

Subject: COVID-19 – Financial Position Statement
Date of Meeting: 27 May 2020
Report of: Acting Chief Finance Officer
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Ward(s) affected: All

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that information was awaited to provide the most up to date financial position.

1 PURPOSE OF REPORT AND POLICY CONTEXT

1.1 This report provides an interim Financial Position Statement to the Committee for information and noting. It follows updates provided to the committee on 19 March and 30 April 2020.

2 RECOMMENDATIONS:

It is recommended that the Policy & Resources Committee:

2.1 Notes the contents of the report.

3 CONTEXT/ BACKGROUND INFORMATION

3.1 The report to 30 April Policy & Resources Committee outlined the package of support currently announced by the government to support local authorities in meeting emergency response costs. There have been no further changes in direct funding support which is as follows:

- Emergency Response Funding: Two tranches totalling £16.205m (share of £3.2bn nationally).
- Hardship Fund: £2.330m (share of £0.5bn nationally).
- There is also £0.066m that can be claimed in respect of Rough Sleeper additional costs (share of £3.2m nationally).

3.2 As set out in detail in the previous update, the council's primary income and funding sources in 2020/21 for the majority of council services (excluding Schools, Housing Benefits and Council Housing) are as follows:

- Council Tax: £150m
- Fees & Charges for services: £110m
- Business Rates (locally retained share): £59m

- Government grant funding: £35m
- 3.3 With the exception of government grant funding, all of these income and taxation sources are now very uncertain. This is because taxation revenues are likely to be affected as a result of both individuals and businesses falling into hardship, therefore resulting in reduced Council Tax income through increased Council Tax Reduction applications, and reduced Business Rate revenues through insolvencies or closures. Fees & Charges are expected to be severely depressed by the economic situation, particularly the downturn in the important visitor economy, which underpins significant incomes such as parking, museums and the Brighton Centre, and other incomes linked to economic activity (e.g. planning fees).
- 3.4 The Ministry of Housing, Communities & Local Government (MHCLG) recently collected financial data from local authorities on 15 April to begin to understand the costs and income pressures facing local authorities. A second collection of this data was submitted on 15 May and provided further information which is being collated both by MHCLG and the Local Government Association (LGA).
- 3.5 Based on current experience (i.e. April and May) and projecting this through to June, the financial impact on the authority is predicted in the table below. The table also provides an estimate of the impact for the whole of 2020/21 as required by the MHCLG return, however, this must be regarded with some caution as noted below.

Cost or Income Loss	<i>Current Monthly Impact (Average)</i>	Projected Impact to end of June (April to June)	Projected Impact for whole of 2020/21
Emergency Response costs	£3.3m	£9.9m	£28.0m
Taxation Revenues	£2.2m	£6.8m	£10.1m
Fees & Charges	£4.9m	£14.7m	£29.7m
Totals	£10.4m	£31.4m	£67.8m
COVID-19 Government Funding		(£16.2m)	(£16.2m)
Potential Shortfall		£15.2m	£51.6m

- 3.6 The table shows that costs and losses to the end of June are expected to be circa £31.4m compared with government funding support of £16.2m. This does not include additional Council Tax Reduction costs, including the £150.00 additional discount, which are funded by the separate government Hardship Fund of £2.3m.
- 3.7 Estimating costs and losses for the whole of 2020/21 is very difficult. There are a range of factors that need to be considered including:
- Potential further government funding support for local authorities;
 - Potential further funding for Adult Social Care hospital discharges via the Clinical Commissioning Group (i.e. further NHS funding);
 - The time lines for easing distancing and the continuing impact of measures taken on businesses, visitor attractions, events and other activities;

- The general economic impact and how this translates into the impact on individuals and businesses over time and the resulting impact on taxation revenues;
 - Potential cost savings for the council through furlough and across other budget headings such as supplies and services.
- 3.8 The projections take a balanced view and assume significant easing of lockdown from August onward in line with MHCLG guidance and OBR (Office of Budget Responsibility) forecasting. However, increased Adult Social Care costs, due to increased provider costs and the ongoing PPE requirements, together with the impact on taxation losses, are expected to continue throughout most of 2020/21. This would suggest a potential in-year budget gap of over £50m which is clearly a serious and unprecedented financial situation for the authority.
- 3.9 Managing an in-year budget gap of this magnitude would be highly likely to require the use of the one-off Working Balance and other earmarked reserves if no further government funding is forthcoming. This is now a common picture presented by the majority of local authorities. It must be noted that using the Working Balance or earmarked reserves is only a short-term solution as these must normally be replenished in future years, thereby adding to savings requirements (budget gaps) in future years.

