remains financially sustainable.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1. Not applicable.

9. RECOMMENDATIONS

9.1. To note how the Council's financial plans are being impacted by the Covid-19 pandemic, as set out in Appendix 1.

9.2. To require regular updates throughout the remainder of the financial year.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

Church Square House

High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Adam Hopley/Becky McIntyre
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Background Papers used in the preparation of this report
Financial Strategy, Budget 2020/21 and Medium Term Financial Plan 2020/23
Capital Investment Strategy and Revised Capital Programme 2019/23
Treasury Management Strategy 2020/21

Appendix 1

Budget Review 2020/21: COVID-19 Financial Impact Assessment

July 2020

North Lincolnshire Council

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Pre-COVID position

National Context

The Government presented the Budget 2020 on Wednesday 11th March 2020, with the key points as follows:

- Surplus expected in all future years
- Expenditure to peak at 40.8% of gross domestic product (GDP) in 2021/22
- Public sector net debt would increase over the period but as a % of GDP continue to fall
- Government prepared to tolerate increased borrowing due to low interest rates

Local Context

On Wednesday 26th February 2020, the Council approved a financial strategy, revenue and capital budget for 2020/21, and medium term financial plan 2020/23. Key points as follows:

- Net revenue expenditure set for 2020/21 as **£152.1m** rising to £157.4m by 2022/23
- Budget assumes a level of cost reductions and income increases over the three years of £7.2m
- Funding levels are based upon anticipated tax yield (council tax and business rates) and local government finance arrangements determined by the Chancellor of the Exchequer through the Spending Review and Local Government Finance Settlement
- New arrangements for funding formula and business rates retention to be introduced in 2021/22
- Tax yield assumptions shown opposite, which account for nearly 80% of the Council's net funding in 2020/21
- Capital Investment levels were also agreed based upon cost of capital, prudential borrowing requirements, level of capital receipts anticipated and availability of external grants and funding.
- The latest **capital programme for 2020/23** (adjusted for 2019/20 slippage) is set at **£95.1m**
- The financial strategy set a reserves policy, confirming an adequate level of reserves to ensure financial stability should the council experience any unplanned financial shocks.

	Council Tax	NNDR	Total
Funding Breakdown	(£000's)	(£000's)	(£000's)
Gross Income	115,363	97,705	213,068
Reliefs and discounts	(20,007)	(10,899)	(30,906)
Non-collection estimate	(1,795)	(1,221)	(3,016)
Collection Estimate	**93,562**	**85,585**	**179,146**
Council Share	**75,666**	**42,329**	**117,995**

National Context

Since the budget was set, the Covid-19 pandemic has emerged and has resulted in the national focus shifting to containing the spread of the virus. Emergency national measures were implemented from mid-March prioritising the public health of the nation, including imposing a strict lockdown and closing many businesses for a prolonged period. The measures have had implications for the economy, public borrowing and, by extension, the Council's financial plans.

Reflecting the unique nature of the pandemic, the Government have taken unprecedented steps to provide support to businesses and individuals through the pandemic, to enable the economy to return to pre-virus levels quickly. This includes job retention measures, grants and loans to businesses, additional welfare measures and additional public expenditure.

In the Summer Statement to Parliament which set out additional policy measures intended to help the economic recovery, it was confirmed by the Chancellor that there would be a Spending Review in Autumn, and that over the medium-term public finances must be put back on a sustainable footing.

The Summer Statement focussed on job creation to counter the prospect of increasing unemployment. This follows previous policy interventions designed to support individuals and businesses during the pandemic. New schemes are designed to increase employment opportunities subsidised by Government, particularly for those aged between 16-24. The Statement also included a significant temporary cut to stamp duty land tax and value added tax within hospitality and tourism.

At the start of the COVID-19 emergency, the Minister for Housing, Communities and Local Government confirmed that the reforms of Local Government Finance would be deferred from being implemented in 2021/22. This creates a level of uncertainty in addition to understanding the local impact of COVID on the council's finances. It is anticipated that the Autumn Spending Review will provide the clarity and certainty for local government funding.

