



CABINET

Tuesday 7 July 2020

COVID-19 – FINANCIAL IMPLICATIONS

EXECUTIVE SUMMARY

1. This report provides an overview of the current position regarding the financial implications for the Council of the Covid-19 pandemic. The report focusses primarily on the estimated direct financial impact of the pandemic on the Council, but also briefly covers areas such as the various relief measures introduced by the Government to support businesses and households which are being administered by the Council.
2. The Council and ARP have been implementing and administering a number of support schemes aimed at businesses and households, including expanded business rate reliefs, business grants, and the Council Tax Hardship Fund. These schemes have required considerable resource effort in their implementation and administration, including establishing new systems and processes and dealing with large numbers of applications and queries. They have also resulted in the Council managing cashflows massively in excess of anything previously handled.
3. In addition to these support measures, the Government has provided direct support to the Council in excess of £2.6m, primarily for Covid-19 Emergency Response, and in respect of the merging financial pressures on local authorities. The Council and other authorities are submitting monthly reports to the Ministry of Housing, Communities and Local Government (MHCLG) regarding the impact of the pandemic on local authority finances. It is not known at this stage whether any further funding will be available (other than New Burdens funding for administering the Government schemes), and whether any funding will be available in respect of 2021/22 impacts or the medium term.
4. After taking Government funding into account, the current estimated net impacts on the Council's General Fund over the Medium Term Financial Strategy (MTFS) period are as shown below. These impacts are dependent on the scale and duration of the economic recession, and the speed and nature of economic recovery. These impacts are shown in addition to the budget gaps currently forecast in the MTFS to give an indication of the overall gaps facing the Council.

MTFS Forecast - East Suffolk	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Gap February 2020	0	5,350	6,163	6,676	6,676
Deferral of changes to the Business Rates system until 2022/23	0	(4,884)	0	0	0
Covid-19 forecast cost and income pressures (net of emergency funding received) Appendix A	8,629	3,250	1,152	652	152
Forecast Budget Gap (23rd June 2020)	8,629	3,716	7,315	7,328	6,828

5. These estimates do not take into account any impacts on business rates at this stage, other than potential non-realisation of the Pooling Benefit from the Suffolk Business Rates Pool, and the deferral of changes to the business rates system until 2022/23. There is no assumption of any further changes to the funding regime for local government, or any further support or measures from central Government. In very broad terms, the financial impacts estimated in the current year primarily concern the Council's own income sources, especially car parking and planning, whereas next year's estimated impacts primarily concern council tax as a key external income stream.
6. There will inevitably be an impact on Council Tax income arising primarily from an increase in the number of Local Council Tax Reduction Scheme (LCTRS) claims, and also from a probable reduction in property growth in the council tax base. Current forecasts are for reductions to the Council's share of council tax income of around £0.7m in 2020/21 and around £1.1m in 2021/22, both of which will impact on budget setting for 2021/22. The actual amount of this impact will be dependent on the severity of the recession and the timing and nature of economic recovery.
7. The position on Business Rates is also very uncertain and will also be dependent on recession and recovery impacts, together with Government policy. Through its various relief measures, the Government has effectively become the ratepayer for a large proportion of the district's business rates base for 2020/21. The continuation of these reliefs and the continued operation of the businesses that these relate to in 2021/22 will be key to sustaining income to authorities through the business rates system. The implementation of reforms to the local government finance system that it assumed would remove the favourable position that the Council currently have now, have been deferred until 2022/23 at the earliest and the planned national business rates revaluation exercise has also been postponed. The worst case scenario of the Council's business rates position reverting to a baseline position has now been shown from 2022/23 onwards.
8. Even with financial impacts of the magnitude outlined in this report, the Council is in a position where its current level of Reserves and Balances, especially the availability of the Business Rates Equalisation Reserve which has been built up over the years should enable it to largely absorb this shock to its income streams. However, a prolonged and sustained recession, combined with the need to close the already forecast budget gap could put pressure on other earmarked reserves and Council projects and services. There is a need for the Council to work up a savings plan to deliver a sustainable financial position and replenish reserves enabling key recovery projects to be undertaken.
9. There are already implications for the Council's Capital Programme arising from the Covid-19 pandemic, primarily the need for work to be suspended on a number of projects, but the

Council has been able to start some projects earlier due to lockdown restrictions. Whilst there has been a slow down on capital expenditure spend, the disruption potentially mean that these projects will ultimately be more expensive when restarted. Given the Council's forecast financial position, the economic climate, and the possible need to review priorities in the light of the pandemic, the Capital Programme will need to be reviewed over the coming months.

10. To an extent, the Housing Revenue Account (HRA) is less exposed to the financial impacts of the pandemic than the General Fund. Although rent income will undoubtedly be affected through the increased levels of arrears, this is because the housing benefit costs of rent rebates will be funded through housing benefit subsidy.
11. Overall, the Covid-19 pandemic and the associated recession represent an unprecedented challenge to local authorities. Early indications are that the Council can, through its reserves and balances position, withstand these impacts, but there is obviously an extremely high level of uncertainty about the economic outlook, the local finance environment and ongoing Government policy. Ongoing review, monitoring, and forecasting for all aspects of the Council's financial position will be critical over the course of this year to enable it to respond to this rapidly changing situation and balance the budget over time.