Business Rates Expanded Reliefs

- 3.10 On 11 March, the Budget announcement identified that businesses in the retail, hospitality and leisure sectors, with a rateable value of less than £51,000, would pay no business rates for the whole of 2020/21. On 17 March, the government announced it would go further by removing the £51,000 rateable value threshold. This relief was further widened to include estate and letting agents, and bingo halls. This additional relief was applied to ratepayer's accounts on 15 April and currently benefits 2,889 business properties at a value of £62.455m.
- 3.11 On the 18 March the chancellor announced that nurseries would be eligible for a business rates holiday for 2020/21. There are 48 eligible business premises receiving a total relief of £0.808m. This will also be funded by Section 31 grant.

COVID-19 Business Rate Reliefs and Discounts	No. Businesses	Value £m
Existing Retail Discount increased to 100%	1,650	7.415
Extended retail Relief (no previous entitlement)	1,239	55.040
Nurseries business rates holiday	48	0.808
Total	2,937	63.263

- 3.12 The council is entitled to 49% of the total cost to replace the lost revenue from awarding the expanded reliefs and discounts and is funded by government Section 31 grants.

Business Grants Processing

- 3.13 The Government announced there would be support for small businesses and businesses in the retail, hospitality and leisure sectors in the form of two grant funding schemes, the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLG). Detailed guidance issued on 24

March sets out the eligibility criteria that billing authorities must use to pay grants to eligible businesses and the expectation that these will be paid as soon as possible in early April. The government has provided the funding in advance of the grants being awarded and £82.884m was received on the 1 April 2020 based on the government’s high-level estimate. Local eligibility is estimated to be considerably lower than this as detailed in the table below.

- 3.14 The initial estimate of eligible businesses for each of the 3 categories of Business Grant is as follows and is subject to change as eligibility is checked and verified. The table also shows the number and value of eligible grants processed and paid to date:

TABLE TO BE UPDATED PRIOR TO RELEASE

COVID-19 BUSINESS GRANTS – ESTIMATED ELIGIBILITY AND AMOUNTS PAID								
	Small Business Grant Fund (SBGF)		Retail, Hospitality and Leisure Grant (RHLG)		Retail, Hospitality and Leisure Grant (RHLG)		TOTALS	
Category	(£10k per business)		(£10k per hereditament)		(£25k per hereditament)		Number	Value
Eligible Number/Value	3,726	£37.260m	598	£5.980m	1,212	£30.300m	5,536	£73.540m
Paid Number/Value	2,722	£27.220m	465	£4.650m	1,085	£27.125m	4,272	£58.995m

Note that there are currently estimated to be approximately 800 eligible businesses that have not yet claimed their business grant following invitation by letter and email.

Other COVID-19 Government Support

- 3.15 Since the last update, there have been a number of additional announcements of government support that can impact directly or indirectly on the council but are primarily aimed at supporting business. These include:

- Announcement of a Discretionary Fund based on 5% of the projected spend on the original scheme. For Brighton & Hove City Council this is expected to be circa £3.7m. The funding for this is to come from the under-utilised element of the original scheme.
- Extension of the Furlough Job Retention Scheme to September with a maximum salary claim of £7,500 over the period July to September. The council continues to explore the possibility of furloughing staff unable to work in service areas primarily funded by income from fees & charges.
- Additional funding of £600 million, nationally, for Care Homes has been announced. This funding will be distributed via local authorities. The council’s confirmed share is £2.745m. Government guidelines require 75% of the initial funding received to be passed to care homes with the remaining 25% to be used to fund infection control measures based on need. To avoid ‘double funding’, consideration needs to be given to how this funding will interact with current Adult Social Care supplier relief proposals and the procurement of PPE, currently undertaken by the council on behalf of care homes in the city.

