

# Financial Impact of COVID-19 on West Suffolk Council

<b>Report No:</b>	<b>CAB/WS/20/043</b>	
<b>Report to and date:</b>	<b>Cabinet</b>	21 July 2020
<b>Cabinet Member:</b>	Councillor Sarah Broughton <b>Tel:</b> 07929 305787 <b>Email:</b> sarah.broughton@westsuffolk.gov.uk	
<b>Lead officer:</b>	Rachael Mann Assistant Director (Resources and Performance) <b>Tel:</b> 01638 719245 <b>Email:</b> rachael.mann@westsuffolk.gov.uk	

**Decisions Plan:** The decision made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.

**Wards impacted:** All wards

**Recommendations:** **It is recommended that the Cabinet:**

- 1. notes the financial impacts of COVID-19 on the council finances; and**
- 2. supports the next steps and principles for future planning at section 8**

## **1. Summary**

- 1.1 Since the outbreak of COVID-19 in the UK, a number of events have occurred which have had a significant impact on West Suffolk Council's financial position. Some of these have been restrictions imposed by Government that have affected West Suffolk Council's investments, assets and services; and others have been announcements of Government financial support. These are summarised in the timeline attached to this report at Appendix A.
- 1.2 The Council has played its part in responding to COVID-19, in supporting businesses and the most vulnerable in our communities as well as running essential services. This comes at an (covering the current financial year 2020/21) expected cost of £2.2 million. Equally the money expected to be generated by the Council in the current financial year, through income, is expected to reduce by £8 million. The money so far allocated by Government (£1.8 million) does not cover this gap which, with Government funding so far, is a total of £8.4 million, a loss of 15% of our gross budget for the current financial year 2020/21.
- 1.3 As discussed later in this report, Government funding through the Revenue Support Grant reduced to nil from April 2020 and Council Tax covers only a fifth of the cost of services. National policy has, for some time been that local authorities must fill the gap of reduced Government funding by income and local taxation.
- 1.4 The Council had agreed in February 2020 a budget to deliver its strategic framework and meet the national financial challenges. However, like all local government authorities, the impact of COVID-19 could not have been budgeted for. Which is why this paper is coming before councillors to signal that in-year budget changes will need to be made. In-year changes are necessary to be able to balance the budget, continue to deliver essential and priority services and meets the needs of our area, communities and businesses.
- 1.5 West Suffolk Council is considered to be in a good financial position following past prudent financial decisions and the creation of a single council. However, it does, join councils across the UK who are also in a similar position in calling for the need for fairer funding across our medium term to ensure the sustainability of essential service delivery. An important part of the measures will be continued lobbying of Government.
- 1.6 This report summarises the impact of COVID-19 on the Council's current and future financial position. It sets out the principles that should govern our financial planning and the approach needed to balance this year's budget.

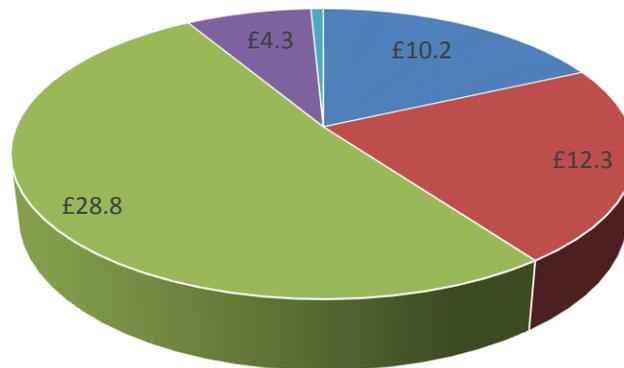
## **2. Overview: implications of COVID-19 for West Suffolk Council**

- 2.1 In recent years, a key theme of West Suffolk Council and its predecessors' Medium-Term Financial Strategies has been that of becoming more



financially self-sufficient and to address funding reductions as outlined in 1.3 above. This has been driven through both planned cost control and saving measures - most noticeably through the shared services and more recent creation of a single West Suffolk Council agenda. As well as elevating the role of Business Rates growth, this has seen a focus on bolstering the contribution made by investments and income-generating services to the overall financial position. Our £56 million gross budget for 2020/21 was planned to be funded as set out below:

**Total  
Revenue  
Income:  
£56 million**



- Council Taxpayers
- Business Rates & Government Grants
- Fees, Charges & Other Income
- Contributions & Reimbursements
- Interest & Investment Income