Is the report Open or Exempt?	Open
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Wards Affected:	All wards in East Suffolk
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Cabinet Member:	Councillor Steve Gallant Leader of the Council Councillor Maurice Cook Cabinet Member with responsibility for Resources
Supporting Officer:	Simon Taylor Chief Finance Officer and Section 151 Officer 01394 444570 simon.taylor@eastsuffolk.gov.uk Lorraine Rogers Finance Manager and Deputy Section 151 Officer 01502 523667 lorraine.rogers@eastsuffolk.gov.uk Brian Mew Finance Consultant 01394 444571 Brian.Mew@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Covid-19 pandemic has entailed unprecedented Government actions regarding both the lockdown measures to contain the virus, and in support to businesses and individuals. At the same time, the effective shutdown of large areas of the economy is estimated at the time of writing to result in the most severe recession for centuries. This report seeks to provide an overview of the impact of this situation on the Council, primarily with a focus on the direct financial implications, but also with an outline of the various support measures for businesses and households which are being administered by the Council. These are also important in providing context for the Council's medium-term financial position, in particular the outlook for the Council's key external funding streams.

2 GOVERNMENT SUPPORT TO BUSINESSES AND HOUSEHOLDS

2.1 Regarding Government financial support to businesses and households during the current phase of the pandemic, local authorities have been responsible for administering three main areas of relief measures:

- Business Rate Reliefs
- Business Grants
- Council Tax Hardship Fund

2.2 Business Rates Reliefs

Business Rate Relief measures have focussed on those sectors of the economy most impacted by the lockdown – small businesses, and the Retail, Hospitality, and Leisure (RHL) sectors. These measures and their funding are briefly referred to below.

2.3 Business Rates Reliefs – Retail, Hospitality, and Leisure (RHL)

The key measure has been to increase the existing rate relief that was already in place to 100% for 2020/21, and to extend it to all retail premises regardless of rateable value. The extension is to all premises in the sector, regardless of Rateable Value, and to the leisure and hospitality sectors, including Estate agents, lettings agencies and bingo halls. EU State Aid rules do not apply to this relief, large retailers and major supermarkets will receive reliefs.

The estimated additional cost of providing these extended reliefs is £28m, which is funded by Section 31 Grant. Lost business rates income through awarding reliefs is largely incurred monthly. Rebilling of Business Rates, incorporating all of the reliefs, has taken place and bills were delivered from 1st April onwards.

2.4 **Business Rates Pub Relief** - £1,000 Business Rates discount for pubs with a rateable value below £100,000 in 2020/21 was extended to £5,000. This discount has now been superseded by the extended retail scheme as pubs are entitled to 100% relief under this scheme.

2.5 **Nursery Relief** - This discount extends 100% rate relief to nurseries with Rateable Values between £15k and £51k. The estimated cost of this is £228k, funded by Section 31 Grant.

2.6 All these reliefs are funded by the Government through Section 31 Grant, which is directly paid by the Government to local authorities in lieu of the income that they would have collected from businesses. The existing entitlement to Section 31 Grant, as calculated through the NNDR1 2020/21 return, was paid as one lump sum of £4.861m on 27th March 2020 rather than in 12 instalments to assist authorities' cashflow. The Section 31 Grant payments in respect of the extended reliefs referred to above will be made commencing with a double instalment in May, followed by 10 monthly instalments. As mentioned

previously, the cost of these reliefs is generally incurred monthly, and this arrangement consequently does not represent a cashflow risk to the authority.

2.7 An important implication of these extended relief measures, which is discussed in more detail in the section of this report concerning business rates as an external funding stream, is that they mean that a large proportion of the business rates income base of the district is now effectively being met by the Government. The overall position on business rates is that ESC gross rates in 2020/21 are estimated to be around £114m. Around £16m of this is met by existing reliefs, with approximately £28m to now be met by extended retail reliefs (which now includes major supermarkets). This means that around 39% of rating income is now being met by the Government through the central share of the reliefs and Section 31 Grant. Sizewell Nuclear Power Station and Felixstowe Docks account for income of around £29m and taking these out of the equation means that Government funding would effectively account for nearly 52% of the funding stream.

2.8 Business Grants

In addition to Business Rate Reliefs, the key support to small businesses and the RHL sector being administered by local authorities are the Small Business, RHL, and Discretionary Grant Schemes.

2.9 Small Business Grant Fund (SBGF) and Retail, Hospitality, and Leisure (RHL) Grants

These two schemes use the Business Rates system as the basis of eligibility for £10k and £25k cash grants to businesses, although they are not part of the business rates system. The Council is acting as an agent for the Government in respect of these grants, and consequently, although the Council is responsible for attempting to recover any fraudulent or erroneous payments, the liability for these rests with the Department for Business, Energy, & Industrial Strategy (BEIS).

£10,000 grants are available for businesses claiming Small Business Rate Relief (SBRR) or Rural Rate Relief (RV below £15k). Businesses can only claim one grant per hereditament under this scheme. £25,000 grants are available for businesses in retail, leisure and hospitality with RV greater than £15k and less than £51k. Where RV is less than £15k, grant will be £10,000. Businesses will not receive two payments under the two schemes, but businesses can receive payments for individual properties under the RHL scheme.

Nationally, ESC has the thirteenth largest allocation of funding in respect of these schemes, which are weighted towards rural and coastal areas due to their focus on providing support to small businesses and smaller businesses in the RHL sector including tourism. Total funding for these schemes national is £12.3bn, and ESC's allocation of £101.526m was received on 1st April 2020. However, the number of businesses in each category estimated from the business rates system to be eligible for the grants is less than the number used by the Government in making these allocations, and the total estimated amount to be awarded is around £75m.