Local Context

The council has administered government funding to support local business:

- Around 3,000 North Lincolnshire businesses have received more than £32m in small business, retail and discretionary grants, with most grants either £10k or £25k.
- Additionally, the policy to grant full business rate relief for retail, leisure and hospitality properties and nurseries reduces the business rate charge for around 850 North Lincolnshire businesses by more than £18m.
- The Care sector have received tranche 1 of the Infection Prevention and Control fund £1.3m supporting 60 care homes, 24 care agencies and over 150 personal assistants.

In order to keep people safe and well, the council has prioritised resources in response to additional responsibilities placed on local authorities as part of national and regional response:

- Shield Hub
- Discharge from hospital and Care Home Support
- Outbreak planning, management and control
- Increased mortuary capacity

And to keep staff safe and well - in advance of national lockdown requirements - the council had put in place increased hygiene measures, processes for increased use of PPE, accelerated IT solutions to enable higher volumes of remote working and supply of hardware and equipment.

Local Context (continued)

Impact on council services and functions – adhering to the national lockdown measures and the guidance that was issued meant that some council venues were closed to the public, including leisure centres, museums, visitor centres and attractions, in addition to the cancellation and suspension of marriage/wedding facilities. Many of these things generate an income to wards the cost of operating. Sales, Fees and Charges represent 18% of the Council's Net Operating budget for 2020/21, therefore current forecast identifies a loss of income for 2020/21 of £6.1m which is just under a quarter of the budget for fees and charges.

COVID-19 Response costs – unbudgeted costs have been incurred in administering government response locally on a huge scale, including Shield Hub, Supplier Relief, ensuring sufficient education places for key worker children and vulnerable children, changes to licensing, planning and public protection enforcement, housing provision for rough sleepers and homeless over and above the initial government fund, setting up virtual meeting systems and creating new systems and process to manage and pay business support grants to about 3,000 local businesses safely, securely and timely. And to ensure critical and essential services continued to operate, with additional safety measures – PPE, COVID secure buildings.
It is estimated that for 2020/21 the additional cost impact from COVID on the council is £12.8m.

The total financial impact equates to 12.5% of the Net Revenue Expenditure budget for 2020/21.

Some of this cost pressure can be offset by the emergency and response grants the government has made available in recognition of the contribution made by local government.

Local Context (continued)

In acknowledgement of the financial pressures facing Local Government and to enable the Council to carry out additional activities required by Government to support efforts to control the virus, additional grant funding has been provided as follows:

- £3.2bn Covid-19 grant funding (NLC £9.7m)
- £0.5bn further Covid-19 grant funding (NLC £1.5m)
- £0.5bn Covid-19 Hardship Fund (NLC £1.2m)
- £0.3bn Local Authority Test and Trace Support Grant (NLC £0.9m)

Plus, the development of a scheme to reimburse Councils for lost income from sales, fees and charges and allow council tax and business rates deficits to be spread over three years instead of one

The residual pressure on net budgets 2020/21 is estimated to be in the region of £3m, however this is constantly changing as we move through the phases from response to recover and will depend on the infection rate locally and whether further outbreaks occur.

There is likely to be a further pressure caused by the funding side of the equation – based upon the collection rates for council tax and business rates. It is vital that the Council continues to enhance its understanding of an uncertain position throughout the remainder of the year to best gauge the likely impact on funding in future years of the financial plan.

Council Tax – adjusted base position

Collection Fund: Taxbase and Revised Estimate	2020/21 CT Base £000	2020/21 Estimate £000	2020/21 Variance £000
Gross Properties on Rating List	115,363	115,129	(234)
Non-CTSS Discounts and Premiums:			
Single person discount	(9,171)	(9,014)	158
Exempt properties (e.g. students)	(1,728)	(2,119)	(390)
Status & Other	(197)	(247)	(51)
Disabled reduction	(169)	(170)	(0)
Empty Property Premium (100%)	148	131	(17)
	(11,118)	(11,418)	(300)
CTSS Discounts:			
Pensioner	(5,297)	(5,395)	(99)
Working Age	(3,592)	(4,330)	(738)
Covid-19 Grant (amount applied)	-	801	801
	(8,889)	(8,924)	(35)
Non-Collection Estimate (1.9%)	(1,795)	(1,795)	-
Collection Fund Income	**93,562**	**92,992**	**(570)**
NLC Share	**75,666**	**75,194**	**(472)**

Funding from council tax and business rates is fixed for 2020/21, any variance which emerges will result in a collection fund surplus or deficit which will be taken account of in the 2021/22 budget.

