

## **REPORT FROM THE CHIEF FINANCIAL OFFICER ON THE FINANCIAL IMPLICATIONS OF CORONAVIRUS – COVID 19**

### **1. Recommendation**

- 1.1 That Cabinet note the financial implications as set out throughout the report and recommend to Council that;
  - 1.1.1 the budget for 2020/21 be updated to take into account the emergency funding received and the new expenditure pressures and income losses being sustained by the Council
  - 1.1.2 the Medium Term Financial Plan be updated to reflect the challenges to it's delivery that have arisen as a result of COVID-19

### **2. Purpose of the report**

- 2.1 The purpose of the report is to update Council members on the quantifiable financial effect that COVID-19 has had on the Council, including implications to the budget for 2019/20, 2020/21 and the Medium Term.
- 2.2 The report also gives an overview of the financial support made available to the Council from Central Government departments to date, recognising that the majority of assistance has been to cashflow as opposed to new grant funding.

### **3. Background**

- 3.1 The COVID-19 response measures introduced by the Government since the middle of March have had a significant implication to this Councils finances and has also required a necessary reprioritisation of service delivery.
- 3.2 The Council has had to adapt and respond to new government directives, new legislation and have had a key role in the financial administration of significant sums of money in order to support businesses within the New Forest.
- 3.3 The Council will rely on additional funding support being forthcoming from Central Government to assist in dealing with the new cost pressures and income losses it is currently experiencing as a result of COVID-19.
- 3.4 The report is broken up into manageable sections as follows;
  - Section 4; Impact to NFDC Budget
    - 2019/20
    - 2020/21
    - Medium Term Financial Plan

Section 5; Financial Assistance Received to Date

- Upfront COVID-19 Funding
- Hardship Fund
- Cashflow support
- Furlough

Section 6; Supporting Local Businesses

- Expanded Retail Discount Policy
- Small Business Rate Grant Fund
- Retail, Hospitality and Leisure Grant Fund
- Supplier Relief due to COVID-19

Section 7; Other Financial Matters Arising

#### 4. Impact to NFDC Budget

4.1 On the 24<sup>th</sup> Feb, Council set the NFDC budget for 2020/21. At that time, the scale of the COVID-19 pandemic and the impact it was due to have on the UK was unknown. The Budget included a £3 million General Fund reserve, and a £1 million HRA reserve.

4.2 The largest direct implication to the Councils budget has been a significant reduction in monthly income generation. Effected services and average monthly income losses include;

- Leisure centres; £600k pcm
- Golf Centre; £12k pcm
- Parking; £200k pcm
- Planning; £50k pcm
- Coastal Amenities; £32k pcm
- Waste Collection Services; £86k pcm
- Housing Voids Loss of Rent; £28k pcm
- Treasury Management Investments; £45k pcm

#### 4.3 Implication to 2019/20 Budget

4.3.1 Due to the pandemic hitting the UK slightly behind the rest of Europe, the timing of the key 'lockdown' announcement meant the implication to the 2019/20 financial year is comparatively minor, with Leisure Centres being the most significantly impacted. The loss in income from the date of closure (17<sup>th</sup> March) to the end of March is estimated at £116,000 (c1.7% of total HLC income for the year). The only other service income impacted of any note was parking whereby 'lockdown' restrictions meant pay and display income at the Council owned car parks was reduced to the tune of £30k during March.

4.3.2 The provisional outturn report that would ordinarily have been presented to Cabinet in April was pulled, and the budget outturn for 2019/20 will instead

be presented in July as part of the established overall performance management report for 2019/20.

#### 4.4 Implication to 2020/21 Budget

- 4.4.1 The on-going impact to 2020/21 is far more considerable with the Council currently missing out on around £1 million in income each month. There is an expectation and understanding within the sector that employees are all still recompensed at their full salary, regardless of whether they are currently working in their standard contracted role or not. There is very little by way of contra cost savings crystallising.
- 4.4.2 Homelessness costs have also increased as a result of the government directive to ensure that those who are homeless are taken off the streets and accommodated safely. The Council is currently utilising a local hotel to accommodate 16 homelessness people. The anticipated monthly gross cost is around £70,000, with some of this cost being recoverable through housing benefit subsidy.
- 4.4.3 Other one-off costs have also been incurred, or committed to, with the Council pledging support to Foodbanks and incurring costs in the establishment of the shielding hub (combined £25,000), and ensuring important information is shared across the district in formats other than electronic media (£10,000).
- 4.4.4 At the current run-rate, the £3 million General Fund reserve will be fully utilised by the end of June. At this point other Council reserves (Capital Programme Reserve) will be required to support the general fund to bridge the funding gap arising as a result of the loss in income and new expenditure pressures. At present, the government has supported local authorities with cash flow (more in section 5), but further clarification is awaited on what financial support will be forthcoming as opposed to authorities needing to utilise reserves to cover lost income and expenditure pressures indefinitely as opposed to temporarily.
- 4.4.5 Various verbal comments have been made by Government Ministers and Government Cabinet members on 'local government being looked after', but more recently comments have been amended to 'the sector must share the burden'. As of yet, the share of support funding to District Councils has been absolutely minimal and insufficient to meet new cost pressures, let alone beginning to offset the income losses that are being realised. There is more on this funding in section 5 of this report.
- 4.4.6 If it looks increasingly like reimbursement of income losses and expenditure pressures is not going to be forthcoming from the Treasury, the Council will need to begin to consider the prioritisation of service delivery, with statutory service delivery being prioritised over any non-essential spending on discretionary services. We're not at this point yet.