Administration of these schemes has proved to be a major undertaking as the business rates system did not generally hold the information required for grant payments to be made automatically, e.g. bank account details. This is primarily because for the majority of businesses, eligibility is determined by being in receipt of existing reliefs, meaning that no rates were payable and that ARP held no relevant banking information. Consequently, an allocation process and e-form needed to be developed, which been very efficient and effective, and all businesses contacted to advise them of the scheme. At the time of writing the position on grant payments to date compared with the estimated number of eligible businesses is shown in the table below, including the Discretionary Grants scheme referred

to in paragraph 2.14. All eligible applications have been passed for payment, and a concerted effort was undertaken in May to contact the remaining businesses directly to elicit remaining applications. However, in around 50% of cases no contact could be established. Although the scheme remains open, very few new applications are now expected.

COVID-19 - Small Business and RHL Grants - Grant Payments		Date:	23/06/2020						
Scheme	Estimated Totals / Allocation			Paid To Date			% Paid		
	Eligible / Applied	Grant	Total Grant	No.	Grant	Total Grant	No.	£	
		£	£m		£	£m			
Scheme 1 Small Business Grants	5,101	10,000	51.010	3,856	10,000	38.560	75.6%	75.6%	
Scheme 2A RHL Grants RV <£15k	1,074	10,000	10.740	866	10,000	8.660	80.6%	80.6%	
Scheme 2B RHL Grants RV £15k - £51k	623	25,000	15.575	508	25,000	12.700	81.5%	81.5%	
Total SB and RHL Grants	6,798		77.325	5,230		59.920	76.9%	77.5%	
Scheme 3 Discretionary Business Grants	315		3.866	97		1.050		27.2%	
Total All Schemes				5,327		60.970			

2.10 Discretionary Business Grants

Recognising that by basing these schemes on the business rates system a range of small businesses would not be eligible for support, the Government announced a new Discretionary Business Grant Scheme on 1st May 2020. An additional 5% uplift to the £12.3bn funding previously announced is available for these grants, but authorities are to utilise underspend from the original allocations up to a minimum funding envelope level. For East Suffolk, the funding envelope is £3.866m. The Council has designed and is administering its Local own discretionary scheme for awarding these grants, prioritise the following categories of business recommended by the Government:

- Small businesses in shared offices or other flexible workspaces e.g. industrial parks, science parks, incubators etc, which do not have their own business rates assessment;
- Regular market traders who do not have their own business rates assessment;
- B&Bs which pay Council Tax instead of business rates; and
- Charity properties in receipt of charitable business rates relief which would otherwise have been eligible for Small Business Rates Relief or Rural Rate Relief.

2.11 The Government is setting national criteria that grants should only be paid to:

- Businesses with ongoing fixed building-related costs
- Businesses which can demonstrate that they have suffered a significant fall in income due to the Covid-19 crisis
- Business with fewer than 50 employees
- Businesses that were trading on or before 11th March.

2.12 In addition, the Council is also using the discretion in the scheme to support businesses that have significant premises costs, and which are crucial to the local and regional economy, and additional small and micro businesses with fixed costs.

2.13 Council Tax Hardship Fund

The Government has allocated £500m to authorities to administer a Council Tax Hardship Fund. ESC's allocation of this is £1.917m, and this was received on 3rd April 2020. This funding is to be used to reduce the council tax liability of working age Local Council Tax Reduction Scheme (LCTRS) claimants by a maximum of £150. Although linked to LCTRS, these reductions to council tax do not form part of the LCTRS and the cost of this scheme will

be transferred from the Collection Fund to General Fund at the end of the financial year. The funding is based on 8873 cases, and ARP are revising modelling including both normal caseload turnover and growth scenarios. ARP estimate current cases to be 9196, new cases last year were 2872, and it would not be unreasonable to assume very significant growth in these given current national data on the increase in Universal Credit claims, forecasts for unemployment as a result of the recession. Although this relief measure appears relatively simple on the face of it, in practice it is a complex measure requiring both new software amendments and modelling, and these reliefs will be applied in the council tax system in July. However, LCTRS claimants both new and existing have effectively received this discount as they have not been required to pay the relevant part of their council tax bills. Any funding remaining after existing and new LCTRS claimants are funded could be used to provide further reliefs at the authority's discretion, but caseload will need to be carefully monitored during the course of the year before any proposals for this could be brought forward.

It is worth noting that the Hardship Fund only covers the amount of the council tax that LCTRS claimants are required to pay, typically 8.5% under the Council's scheme. Whilst the Hardship Fund will improve the collection position for existing claimants, for new claimants the award of LCTRS relief for the council tax not covered by this will impact on the council tax collection and potentially the council tax base, as referred to in more detail in Section 5.

3 GOVERNMENT SUPPORT TO THE COUNCIL

- 3.1 In the funding arrangements for the support measures for businesses and households outlined above, the Government has ensured that local authorities are not disadvantaged in terms of cashflow, by way of making very substantial front-loaded and upfront payments. In addition to these cashflow arrangements, there are a number of areas where the Government is providing direct financial support to local authorities in respect of the financial impact of Covid-19.
- 3.2 In March, the Government announced £3.2m for councils supporting rough sleepers or those at risk who need to self-isolate. The Council's allocation of this funding was £9,752. A subsequent round of allocations of this funding was ceased, with the intention now being for councils to fund further costs in respect of rough sleepers from the general allocation of Covid-19 Emergency Response funding referred to below.
- 3.3 In the March 2020 Budget, the Government announced an initial £1.6bn of Covid-19 Emergency Response funding support to local government, £1.390bn for Social Care and £210m for General Support. ESC received an allocation of £122k from this funding, with Suffolk CC receiving £20.7m. Since 15th April 2020, MHCLG have been collecting monthly information from authorities on overall financial impacts and sustainability, and on 28th April 2020 allocations for additional funding of £1.6bn were announced. In this second tranche of funding ESC will receive £2.489m of funding and Suffolk CC will receive £13.977m. It is not known at this stage as to whether there will be further tranches of Emergency Response funding or any additional funding in respect of 2021/22 and medium-term impacts.
- 3.4 On 24th May 2020, the Government also announced a £50m Reopening High Streets Safely Fund. The Council will receive £222,198 from this Fund, which is ringfenced for this work and which must be claimed in arrears and used in consultation with town councils.