At this early stage, the position remains fairly like the budgeted expectation. The number of exemptions and discounts is naturally volatile and has increased since the budget was set. The value of council tax support discounts has increased, funded by the Government Covid-19 hardship fund. The gross liability is lower than budgeted but will continue to increase during the financial year as more property completions are reflected in the domestic rating list. Note the non-collection estimate remains the same assumed at budget because the table does not consider the Covid-19 impact.

If significant collection issues or increased reliefs exist in 2020/21 and perpetuate beyond 2020/21, there could be a double impact in 2021/22 in that expected future income from council tax would be reduced in addition to having to fund any residual deficit from 2020/21.

It's important to note that the Office for Budget Responsibility's fiscal sustainability report estimated a modest impact to business rates and council tax. Council tax is expected to fall by £0.7bn or 1.8% in 2020/21 (Budget 2020 £37.9bn) in their central scenario, reflecting the likely increase in the numbers eligible for reliefs. The ongoing impact is estimated to be minimal, although the Government estimates in the Autumn Statement could materially change from this estimate if there is sufficient evidence to do so.

Business Rates – adjusted base position

NATIONAL NON-DOMESTIC RATES	2020/21 Budget	2020/21 Estimate	2020/21 Difference
Rateable Value	195,802	201,616	5,815
Gross NNDR Income	97,705	100,549	2,844
Mandatory Relief's	(6,900)	(7,412)	(512)
Empty Property Relief	(2,931)	(3,611)	(680)
Retail and Discretionary Relief	(1,068)	(18,990)	(17,923)
Collectable Income	86,806	70,536	(16,270)
Contribution to Appeals Provision	(4,195)	(3,867)	328
Non-Collection Estimate	(1,221)	(1,257)	(36)
Cost of Collection Allowance	(239)	(239)	-
Removal of Non-Collection Fund Items	(4,894)	(7,407)	(2,513)
Non-Domestic Rating Collection Fund Income	**76,256**	**57,764**	**(18,491)**
Council Share of Collection Fund Income	37,365	28,304	(9,061)
Tariff (-) / Top-Up (+)	(3,747)	(3,747)	-
Section 31 Grants & Other Reliefs	4,114	13,127	9,013
Levy (-) / Safety Net (+)	(297)	(319)	(22)
100% retention items	4,894	7,407	2,513
Non-Domestic Rating Income	**42,329**	**44,772**	**2,443**

The business rates position has already changed significantly since the budget estimate was set. The Government announced major changes to business rate reliefs, exempting retail, leisure, hospitality, and nursery premises from paying business rates during 2020/21. This reduces the collectable income, with the Council compensated for its loss of income through extra section 31 grant.

The Council has already seen an increase in the value of empty property relief, which primarily reflects changes to two large non-domestic properties.

Lastly, the non-domestic rating list was recently amended to include a large development which is expected to be renewable with 100% local retention. The site is expected to generate £3m per annum for the Council. This was not reflected in the medium term financial plan due to uncertainty around timing and other factors. Overall, the picture based on current data is positive because of the new renewable development and provides the Council a buffer under the current regulations.

It's important to note that the Office for Budget Responsibility's fiscal sustainability report estimated a modest impact to business rates and council tax. Business rates is expected to be around £1bn less per annum removing the impact of the 2020/21 rates holiday for various sectors. This reflects lower CPI inflation and a modest assumed hit to the taxbase, consistent with the relatively small effect observed during the financial crisis. The ongoing impact is estimated to be minimal, although the Government estimates in the Autumn Statement could materially change from this estimate if there is sufficient evidence to do so.

COVID-19 IMPACT – Risk Factors

Council Tax

In the short-term, there are two areas which could materially change due to the potential impact of Covid-19:

- Number of claimants of council tax support, which reflects the local employment position. An increase in the number of claimants would reduce collectable income from council tax.
- The second area relates to situations where individuals are unable to pay their council tax liability.
- Both areas are closely tied to how the local economy is impacted by COVID-19 and recovers in the medium term.

Alternative modelling has been produced which considers what the financial impact could be if both factors worsen.

