

Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)
To
Cabinet
On
9 June 2020

Agenda
Item No.

4

Report prepared by:
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Initial Local Financial Assessment of Covid-19
All Scrutiny Committees
Cabinet Members: Councillor Ian Gilbert
Part 1 (Public Agenda Item)

1 Purpose of Report

- 1.1 To provide a high-level initial assessment of the local financial impact of Covid-19. It remains an evolving and fast-moving situation as the Council continues to respond positively to the crisis and to try to minimise as far as possible the impact on local residents and businesses of Southend-on-Sea. Consideration is now also turning to transitioning to our restoration phase and the future sustainability of whatever the 'new normal' will eventually look like.
- 1.2 To outline the Council's initial response to managing the scale of the financial challenge over the short and medium term, whilst recognising that the range of assumptions and understanding of the complexities of the many contributing factors are under constant review.

2 Recommendations

That Cabinet:

- 2.1 **Note the Council's initial assessment of the local financial impact of the unprecedented challenges that has been caused by the pandemic.**
- 2.2 **Note the proposed tactical and strategic response to managing the financial challenges.**
- 2.3 **Agree to receive regular reports to future Cabinet meetings, which will provide updated assessments on our financial position and outline any changes to our strategy and range of assumptions.**

3 Introduction

- 3.1 It is far too early to assess the overall health and economic impact of Covid-19. The challenge is clearly worldwide, and national governments continue to wrestle with putting in place the right package of measures to save lives and to try to minimise the spread of the virus and its impact across the population. Consideration is now also turning to how they can safely get their respective economies working again. In the United Kingdom, local government, working in partnership with other agencies and local communities continue to have a critical role to play in responding to the crisis. We will be at the forefront of implementing the relaxation to any lockdown arrangements, shaping the transition and recovery within a new national framework.
- 3.2 The current financial landscape and operating environment is challenging and uncertain but the Council is determined to build on our positive initial local response to the crisis and to try to ensure that the key elements that will lead to a stronger recovery for our town, our local residents and our local businesses are in place. Our Southend 2050 ambition and ongoing review of arrangements for delivering the road map of priority projects is not only still relevant but also crucial for Southend-on-Sea's future prosperity. Effectively managing the short and medium term financial challenges that Covid-19 has brought to the Borough will be an important factor in our future success.
- 3.3 This report highlights the immediate local financial impact and attempts to estimate the implications over the medium term based on a range of complex and ever-changing assumptions. The report also outlines at a high level how the Council is proposing to deal with this additional financial challenge. Some financial commitments as part of our immediate local response can be categorised as a one-off cost but it is currently estimated that the original lockdown arrangements could cost the Authority around £2.5M - £3.0M each month.
- 3.4 Consideration is now being given to the financial impact of the careful phasing of the relaxation of the lockdown measures. This includes the transition to the new normal, the impact on activity levels (particularly income) and then any currently potentially hidden demand for key social care services that might result directly from the isolation and stress caused locally by the pandemic. At this early stage, the estimated total cost to the Council for 2020/21 is very difficult to quantify. Building up a financial assessment of the impact of the easing of the lockdown measures, together with a potential increase in social care pressures, the added difficulty of delivering recovery savings plans and the impact on income collection, then the total cost could be in the region of £15M to £20M on the Council's budget for 2020/21.
- 3.5 We are working hard to reduce our financial exposure in lower priority areas but at the same time trying to make sure that we are doing all we realistically can to support our residents and local businesses. Some early future planning has already commenced to try to limit the potential permanent damage to our revenue base and to look at the longer-term impacts on our Medium Term Financial Strategy.