4 GENERAL FUND REVENUE IMPACT

- 4.1 **Appendix A** summarises the current estimated impact of Covid-19 on the Council's General Fund over the Covid-19 period. The summary outlines a large number of estimated variances

on budgeted Direct Expenditure and Income but does not consider indirect costs such as staff time reallocated to Covid-19 response work. Data has been collated on officer time diverted to Covid-19 and to date this amounts to approximately £670k, involving 175 members of staff. This is staff time that has been diverted away from Business as Usual to deal with Covid-19 matters, such as work on community hubs, administering business grants, etc. It is not included in the Appendix attached as it is not an additional cost pressure but illustrates the cost of staff time involved in dealing with Covid-19 to date. This information will continue to be collected on a monthly basis.

4.2 The summary provides a brief explanation for each variance, and a brief note on key assumptions, which are reiterated below for information:

Unless stated in the explanation column of the Appendix, the assumption applied for demand led income is:

- a strict lockdown for April to June, assumed that there will be no income for this period
- Some relaxation of restrictions for July to September, assumed 25% of usual income levels for that period
- restrictions lifted from October but assumed economy activity is still low until the end of March 2021. Assumed 50% of usual income levels for that period.

4.3 Income profiles for areas such as car parking, camping and caravan sites are skewed to the spring and summer months so the financial impact will be greater for these areas in 2020/21. In 2021/22, at this stage, the principal cause for concern in terms of financial impact is the effect on council tax income and the council tax base arising from forecast increases in the number of LCTRS claimants. Section 5 of this report considers the potential impacts on external funding streams such as council tax and business rates in more detail.

4.4 These estimates do not take into account any impacts on business rates at this stage, and do not assume any changes to the funding regime for local government, or any further support or measures from central Government. After taking Government funding into account, the current estimated net impacts on the Council's General Fund over the Medium Term Financial Strategy (MTFS) period are as shown below. These impacts are dependent on the scale and duration of the economic recession, and the speed and nature of economic recovery.

MTFS Forecast - East Suffolk	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Gap February 2020	0	5,350	6,163	6,676	6,676
Deferral of changes to the Business Rates system until 2022/23	0	(4,884)	0	0	0
Covid-19 forecast cost and income pressures (net of emergency funding received) Appendix A	8,629	3,250	1,152	652	152
Forecast Budget Gap (23rd June 2020)	8,629	3,716	7,315	7,328	6,828

4.5 Areas of saving arising from Covid-19 are being to be identified and these are shown in Appendix A and included in the figures above. Savings on mileage and travel costs is notable

with a current estimated saving for the current year of £150k. For the period April and May 2020, travel and transport costs are down 40% (£33k) on the same period for 2019.

5 EXTERNAL FUNDING STREAMS

5.1 Council Tax

A total net impact of £5.194m is currently estimated in respect of Council tax income in 2020/21, resulting from the effects of increased LCTRS claims. The impacts of this by precepting authority would be SCC £3.855m, ESC £0.700m and Police £0.639m. There may also be a need to increase the provision for bad debts in respect of arrears.

5.2 As a result of accounting arrangements, these council tax impacts manifest themselves in collection fund deficits to be taken into account in 2021/22 budget setting.

5.3 The potential Covid-19 impact on Council Tax is difficult to forecast, although monthly monitoring will begin to give an indication of emerging trends in both income collection and the increase in working age LCTRS reliefs related to Universal Credit (UC) and unemployment. The other key area of uncertainty is about the impact of the recession and the scale and pace of economic recovery.

5.4 The economic outlook now appears to be for a prolonged and severe recession. Nationally the UC caseload appears to have doubled, so it is not unreasonable to assume that this will be reflected in a doubling of the LCTRS working age reliefs. The base assumption now used in these forecasts is that LCTRS working age reliefs double in September as the current furloughing scheme unwinds into significantly increased unemployment. At this stage, a pessimistic but possibly prudent scenario would be for this position to continue throughout 2021/22, with a gradual decline over the MTFS period.

5.5 These assumptions are speculative and will obviously be reviewed towards the end of the calendar year when the tax base is finalised, and trends can be monitored.

5.6 A doubling of working age LCTRS claimants, would result in a tax base reduction of around 8.5% in total, with an impact on income of around £8.3m in 2021/22. The shares of this in 2021/22 based on current precept proportions, would consequently be approximately: SCC £6.2m, ESC £1.1m, Police £1m.

5.7 As referred to previously, the Government's Hardship Fund does not assist this position, as that only funds the proportion of council tax that existing and new claimants would have to pay.

5.8 A further area affecting the tax base is non delivery of the current growth assumption of 1% per annum. It is not unreasonable for a base assumption of zero growth in 2020/21 feeding into the tax base for 2021/22, as even if new houses are built, demand and probable price falls suggest that they are likely to remain empty. This would impact the assumption in the ESC MTFS by about £150k.