Cashflow

- 3.16 On 16 April the government announced it will defer Business Rates payments to government and make early payments of certain social care grants to local authorities. Section 31 grants to cover the loss of retail relief will also commence in May. The impact of these measures will be to improve cashflow by approximately £20m over the next 5 months which will help offset the reduced cashflow arising from income losses. With these revised government measures in place, the council should avoid the need to borrow to support cashflow until the end of August at the earliest.

4 MONITORING THE FINANCIAL POSITION

- 4.1 The government (MHCLG) have already set up 3 different monitoring processes via their DELTA on-line portal. These capture Business Rate Reliefs, Business Grants and general financial implications. The information to be captured by the latter is collected monthly and the first submission was provided on 15 April 2020. The latest submission was provided on 15 May 2020. It captures all spend against the emergency funds, estimated losses of income and taxation, expected cash flow requirements and provides 'free text' fields for local authorities to raise other matters if required. A concerning development in the latest return relates to questions regarding the level of reserves that authorities hold. This would appear to fundamentally misunderstand why local authorities hold reserves and may also indicate that government is looking to alternatives to providing further funding.
- 4.2 Locally, financial updates will be provided to either the cross-party Leaders' Group and to Policy & Resources Committees subject to the scheduling of meetings. From July onward, these updates will be incorporated in the council's standard Targeted Budget Management (TBM) information reports, with COVID-19 information being separately identifiable within the reports.

5 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 5.1 In the current crisis the council's response must be largely driven by government instruction and guidance. However, this does not always come with clear instructions and the financial mechanisms and funding are not certain for all aspects of the emergency response. The council must therefore balance longer term financial impacts and uncertainty with providing support to individuals and businesses to help them through the crisis and must also consider the long term implications for the sustainability and recovery of the city as an economy, visitor destination and place of residence.

6 COMMUNITY ENGAGEMENT & CONSULTATION

- 6.1 No specific consultation has been undertaken in relation to this report, however, the council is working closely with all public sector partners in the city to ensure co-ordinated responses and action where appropriate.

7 CONCLUSION

- 7.1 The report indicates the progress in distributing or utilising government emergency response funding and support to businesses to date. The report also highlights the challenging balancing act for the council in determining the financial support to provide now versus the current and longer term financial impacts of the pandemic on the council and the city.

8 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 8.1 The financial implications are set out in the body of the report. The key point to note is that it is not possible quantify all of the costs, losses and exceptional expenses that the authority will experience during this immediate crisis and throughout 2020/21. It is therefore not currently possible to say whether or not the government emergency funding streams, including any future announcements, will be sufficient to defray these financial impacts. Should these funds be insufficient, members are advised that the council will need to call on its working balance and other earmarked reserves. Note, the council does not hold 'unallocated' reserves or 'financial smoothing reserves' held by some authorities
- 8.2 The situation is being kept under constant review and it is expected that a full report on the implications for the 2020/21 budget, and beyond, will be brought to the July Policy & Resources Committee. However, this is dependent on further government funding announcements and guidelines, and the level of clarity surrounding the relaxation of lockdown measures.

Finance Officer Consulted: James Hengeveld

Date: 18/05/20

Legal Implications:

- 8.3 There are no legal implications arising from the recommendations in this report, which is for information and noting. Decision making in relation to expenditure continues to be required to be undertaken in accordance with the delegations set out in the Council's constitution.

Lawyer Consulted: Abraham Ghebre-Ghiorghis

Date: 18/05/20

Equalities Implications:

- 8.4 There are no direct equalities implications arising from this report. The COVID-19 outbreak affects all areas of society. Government are making specific provisions to 'shield' those expected to be most affected. The council will monitor impacts on protected characteristic equality groups as the crisis develops and ensure evidence is fed into the relevant emergency response 'cells'.

Sustainability Implications:

- 8.5 The impact on sustainability is not quantifiable at this stage.

SUPPORTING DOCUMENTATION

Appendices:

None

Background Documents

None