- 2.2 The way in which COVID-19 restrictions have and will continue to impact on the Council will therefore mean a reduction in the income from our investments and chargeable services. For example, we have seen immediate reductions in income from car parking, trade waste services, Apex tickets sales and the garden waste service.
- 2.3 In the medium term and depending on the response of the local economy to the current crisis, we would also expect to see reductions in income from our commercial property portfolio, Business Rates and Council Tax.
- 2.4 The impact of COVID-19 has meant we have had to re-prioritise what we have been doing in responding to the pandemic. The effects of COVID-19 have meant a loss in income of £8 million expected this year and we expect to spend £2.2 million, which was not budgeted, helping to protect the most vulnerable residents and supporting businesses.
- 2.5 While we welcomed the £3.2 billion financial support that the Government gave to local authorities (see details at Appendix A), with our share being £1.8 million; and the New Burdens Funding that has been promised (unquantified); this will not even cover the additional cost of our response to COVID-19 (estimated at £2.2 million) and will by no means address the more fundamental impacts on our budgetary position (in particular the significant reductions in income levels) when going forward and into the recovery phase.

- 2.6 On 2 July 2020, Government announced a further package of financial support for local government. Whilst we await the technical details and allocations, this financial support package at a high level includes:
- A further £500 million of funding to cover local authority spending pressures
  - A co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income
  - Phased repayment of Collection Fund deficits over the next three years
  - A commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review
- 2.7 At the point of writing this Cabinet paper, the details of the above funding package are not known and therefore we are unable to quantify the financial support to West Suffolk.
- 2.8 We will continue to push hard for further funding to be made available to support local authorities, with a particular focus being on any fairer funding settlement across the medium term for local authorities. We are not alone in this and all councils across the country are making similar arguments as are national bodies such as the Local Government Association (LGA) and the District Councils Network. The national picture as reported recently by the LGA is that the cost to local authorities is around £9 billion.
- 2.9 The following paragraphs set out in detail what the impacts have been on West Suffolk's budget in cost and income terms for this financial year (2020/21) and also outlines some principles that need to underpin future financial decision-making.

### **3. Additional £2.2m cost pressures – 2020/21**

- 3.1 The challenges presented by the COVID-19 outbreak have resulted in significant unplanned costs across the Council – estimated to be around £2.2 million for the year. The drivers for these increased costs being:
- Increased **homelessness provision** (one third of the additional costs to date) following the Government's requirements, which are beyond normal guidelines, for rough sleepers and those at risk of rough sleeping to self-isolate and the associated accommodation (through hotel rooms and food) and staff and security costs (within the hotels) to deliver such provision;
  - **Redeployment costs for staff\*** to priority areas of supporting vulnerable people including the 'Home Not Alone' initiative which has provided 7-day a week assistance and distributing grants and supporting businesses;
  - Increased support to our **leisure trust** to enable the Council buildings and equipment (including pools) to be maintained during the lock down period

- Increased **cleaning and material costs** (including at Council buildings);
- Increased **PPE** for front line who are required to work in the community, for example waste teams, cleansing staff, rough sleeper outreach workers;
- Increase in our **bad debt provision** to accommodate an anticipated increase in business failures and the recovery of services including rent from our property portfolio; and
- Extra **equipment needed to homework** – such as setting up of a virtual customer services service team working from homes which has proved vital in helping our communities.

\*Note: costs are likely to be afforded within the overall salary budget, given the majority of redeployed staff were from within the existing staffing establishment.

- 3.2 This amount will increase further if lockdown measures don't continue to ease over the next couple of months or if further waves of lockdown measures are brought into place.
- 3.3 The Council is honouring the contract/service payments under a number of significant contracts during this period, in some cases those services may not be received in full during the same period. This is in line with principles set out in the Government's procurement policy note. These have not been included as additional costs as they are already included within the budget but could technically be seen as COVID-19 costs given the pressure from Government through the procurement policy note to keep suppliers paid.

#### **4. Income £8m reductions – 2020/21**

- 4.1 With over 50% of our £56 million gross income budget now coming from sales, fees and charges, it was inevitable that the lockdown was going to have the biggest financial impact on our income streams. Although the Council has a range and reasonably diverse set of income streams (solar energy generation being one that has remained generally unaffected by COVID itself), the COVID-19 outbreak and lockdown measures imposed by Government doesn't discriminate, as with all councils, and has hit hard across most of our income generating services such as car parks and trade waste. We have seen a £4 million impact on our income budgets during the first quarter of 2020/21 and are estimating that the full year impact will be around £8 million.
- 4.2 As income generation is difficult to predict and in order to start to understand the budgetary impact, we have based some budget assumptions on a scenario which sees income streams start to recover as lockdown starts to relax, with no further lockdown in the first year. Nor have we factored in the impact of any local lockdown measures.
- 4.3 We have no idea if this will be the case, or that all services will be exposed in the same way to the lifting of lockdown, or if this will be linear. But even such a scenario would see the Council facing a £8 million income shortfall in

2020/21. To be clear this is the number used for the purposes of completing the Government's financial return and is considered a best-case scenario. If the recovery is not linear, and income levels don't recover as quickly as hoped due to a wider recession or changed habits, this situation will be far worse.