5.9 Actual collection in 2020/21 will also affect the bad debt provision required and consequently the Collection Fund deficit and is an area where monitoring information on non-LCTRS collection rates will be able to provide a steer.

5.10 There may be some offset in the 2021/22 estimate for ESC arising from the difference between the 2019/20 estimated collection fund/surplus compared to the actual for 2019/20,

although this will also need to take into account consideration of the 2019/20 bad debts provision position.

5.11 **New Home Bonus (NHB)**

The current NHB regime is based on growth in the council tax base from both new properties and a reduction in the number of empty properties, combined with an element for the number of new affordable homes. In theory, the estimated impact on the council tax base referred to above would also affect the level of NHB. However, the MTFS already does not include any figure for new NHB allocations, as opposed to the residual amounts included for “legacy” payments relating to earlier years’ allocations. This is because it was already uncertain whether there were going to be any NHB allocations in their current form in 2021/22. The 2020/21 allocation was for one year only and there is / was due to be a consultation this year on changes to the regime. In addition, in the current situation, as NHB is a top slice from Revenue Support Grant (RSG) it might not be surprising if there are no allocations at all in 2021/22, and that the funding that might have been allocated for this is diverted back to RSG or other Covid-19 relief funding.

5.12 **Business Rates**

The position on Business Rates is extremely complex and difficult to predict and is further complicated by the accounting arrangements and the time lags inherent in the Business Rates system. Technically, the Council’s own General Fund position will not be impacted in 2020/21 by any reductions in business rates – in a similar way to Council Tax, these will be reflected in the Council’s budget setting as an estimated deficit in 2021/22 and an actual deficit in 2022/23. In year in 2020/21, it is feasible that the business rates position might not actually be that adversely affected, as a result of the vast amount of small business and retail reliefs that are now being funded by the Government through Section 31 Grant, as referred to in paragraph 2.7. In effect, the Government has effectively become the ratepayer for the small business and Retail, Hospitality, and Leisure (RHL) sectors of the local economy. This is consequently income that should be guaranteed and not subject to any issues of non-collection, or the need for provision for bad debts. In addition, businesses in these sectors might not lodge appeals against rateable values, given that they are not paying rates, although now that the 2017 rating list has been extended to 2021/22 with the postponement of revaluation, appeals may have become more likely. The big caveat here, of course, is that these businesses continue to actually be in existence throughout 2020/21.

5.13 As a result of these reliefs, and the fact that Sizewell Nuclear Power Station and Felixstowe Docks, account for around £29m of business rates income, around £41m of net rates payable is arguably at risk as a result of Covid-19 impacts, although within this figure rating income from the public sector should also be secure. Monitoring of Covid-19 impacts as far as 2020/21 is concerned will consequently focus on the residual amounts payable and monitoring information will begin to provide a basis for this.

5.14 Overall, the hit on business rates income in 2020/21, which is reflected in the deficit for the year as picked up in the 2021/22 NNDR1 return, could conceivably be more limited than it might initially appear. However, it may be prudent to assume that the Pooling Benefit from the Suffolk Pool is not delivered in 2020/21, as this is also affected by business rate changes elsewhere in Suffolk. The bigger concern on business rates, and the other focus of monitoring and forecasting, is trying to assess the impact on the business rates base of

businesses not surviving the impact of the pandemic and the recession. The principal concern in 2020/21 is about those businesses that fall outside of the various reliefs.

- 5.15 A larger concern going forward into 2021/22 is about the businesses receiving Small Business and Retail reliefs. As it stands, as long as these businesses are still in existence, either they or the Government will be liable for the rating income. If they start closing permanently, however, this funding will disappear. Finance, ARP, and Economic Development are currently working together to forecast and model all aspects of the potential impacts on business rates as far as possible.
- 5.16 The implementation of reforms to the local government finance system that it is assumed would remove the favourable position that the Council currently have now been deferred until 2022/23 at the earliest and the planned national business rates revaluation exercise has also been postponed. The worst case scenario of the Council's business rates position reverting to a baseline position has now been shown from 2022/23 onwards.

6 RESERVES AND BALANCES

- 6.1 The Council's ability to absorb the financial shock of the pandemic and the recession without significant detriment to projects and services will be dependent on the availability of Reserves and Balances. The Council is in the position of having built up revenue reserves and balances over the years, with most of these reserves being earmarked in respect of specific projects or eventualities. However, the bulk of these earmarked reserves could ultimately be available to support the Council's position. Use of earmarked reserves to support the council generally would require the projects and risks that they relate to be reassessed and replacement funding identified – in the case of reserves earmarked for capital projects this could take the form of additional borrowing.
- 6.2 The projected balance on the General Fund Balance is £6m for 2020/21 with no committed use of that balance to date pre Covid-19. As set out in the MTFS - Key Principles (February 2020 Budget Report) , the Council will maintain the level of General Fund balances at around 3% - 5% of its budgeted gross expenditure. This would lead the Council to maintain a General Fund balance in a range of around £4m to £6m.
- 6.3 Earmarked reserves are currently projected at £45m by April 2021, pre Covid-19. Within the earmarked reserves there are two specific reserves set up to deal with fluctuations and pressures with income and spend. This is the Business Rates Equalisation Reserve and the In-Year Savings Reserve.
- 6.4 The Business Rates Equalisation Reserve, which was established specifically to deal with large fluctuations on this key funding stream, would be the first reserve utilised to deal with the General Fund financial impacts outlined in this report. There is a projected balance of £7m at the start of this financial year, and when the 2020/21 Budget was approved, it was also estimated that an additional £6m would be added to the reserve in-year. This might still be the case but is essentially subject to the estimate for the NNDR1 return in January, reflecting the position on business rates referred to earlier. To manage business rates accounting timing differences between financial years, maintaining a minimum balance on this reserve of between £3m to £4m is prudent.
- 6.5 The In-Year Savings Reserve has been established from prior year outturn surpluses set aside to support future year budget pressures. The current uncommitted balance on this reserve is £4m.
- 6.6 The Council is in a position where its current level of reserves and balances, especially the availability of the Business Rates Equalisation Reserve which has been built up over the years