- 4.4.7 Take up of the Council Tax Reduction Scheme has also increased, with 220 new claims received in April 2019 compared to 411 in April so far this year (up 87%). This means less Council Tax collection, impacting NFDC, the Police and Fire Authorities as well as the County Council. An increase in Council Tax arrears is also fairly likely despite healthy collection being obtained in April. Council Tax collection rates were down by 3% in April, but the Council has been working with numerous taxpayers to accommodate revised payment profiling of Council tax so as to defer payments until June. Overall through, it is likely collection will be lower in 2020/21; an increase in bad debt provision based on 3% of Council Tax would cost the Council £360,000 for 2020/21.
- 4.4.8 The true effect on Business Rate retention won't be known for some time, but if the shrinking of the economy is anything as severe as has been forecast by the OBR (upto 35%) this will undoubtedly have an implication to the Councils share of retained business rates to 2020/21 and beyond and will require an increase to the Business Rates Bad Debt Provision. The Council budget for 2020/21 expected a retained business rate share above baseline of £3.3 million, reducing to £400,000 per annum thereafter (as expected from the reset to come as a result of the delayed Fair Funding Review). The implication to the Councils finances to 2020/21 could therefore be significant, with the impact to future years being much reduced due to the assumptions already made. This area will be closely monitored.
- 4.4.9 To date, HRA rent arrears have seen a very marginal increase. All non-essential activity has ceased, resulting in savings in materials and supplies more than offsetting the rent position.

#### 4.5 Implication to Medium Term Financial Plan

- 4.5.1 There were 2 areas of significance included in the MTFP as valuable sources of additional income and savings to assist in balancing the Council's budget over the medium term; both are impacted by the current COVID-19 situation;
- Commercial / Residential Property Investment  
It is too early to quantify what the impact of COVID-19 might be to the achievability of the new income streams assumed within the MTFP, but it is clear that the combination of reduced NFDC reserves and uncertainty in the economy will make new income generation in this area even more difficult to achieve. It is worth remembering however that the Council takes a long-term view on its property investments and additional opportunities may also present themselves, particularly in the commercial property market.
  
  - Leisure Delivery Review  
The Leisure market has been particularly impacted by the Social Distancing guidelines with many Leisure destinations being closed

since the 23<sup>rd</sup> March. Income losses across the sector are significant, with many operators providing services to Councils looking for their contracting Council's to step in and provide financial support to ensure operators are in a sound position to re-open and continue operations once allowed to do so. The NFDC review has been postponed until the end of June.

- 4.5.2 The Capital Programme as included within the MTFP will be largely unaffected in terms of content, although timing of delivery and the financing streams need revisiting. The Council may need increased reliance on external borrowing to support the delivery of the programme if Council reserves are required to support the General Fund revenue budget.

## **5. Financial Support Received to Date**

### **5.1 Upfront COVID-19 Funding**

- 5.1.1 On the 19<sup>th</sup> March, the government announced an emergency financial support package to the public sector worth £2.9 billion. £1.3 billion was directed to the NHS, and £1.6 billion to local authorities. Of the £1.6 billion, the vast majority was targeted at social care due to the need to free up hospital space.
- 5.1.2 On the 18<sup>th</sup> April, the government announced a second tranche of £1.6bn emergency un-ringfenced funding would be released to local authorities. At the time of writing, it hadn't been confirmed on what basis this funding would be distributed. As the initial tranche was social care orientated, there is an expectation (and certainly a hope) across District and Borough Councils that this second tranche would be more directed to the cost pressures faced by lower tier authorities.
- 5.1.3 NFDC's share of the initial funding tranche was £70,401. As described in paragraph 4.4.2 and 4.4.3, new ongoing and one-off expenditure pressures incurred or committed to means that this funding will have been utilised before the end of April.
- 5.1.4 On the 14<sup>th</sup> April, the Council submitted a data return devised by the MHCLG to capture the financial impact that COVID-19 has had on Local Authorities. The form focused on the allocation of the Emergency Funding, new expenditure pressures to date and forecast, income losses to date and forecast, and cash flow issues. It is likely that this form will be required monthly. The Council is keeping good records on new COVID-19 expenditures and is keeping track of income losses. The Treasury stance to date is that they are likely to require a detailed evidence-based system. They will however have to understand that providing emergency financial support for income losses is not the same as providing financial support for expenditure incurred.