#### 4.4 The main reductions in income streams are:

- The suspension of the services such as the **markets and garden waste collection** to enable the redeployment of staff to deliver essential statutory waste services such as the **black and blue bins**;
- A significant **drop in the number of car parking events** in our town centres following the lockdown measures, the need to redeploy staff and the prolonged phased return of these events – income from this is essential to pay for their maintenance, business rates, CCTV and street cleaning which help keep our town centres attractive to visitors;
- The **closure of the Apex events** and cancellation and refunding of planned events;
- The significant reduction in **trade waste services** from the business community following lock down measures and the suspension of business by many of our customers over several weeks, some still so at the point of writing this report;
- A **reduction (approx. 10%) in planning applications** during April and May, compared to the previous year, due to market conditions linked to the lockdown measures; and
- The removal of the planned in-year benefit (through retaining of business rates) associated with being a member of the **Suffolk business rates pool**

## 5. Business Rates and Council Tax impact

- 5.1 Business Rates and Council Tax income expectations for 2020/21 are currently unchanged. This is due to the basis on which the budget is currently prepared with the Business Rate and Council Tax demand from the collection fund being guaranteed in-year and the provision of section 31 grants to cover business rate retail holidays and reductions announced by central Government.
- 5.2 However, there will be financial impacts on the 2021/22 Business Rates and Council Tax budgets due to a lower tax-base as a result of reduced in-year housing/business growth; an anticipated drop in collection rates through increases in bad debt provisions and write offs; and an increased call on the Local Council Tax Reduction Scheme and Hardship Fund driven through an increase in unemployment levels which falls as a cost to the precepting authorities including West Suffolk Council.

## 6. Capital Programme impacts – 2020/21

- 6.1 From a project perspective most of the capital construction sites are now re-opened with social distancing measures in place. The downtime during lockdown and whilst awaiting Government advice on the construction industry will impact on the project delivery timeframes. This will likely delay any income or efficiency savings that will be delivered on completion and increase current holding costs. However, the requirement for borrowing is also pushed back so there are accompanying savings in capital costs.
- 6.2 The following projects were due to complete in 2020/21:
- **Newmarket leisure centre.** Construction element to be completed on time. However, delays in fit-out element (timescale in the hand of supplier) and impact likely to be seen through renegotiation of management fee reduction plans with Abbeycroft.
  - **Mildenhall Hub.** Originally planned to be complete by January 2021, now delayed until spring 2021. Impact also likely to be seen through renegotiation of management fee reduction plans with Abbeycroft.
  - **Barley Homes.** Currently on site at Castle Hill income related to interest on loans so limited impact currently anticipated.
- 6.3 The Invest for Growth fund has a budget expectation to deliver an additional £150,000 in net income in 2020/21. The property market is obviously significantly impacted by the lockdown so while there is still the majority of the year left and for 2020/21 the budget was already on track to be delivered through loan facilities, there still remains a risk on the delivery of this additional return for future years.

## 7. Managing the financial challenges

- 7.1 Creating West Suffolk Council and the savings that has protected and achieved as well as prudent finance decisions has put us in a good financial position. The scale of this financial challenge is unprecedented and due to the effects of COVID-19 on our budget, we like most councils nationally will have to take the unusual step of taking new measures mid-year to protect essential services, delivering what our communities, businesses and economy need while balancing our budget.
- 7.2 Our priorities around families and communities and support of business and managed growth were essential pre-COVID to improve the health and well-being of our residents and our economy. They also stood us in good stead and in front of many local authorities in the swiftness and effectiveness of our response to the pandemic. These priorities still hold true going forward as part of the recovery phase.
- 7.3 We never wanted to be in this position but our strategic framework, vision and aims still hold true. But we have to face the financial situation and reality now so we can progress that in the future.
- 7.4 The £8.4 million (£2.2 million cost, £8 million income reduction less the grant received to date) impact this current financial year and represents a

15% funding challenge for West Suffolk Council. The largest in-year funding challenge known to this district council or its predecessors. The £1.5 million balance of the central government funding received covered under 15% of the total COVID-19 impact. [To be updated once details of the 2 July announcement are known]. This unprecedented event will therefore require the Council to not only utilise to its full extent its £4.9 million general fund reserve (contingency fund for unplanned events and budget risk) in-year, but with £3.8 million still left to cover, the Council will need to plan for in-year savings and potential use of earmarked reserve balances.