should enable it to largely absorb this shock to its income streams. However, a prolonged and sustained recession, combined with the need to close the already forecast budget gap could put pressure on other earmarked reserves and Council projects and services.

7 CAPITAL PROGRAMME

7.1 There are already implications for the Council's Capital Programme arising from the Covid-19 pandemic, primarily the need for work to be suspended on a number of projects. Whilst these will have slowed down capital expenditure, the disruption will mean that these projects will ultimately be more expensive when restarted. At present, the main project where additional costs have been identified due to this is the Lowestoft Flood Risk Management Project, where costs are estimated to have increased by around £110k. Given the Council's forecast financial position, the economic climate, and the possible need to review priorities in the light of the pandemic, the Capital Programme will need to be reviewed over the coming months.

8 HOUSING REVENUE ACCOUNT (HRA)

8.1 To an extent, the Housing Revenue Account (HRA) is less exposed to the financial impacts of the pandemic than the General Fund. This is primarily because the housing benefit costs of rent rebates will be funded through housing benefit subsidy. However, a need to increase the provision in respect of increased arrears is estimated to cost £420k for 2020/21.

9 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?

9.1 Monitoring, forecasting, and responding to the Covid-19 pandemic and the recession will be the most critical challenge to the Council in delivering on the East Suffolk Strategic Plan theme of Maintaining Financial Sustainability.

10 FINANCIAL AND GOVERNANCE IMPLICATIONS

10.1 All Financial and Governance implications are contained within the report.

11 OTHER KEY ISSUES

11.1 None.

12 CONSULTATION

12.1 None.

13 OTHER OPTIONS CONSIDERED

13.1 None, it is essential that the Council considers the financial impact of the Covid-19 pandemic and the implications for financial sustainability.

14 REASON FOR RECOMMENDATION

14.1 To enable Cabinet to consider the latest position regarding the estimated financial implications of the Covid-19 pandemic and the economic recession. Ongoing review, monitoring, and forecasting for all aspects of the Council's financial position will be critical over the course of this year to enable it to respond to this rapidly changing situation.

RECOMMENDATIONS

To recommend that Cabinet:

1. Reviews and considers this report on the financial implications of the Covid-19 pandemic.
2. Considers what representations it wishes to make to the Government, given the impact of the Covid-19 crisis on the Council's finances.

APPENDICES

Appendix A	Covid-19 General Fund Financial Implications – 23 June 2020
Appendix B	Covid-19 Financial Implications Update – 6 July 2020
Appendix C	Covid-19 General Fund Financial Implications – 6 July 2020

BACKGROUND PAPERS: None.

Covid-19 General Fund Financial Implications

APPENDIX A

Coronavirus - East Suffolk Council Forecast Financial Implications as at 23rd June 2020

Note: The below excludes all rate relief, business grants and council tax, etc. measures as these are fully funded by Government grant.

Current assumptions:

Unless stated in the explanation column, the assumption applied for demand led income is:

- 1) a strict lockdown for April to June, assumed that there will be no income for this period
- 2) some relaxation of restrictions for July to September, assumed 25% of usual income levels for this period
- 3) restrictions lifted from October, but assumed economy activity is still low until the end of March 2021. Assumed 50% of usual income levels for this period.

Income profiles for areas such as car parking, camping and caravan sites are skewed to the spring and summer months so the financial impact will be greater for these areas in 2020/21.