## 5.2 Hardship Fund

- 5.2.1 In early April, the Council received £886,486 'Hardship' funding. This funding was designed to assist taxpayers who are suffering hardship due to COVID-19. The guidance attached to the funding was that an authority should offer a reduction of up to £150 to all Council Tax bills where the payee was working age and in receipt of Council Tax Reduction support. The Council promptly ensured that any taxpayer eligible for the £150 hardship funding did not have their Direct Debit collected in April. This £150 one-off reduction utilises around 40% of the hardship funding received.
- 5.2.2 The remaining hardship funding will be used to further support those having difficulty in paying their 2020/21 Council Tax as well as taxpayers who claim Council Tax support during 2020/21 and have an amount of council tax to pay. At the time of writing, the MHCLG are yet to issue their further detailed guidance on the application of their scheme and our software supplier, Northgate, has yet to provide the software to enable us to administer the funding. Once issued, we can then utilise the remaining funding targeting the households who need the greatest level of support. In the meantime, the Council's approved Council Tax Reduction Scheme and Exceptional Hardship scheme are still being used where applicable to offer financial support those in need.

## 5.3 Cashflow Support

- 5.3.1 The Council received £3.3 million on 1 April, representing the value of the original business rate discount scheme. Ordinarily, this discount would have been allowed for monthly and would have been netted off against the payments made by this Council to the Treasury under the 50% business rate retention scheme.
- 5.3.2 On 16<sup>th</sup> April, MHCLG announced that Councils will be allowed to defer the governments' Business Rate Retention payments in the first 3 months of the year. For NFDC, the payments were originally scheduled at £5.3 million per month.
- 5.3.3 On 3<sup>rd</sup> April, in recognition of lower collection rates being anticipated, the County Council made an offer to the 11 Hampshire District and Borough Councils to reduce the level of County Precept payments made by the 11 authorities to the County by 10% in April, May and June, with the payments to be made up by 31/03/21. All 11 authorities took the County up on their offer. For NFDC, the value of the reduction in payment to the County is worth £828,400 per month.
- 5.3.4 Whilst all the above is positive and has had the desired and necessary effect on protecting the Council's immediate cashflow requirements, it is all temporary and not 'new money' to NFDC, which is what the Council needs.

5.3.5 The Council will make precept payments to Town and Parish Councils as originally planned during 2020/21.

#### 5.4 Furlough

5.4.1 In April, at a (virtual) meeting of the Employee Side Liaison Panel, a decision was taken to Furlough the Leisure Staff not working. Leisure Staff were identified as a specific group of Council Employees applicable to Furlough as ordinarily their staffing costs are covered through the generation of Fees and Charges income, as opposed to being covered by 'Public Funding' (which is a condition whereby Furlough is not expected to be used).

5.4.2 If the Council receives re-imbusement of lost income (@ approx. £600k per month) through a Government grant, a furlough claim will not be made, if however income losses are not recovered, then the Council will look to make a furlough claim, which is worth c£220,000 per month. It is not a guarantee that the claim will be successful, but it was confirmed by the MHCLG that the scheme is open to Local Authorities in some circumstances, hence why the decision was taken to leave this option open to the Council.

### 6. **Supporting Businesses**

6.1 The Government introduced 3 key measures for supporting businesses in its economic response package;

1. Expanded Retail Discount Policy
2. The Small Business Grant Fund
3. Retail, Hospitality and Leisure Grant Fund

#### 6.2 Expanded Retail Discount Policy

The Government announced in the Budget on 29 October 2018 that it would provide a Business Rates Retail Discount of 33%, to apply in the years 2019/20 and 2020/21. This discount was subsequently increased to 50% and in response to the coronavirus pandemic, in the Budget on 11 March the Government announced that it would increase the discount to 100% regardless of rateable value and extend it to include the leisure and hospitality sectors. Following the announcement on 23 March 2020 of further measures to limit the spread of coronavirus, the Government confirmed that some of the exclusions for this relief have been removed, so that retail, leisure, and hospitality properties that will have had to close as a result of the restriction measures will now be eligible for the relief.