- 7.5 Given the scale of the challenge, Cabinet members have already started work with Officers on identifying in-year saving proposals, alongside capturing spending reductions for those services directly linked to income generating activities impacted by the pandemic, such as the Apex. The Performance and Audit Scrutiny Committee will receive a report at its 30 July 2020 committee meeting on the significant progress achieved to date in bringing the current financial years budget back in balance.
- 7.6 The impact of COVID-19 is likely to be felt for years to come as the Council will need to make provision in its medium term budget plans for the replenishment of its earmarked reserves (given they are earmarked for other purposes) and general fund balances (to manage/cover future budget risks).
- 7.7 We are joining forces with Suffolk and national local authorities to call for Government to fairly fund councils and recognise the role they have and continue to play. The recent announcement goes some way to support local authorities. However, it is not envisaged to cover the full impact of COVID-19. A fairer funding settlement that is improved from existing levels and sustainable over the medium term will help reduce the impact of any action needed by councils to balance their medium-term budgets. Any additional funding received from Government is proposed to be utilised to replenish our reserves and balances as soon as possible and to assist with any future impacts on the council finances linked to the pandemic.

## **8. Next steps and principles for future planning**

### **Continue to make our case to central Government**

- 8.1 We will continue to make the case to our local MPs, national bodies and Government to make sure that funding is given out in a fair way to support local authorities and to stress the financial resilience challenges of such significant costs and income reductions at a local level. This approach will not be limited to the funding but also measures like increasing freedoms and flexibilities (such as fee setting) and reducing the interest rate for borrowing which was increased recently for Public Works Loan Board borrowing.



## **Consider the importance of reinstatement of income-generating activity**

- 8.2 In light of the central role that income generation plays in the Council's budget, it will be important to plan for the reinstatement of services that have suffered the greatest impact from the COVID-19 restrictions.

## **Our response will continue to follow our agreed financial strategy and six key themes**

- 8.3 West Suffolk Council's response to the financial challenges and opportunities will continue to follow our six key themes. Our opportunities include capturing and building on the learning and innovative ways of delivering our services, experienced during this time.

These themes are considered to still represent an appropriate response to the ongoing financial situation:

1. Aligning resources to West Suffolk's strategic framework and essential services;
2. Sharing services and transformation of service delivery;
3. Behaving more commercially;
4. Considering new funding models;
5. Encouraging the use of digital forms for customer access; and
6. Taking advantage of new forms of local government finance.

## **Prioritisation of in-year costs reduction and saving plans**

- 8.4 In light of the financial impact anticipated in 2020/21, an in-year cost reduction and savings plan will need to be developed as a matter of urgency in line with our six financial themes, focus being on cost control and reduction to provide certainty and to minimise the further impact on the Council's reserves and balances. Significant work has already taken place on this element, with a report due to the Performance and Audit Scrutiny Committee (PASC) on 30 July 2020.

## **Development of a flexible and responsive recovery plan**

- 8.5 We will not understand the full impact of COVID-19 on the financial position of the Council for a long time and it is likely to come in phases. In particular it will be hard to estimate the impact on Business Rates and Council Tax. It is proposed that we manage the budget in-year for 2020/21 rather than adjust it, but then build some assumptions into the 2021/22 that we constantly review, in response to further data and intelligence
- 8.6 Revisions to our medium-term financial plan will need to take into account feedback/consultations from Government around the fairer funding and Business Rates retention scheme for local government from April 2021, alongside the need to replenish our general fund and balances across the medium term. This work will also provide the opportunity to test our West Suffolk medium term financial strategy approach in a post COVID-19 world.

## 9. Timescales and Next Steps

- 9.1 The following high-level timetable is proposed for delivery and agreement of a budget and medium-term plan for West Suffolk Council for 2020/21 onwards.

<b>Action</b>	<b>Timescales</b>
PASC report(s) – Quarter 1 Performance Monitoring Report including in -year cost reduction and saving proposals	30 July 2020
PASC report(s) – delivering a sustainable budget report	September 2020
PASC report(s) – delivering a sustainable budget update report	November 2020
PASC report(s) – delivering a sustainable budget update report	January 2021
Member Development Session(s) and briefing(s) – MTFS	January- February 2021
Cabinet – 2020-21 Budget and Council Tax setting report	February 2021
Council - 2020-21 Budget and Council Tax setting report	February 2021