Impact on General Fund Direct Expenditure

General Fund - Expenditure	Category on MHCLG Return	Change to budget (saving) / increased costs						Indicate if permanent impact to budget or a deferral to later	Date added or amended	Explanation
		2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000			
ARP Partnership	Finance & corporate - Revenue & benefits expansion	0	76	0	0	0	0	Permanent	19/06/2020	Direct costs to ARP - additional laptops to staff, postage, overtime, agency costs, software costs. Some of this may be covered by new burdens funding from Government. However this has not yet been determined.
Leisure Partnerships	Cultural & related - Sports, leisure and community facilities	0	560	0	0	0	0	Permanent	19/06/2020	Estimated closure cost of leisure facilities.
Homelessness admin and prevention work	Housing - homelessness services (support, prevention, administration)	0	30	0	0	0	0	Permanent	15/05/2020	Estimate for mortgage/rent rescue payments.
Rough Sleepers - accommodation & supporting people sleeping rough or at risk	Housing - rough sleeping - accommodating and supporting those brought into alternative accommodation	16	238	0	0	0	0	Permanent	15/05/2020	£95k Avenue Mansion security for six months. Estimate increased B&B costs £65k, set-up costs of temporary accommodation in the Council's housing stock £15k, other costs £68k.
Private Sector Housing - WHHP	Housing - other excluding HRA	0	38	0	0	0	0	Permanent	22/05/2020	Stepping Home Co-Ordinator. This role helps to free up hospital beds and supports recovery at home.
Council's Hardship Fund	Other - Shielding	0	106	0	0	0	0	Permanent	07/05/2020	£55k from the members ECB budget to be re-allocated to a Hardship Fund. £5K from the Chairman's budget. £45k second round of members ECB budget to be re-allocated.
Council's Foodbank Grants	Other - Shielding	15	0	0	0	0	0	Permanent	06/04/2020	£15k from the ECB 2019/20 underspend to be re-allocated to grants to foodbanks.
Social Isolation Grants	Other - Shielding	5	15	0	0	0	0	Permanent	31/03/2020	£20k from the 2019/20 Strategic Community Partnerships to be allocated to Social Isolation Grants.
Digital Access	Other - Shielding	0	20	0	0	0	0	Permanent	13/05/2020	To provide IT equipment to those self-isolating.
Community Grants for local organisations, CAB & Foodbank	Funding from other external funds	0	15	0	0	0	0	Permanent	27/05/2020	To provide grants to local organisations, CAB and Foodbanks. Grant funding of £15k received.
Public Burials	Public Health	0	4	0	0	0	0	Permanent	08/06/2020	Potential to fund more public funerals due to not being able to auction goods to recover funeral costs.
Port Health	Environment & regulatory - other	4	10	0	0	0	0	Permanent	24/04/2020	£15k for 2020/21 and 2021/22 - reduced analyst costs due to reduced income. Other costs shown include IT hardware and other miscellaneous office supplies.
Port Health	Environment & regulatory - other	0	20	0	0	0	0	Permanent	15/05/2020	Measure to ensure social distancing in the work environment.
Staff Mileage Claims	N/A	0	(150)	0	0	0	0	Permanent	19/06/2020	Estimated saving due to reduced work travel by staff. £100k is approximately one third of actual cost for the year.
IT costs - remote working	Finance & corporate - ICT & remote working	3	30	0	0	0	0	Permanent	15/05/2020	IT hardware and software.
Corporate Costs (non-staffing)	Finance & corporate - other	0	50	0	0	0	0	Permanent	19/06/2020	Measures to ensure social distancing in corporate building and other miscellaneous office supplies and equipment, hand sanitisers. This is an estimated figure.
Corporate Costs (additional staff costs)	Finance & corporate - other	0	27	0	0	0	0	Permanent	19/06/2020	Estimate for overtime claims due to Covid-19 related work.
Unachievable savings/project delays	Other - unachieved savings/delayed projects	0	110	0	0	0	0	Permanent	19/06/2020	£110k for delays to projects.
Total Impact on Expenditure		43	1,199	0	0	0	0			

Covid-19 General Fund Financial Implications

APPENDIX A

Impact on General Fund Direct Income

General Fund - Income	Change to budget (additional income) / loss of income						Indicate if permanent impact to budget or a deferral to later	Date added or amended	Explanation
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000			
Car Parking Income	147	3,306	0	0	0	0	Permanent	30/04/2020	Includes income for off street parking, resident parking and ECN's. Assumptions will be revisited at the end of June 2020 as the re-introduction of charging will have been in place for a month.
Camping & Caravan Park Income	0	460	0	0	0	0	Permanent	30/04/2020	£250k touring camp site income plus £100k refunds. Static site rental income £110k.
Harbour & Yacht Station Income	38	100	0	0	0	0	Permanent	30/04/2020	Includes only day mooring fees. It excludes any refund or 'roll forward' of permanent moorings.
Building Control Income	29	486	0	0	0	0	tbc	29/05/2020	Assumption of strict lockdown for April to June 2020. Assumed almost a stop on current building work until such time there is confidence to begin again. Income is being received in 2020/21 and the income loss assumption is revisited and revised down
Planning Income	149	980	tbc	tbc	tbc	tbc	tbc	29/05/2020	Assumption of strict lockdown for April to June 2020. Assumed almost a stop on current building work until such time there is confidence to begin again. Income is being received in 2020/21 and the income loss assumption is regularly revisited and revised down accordingly.
CIL 5% Admin Fee	0	179	0	0	0	0	tbc	30/04/2020	Assumption of strict lockdown for April to June 2020.
Licensing Income	0	103	tbc	0	0	0	tbc	15/05/2020	LGA and the Institute of Licensing guidance - no refunds on premise licence fees will be given. However, where there is non-payment of an annual fee, the Council will try to find out from the premises if this is as a direct result of Covid-19. If it is, then the suspension of the licence will be deferred. It is possible that licensees will not be paying their annual fee until the current situation is over. Premise licence fee income is approximately £12k per month - three months provided in estimates. Taxis licences - the LGA has confirmed there is a bit more flexibility as these fees are set locally. The Council is not offering refunds at the present time, but is instead offering a shorter licence period for those that are due for renewal. This means that there should not be a drop in income as eventually when this is over, the remaining part of the annual (or three yearly) licence will have to be paid. What isn't known, is how many drivers/vehicles may decide not to return at all. No estimate is currently provided for this. Amended to reflect latest assumptions about length of closure being four months for licensed premises.
Cemetery Income	0	58	0	0	0	0	Permanent	30/04/2020	The 20% fee increase for 2019/20 in the former WDC area will not now take place.
Lease & Commercial Income	0	191	0	0	0	0	Permanent	19/06/2020	Rental/lease scheduling arrangements under review.
Waste Recycling Credits - Green Waste	0	218	0	0	0	0	Permanent	30/04/2020	Based on estimated tonnage of 7,273 @£30 per tonne.
Waste Recycling Credits	0	373	0	0	0	0	Permanent	30/04/2020	Assumption is a loss of 20% of the income for the year for dry recycled, based on 2019/20 tonnes of 17,029 @£54.76 20% reduction is £186.5k per annum for price and another £186.5k for volume (annual budget for Dry and garden recycling is £2.4m). Difficult to predict how this will be affected, but month on month the price has dropped 17.6%. Food waste could be larger than the post Christmas peak - as people have stock piled too many perishable goods.
Green Waste Income	0	407	394	0	0	0	Permanent	30/04/2020	Total Annual budget £2.4m. Based on subscriptions 'rolled forward' for two months, collections resumed from 25th May 2020. Assumed the same loss each financial year.
Investment Income	0	300	550	0	0	0	Permanent	31/03/2020	Impact of decreasing interest rates will be felt in the later part of 2020/21 and more so in 2021/22, as deals secured in 2019/20 come to an end during 2020/21. Annual investment income budget is £800k.
Housing Benefits Overpayments Recovery	0	333	333	0	0	0	Permanent	19/06/2020	In-year recovery has not declined as much as initially anticipated and will be continually monitored.
Loss of Enforcement income via ARP	0	626	0	0	0	0	Permanent	19/06/2020	Assume 100% loss for the full year. Total enforcement income budget of the ARP partnership for 2020/21 is £1,586,425. ESC share is 39.48% for 2020/21.
New Burdens Funding	0	tbc	0	0	0	0	Permanent	31/03/2020	Government funding to compensate LA's for the additional costs associated with the administration of the Hardship funding and grants to businesses. It is expected for this funding to partial cover costs incurred by ARP and the Council.
Community Funding	0	(15)	0	0	0	0	Permanent	27/05/2020	Grant received for grants to be paid to local organisations, CAB and Foodbank to help with the COVID-19 crisis.
Events Income	0	12	0	0	0	0	Permanent	08/04/2020	Reduction in income from rent of land for events.
Environmental Protection Water Sampling	0	8	0	0	0	0	Permanent	09/04/2020	Reduction in water sampling due to not going out to site visits.