- If the caseload of council tax support claimants increases (10% pensioner, 20% working age), and 5% of net income is needed to be written off due to it not being collectable, there could be a collection fund deficit of £4.5m, of which the Council would bear £3.7m.

Beyond 2020/21, the taxbase was assumed to grow by 400 band D equivalents and the number of CTSS recipient was expected to naturally reduce by 50 band D equivalents per year. These assumptions are potentially at risk as per above. 100 band D equivalents are worth approximately £0.15m in council tax income.

Business Rates

In the short-term, the main factors most at risk of changing due to COVID-19 are:

- The value of empty property relief if there is an increase in the number of empty properties.
- Sustainability of businesses and increase in rates not collected.
- The disproportionate impact if industrial/manufacturing sector is impacted by COVID-19 as this sector represents the biggest proportion of the rateable value.

Alternative modelling has been produced which considers what the financial impact could be if these factors worsen.

- If the value of empty property relief increases to 10% of the gross liability, and 3.75% of the gross liability is written off or impaired, there would be a significant £8.6m collection fund deficit.
- North Lincolnshire's losses would be limited to approximately £1.6m due to the business rates sharing split between central and local government and the local benefit derived from the renewable development.

NNDR funding beyond 2020/21 assumed underlying rateable value increases to £200m by 2022/23 (2020/21 budget £195.8m), empty property relief of 3% of gross rates and 1.25% of rates uncollected. These assumptions will need revising as the year goes on.

COVID-19 IMPACT – Other Factors

Demand led activity costs

- We will need to understand how the impact of COVID-19 affects vulnerable people, children and families, people with disabilities, mental health and the demand for care, support and protection
- The potential affect of a second wave of COVID
- Any longer term impact of backlog in health services
- How children will settle back into school routines

Responding to and managing an Outbreak

- Scaling up resource to support and manage a local outbreak, including the cost of closing and re-opening buildings and services
- The ongoing cost of operating in the new normality with infection control measures and PPE

Commercial factors

- Uncertainty of re-opening of services such as Leisure and resumption of membership levels and customer volumes
- Resilience of the commercial property portfolio
- Construction costs of projects within the capital programme
- Market conditions affecting capital receipts
- Asset valuations

Investing in new ways of working

- A move to more digital solutions both internally in our systems and processes and externally with customers and residents
- Different transport requirements
- Enhanced environmental considerations

Local Impact – Cost Base

Through the first part of the year, the Council has attempted to make an assessment of the areas of income and expenditure which are most vulnerable as a consequence of the Covid-19 pandemic and the associated policy measures taken. As it is still early in the financial year, and considerable uncertainty still exists, the forecasts are made on the basis of the best assumptions at this point in time and are subject to change.

The major areas excluding those which have had specific grant funding provided by Government (page 7) are considered to be:

- Leisure and culture – it is estimated that the full closure of the Council's range of provided leisure service facilities will reduce income by approximately £4.2m. Much of the cost base has remained, with no income being received. And when they can re-open, the number of customers permitted at any one time will be less which could reduce the commercial viability with unchanged fixed costs.
- Adult social care – in order to support the effective running of the sector, providers have accessed grant funding ensuring people's needs continue to be met. Additionally, overtime and enhancements increase workforce related costs.
- Catering (including schools) – a commercial service which has not been able to function due to schools partial closures.
- Parking – there is an assumed loss of income due to the change in the way of life, including how people have accessed town centre's since March
- Looking after children – additional agency worker and staff numbers have been required to ensure the service can be delivered whilst complying with social distancing requirements.
- Planning and commercial income – these income streams are heavily linked to the economy and have reduced significantly are not expected to recover until later in the financial year.
- Running the business – elements of the cost base have needed to increase (e.g. IT equipment) to enable mass changes in working patterns.

In totality, early forecasts indicate specific Covid-19 cost and income pressures of £18.9m, of which service specific funding of £4.3m reduces this amount. The Council has been allocated £11.2m of general Covid-19 funding.

As noted on page 7, the Government are developing a scheme to reimburse Council's for an element of lost sales, fees and charges income. The new income loss scheme will involve a 5% deductible rate, whereby councils will absorb losses up to 5% of their planned sales, fees and charges income, with the government reimbursing them for 75p in every pound of relevant loss thereafter. It is hoped it could help resolve some of the income relates issues above.