The value of the new expanded reliefs to small businesses and to retail, hospitality and leisure businesses within the District currently totals £25,217,903. The cost of these reliefs is funded by the government.

Updated bills were sent out by the Council to eligible businesses reflecting the new relief policy on 13 April.

### 6.3 Business Grant Funds

On 1<sup>st</sup> April 20, the Council received £57,850,000 from the Department for Business, Energy and Industrial Strategy (BEIS). This sum was devised by BEIS based on previous Business Rate data and was for redistribution to businesses in accordance with the grant schemes as detailed below. On 2<sup>nd</sup> April, a letter was sent by the Council to all businesses identified as eligible from within the Council's Business Rate system, and on the same day an E-form, developed by officers within the Tax & Benefits team, went live on the NFDC website enabling businesses to submit their necessary information back to the Council so validation of eligibility and then payments could commence. The Council also publicised the grants and form via E-news and social media.

#### **Small Business Grant Fund**

Under the Small Business Grant Fund (SBGF) all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system will be eligible for a payment of £10,000 in line with eligibility criteria. Those ineligible include beach huts, car parks and where property is for personal usage.

Within the District, nearly 2,700 eligible businesses were identified.

Within the first week of NFDC receiving the funds from BEIS, 1,634 forms had been received, and 1,560 payments made been made (95.5%) totalling £15.6 million.

#### **Retail, Hospitality and Leisure Grant Fund**

Under the Retail, Hospitality and Leisure Grant (RHLG), businesses in England that would have been in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) on 11 March with a rateable value of less than £51,000 are eligible for the following cash grants per property.

Eligible businesses in these sectors with a property that has a rateable value of up to and including £15,000 will receive a grant of £10,000

Eligible businesses in these sectors with a property that has a rateable value of over £15,000 and less than £51,000 will receive a grant of £25,000

Businesses with a rateable value of £51,000 or over are not eligible for this scheme. Businesses which are not ratepayers in the business rates system are not included in this scheme. State Aid rules apply to the grants.

Within the District, just over 1,100 eligible businesses were identified.



Within the first week of NFDC receiving the funds from BEIS, 553 forms had been received, and 433 payments made been made (78.3%) totalling £9.010 million.

#### 6.5 Supplier Relief due to COVID-19

In March, the Cabinet office issued a Procurement Policy note setting out guidance and information to Public Bodies on payment of suppliers to ensure service continuity during and after the current COVID-19, outbreak.

The Council has continued to pay all suppliers where payment is due in line with 'invoice due-dates'. To date, none of our contractors have come forward to the Council requesting financial support in the shape of forward payments. We suspect that this is a result of furlough being used in most in cases with employees and self-employed personnel receiving (or due to receive) 80% pay or profits for not working during the current situation.

### **7. Other Financial Matters Arising**

7.1 The required publication date for the preparation of the Draft set of Financial Statements and Annual Governance Statement has been deferred by three months (from end of May to end of August), with the External Audit opinion deferred by four months (from end of July to end of Nov). The NFDC Finance team will be working to a revised deadline of a one month extension (to end of June). The Audit Committee chairman is aware.

7.2 The scale of the financial implications as covered throughout this report is largely as a result of the Council having to react and respond to Government Directives. Where discretionary financial decisions have been made, they have been made in accordance with delegations and in correspondence with the relevant Portfolio Holder.

### **8. Crime & Disorder Implications**

8.1 None.

### **9. Portfolio Holder Comments**

9.1 I would like to open my portfolio holder comments by expressing my thanks to and pride in everyone who works at New Forest District Council for the exceptional way in which they have responded in this time of crisis; there are too many to list individually but be assured that your actions have been noticed and we are all truly grateful.

The report sets out the significant impact that COVID-19 has had on this Council's budget for 2020/21 and Medium Term Financial Plan, however it also demonstrates the robust financial position held by this Council as we went into this unprecedented event and the steps that we have taken to address the situation. Cash flow does not at this time present a problem for this Council and our ability to access our reserves ensures that we remain in a secure financial position.

Until such time as Government set out their recovery strategy and ensuing support we cannot accurately assess the long term impact that these events will have on this Council although we continue to revise our financial model as events unfold. What we can be certain of is that we will work to prioritise and deliver our statutory functions, for the best solution possible for our community and continue to support the most vulnerable within our society.

**Further Information**

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**Background Papers**

Published Documents