Covid-19 General Fund Financial Implications

APPENDIX A

Impact on General Fund Direct Income (Continued)

General Fund - Income	Change to budget (additional income) / loss of income						Indicate if permanent impact to budget or a deferral to later	Date added or amended	Explanation
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000			
Contaminated Land	0	1	0	0	0	0	Permanent	09/04/2020	Reduction in Environmental Information Requests coming in for contaminated land.
Environmental Licencing - Animal	0	1	0	0	0	0	tbc	09/04/2020	There will be a delay in applications, existing licences may not renew depending how their businesses have been affected.
Food Safety - Food Hygiene Revisits	0	3	0	0	0	0	Permanent	09/04/2020	Reduction in income due to closure of food establishments and no visits happening.
Food Safety - Food Hygiene Educational Courses	0	2	2	2	2	2	Permanent	09/04/2020	Reduction in income due to food hygiene courses being suspended for the foreseeable future due to social distancing requirements. Demand for these has been reducing over time before COVID-19.
Skin Piercing Licences	0	4	0	0	0	0	tbc	09/04/2020	Tattoo and piercing parlours have been closed by The Health Protection (Coronavirus, Restrictions) (England) Regulations 2020. Likely to see few applications to register whilst the closure is in place but some may be received ahead of the lifting of closures, may be even a surge in applications.
Chairman's Donation	0	(1)	0	0	0	0	Permanent	07/05/2020	Chairman's donation to the Council's Hardship Fund.
Council Tax Income - Tax Base Growth	0	0	150	150	150	150	Permanent	07/05/2020	The current MTFS assumes growth in the tax base of 1% per annum. Assuming zero growth in the tax base for 2020/21 which would be reflected in the 2021/22 Council Tax income figures, results in £150k per annum loss of income. This assumes tax base growth for future years remains at 1%.
Council Tax Income - Increase in LCTRS working age reliefs.	0	0	1,821	1,000	500	0	Permanent	12/06/2020	Nationally the Universal Credit(UC) caseload appears to have doubled so assume this will be reflected in a doubling of the LCTRS working age reliefs from September 2020, resulting in a tax base reduction of around 4.7% in total, with an East Suffolk share of around £0.7m. These impact in 2021/22 budget setting. It is also assumed that this September 2020 position continues in 2021/22 with an additional £1.1m full year loss of Council Tax income. This position is anticipated to begin to reduce in future years as the economic position improves.
Business Rates - Pooling Benefit	0	1,794	0	0	0	0	Permanent	12/06/2020	Loss of Business Rates Pooling Benefit.
Total Impact on Income	363	9,929	3,250	1,152	652	152			
Forecast Net Impact - General Fund	406	11,128	3,250	1,152	652	152			

Government funding received or due to be received in response to Covid-19

Government Funding Received / Due	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Date added or amended	Explanation
COVID-19 Rough Sleepers Funding to claim	0	(10)	0	0	0	0	31/03/2020	Government funding to support rough sleepers or those at risk who need to self-isolate. The claim has been submitted this week.
COVID-19 Emergency Response Funding Received	(122)	(2,489)	0	0	0	0	15/05/2020	Government funding to assist with dealing with the response to COVID-19. Two separate allocations, £122k and £2.489m.
Total Government Funding Received / Due	(122)	(2,499)	0	0	0	0		

Covid-19 forecast cost and income pressures (net of emergency funding received)

284	8,629	3,250	1,152	652	152
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