4 Central Government Support, Initiatives and New Requirements

- 4.1 From around the middle of March 2020, there have been numerous regular announcements by the Government that have touched almost every part of normal daily life. The range of financial support provided to Local Government has effectively been made up of three types, passported funding, additional direct grant and cashflow support. Passported funding is where the Local Authority is given funding by Central Government to be 'passported' to residents and businesses, against a range of criteria that is usually set nationally. Additional direct grant has been provided to help Local Authorities deal with a range of emergency expenditure pressures or income reductions in their base budgets because of Covid-19. Cashflow support has been provided by the Government in advancing grant payments to us in the early part of the financial year where we would normally receive these monthly or quarterly over the course of the financial year. They have also allowed us to defer our payments for Business Rates to the Treasury until later in the year.
- 4.2 The Government have also introduced a requirement for monthly returns to be submitted by every Local Authority, in an attempt to get a better understanding of the financial impact at a local level but probably more significantly at an overall Local Government Sector level. The contents of these returns will help to identify the key pressures, risks, and indicative scale of financial impact. The Government are also interested in how individual Authorities are using the emergency grant funding that has been issued.
- 4.3 The initial return was due on 15th April and was a very simple light touch request. Our response contained our very early assessment at that stage, together with a range of assumptions and comments. The scale nationally is clearly huge, and the collective initial returns directly influenced the announcement of a 2nd tranche of £1.6 Billion emergency grant funding nationally for the Local Government Sector.
- 4.4 Southend-on-Sea were selected as one of only a handful of Local Authorities to review and comment on the data collection development prior to the second return being released. Our input has been acknowledged and some of our comments were taken forward by MHCLG. The second return was a much more substantial request for information and was submitted on 15th May. The key headlines from our submission forms the basis of the financial assumptions contained within this report. Each month we will be able to update and refine the content of our submissions as our intelligence and understanding grows of the local financial implications.

5 Financial Assessment and Assumptions

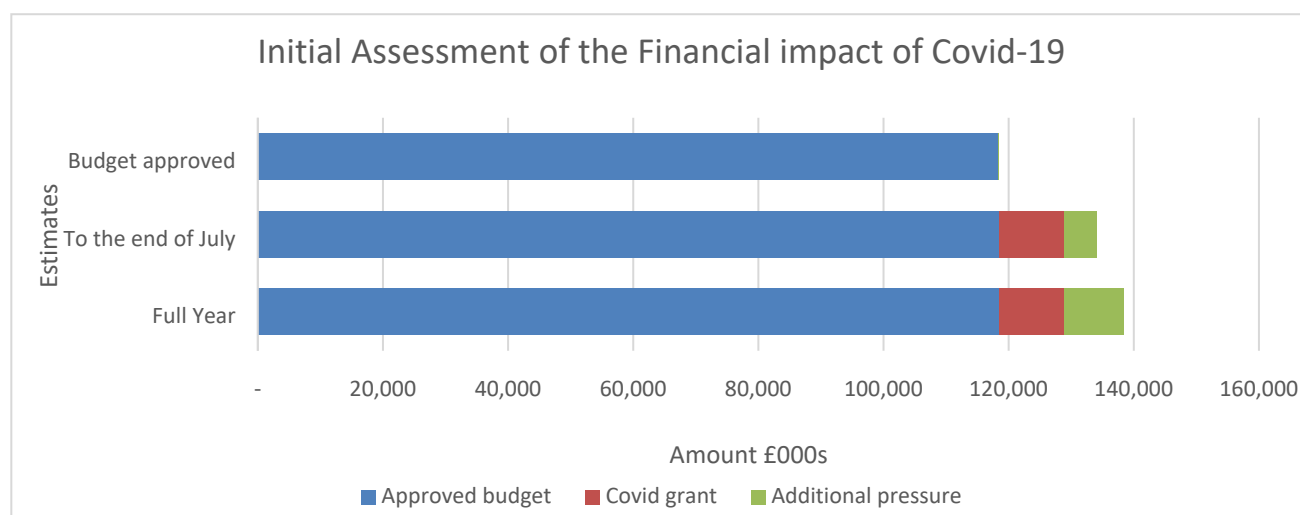
- 5.1 One of the key changes in the assumptions to the May return was that it was specified that all responses should be based on lockdown continuing until the end of July 2020 and then assuming that everything returns to pre Covid-19 activity levels. This was done to try and achieve more consistency across the sector but clearly this approach also has its shortcomings, which were highlighted.

Our estimated pressures and areas of service impact in the May return was reported in % terms as follows: -

- Adult Social Care – 33%
- Children’s Social Care – 19%
- Highways & transport – 19%
- Risk to Recovery Plans – 12%
- Environment & Regulatory – 5%
- Education – 3%
- Rough Sleepers – 3%
- Shielding – 2%
- Culture Related – 2%
- Planning & Development – 1%
- Finance & Corporate -1%

5.2 The Council’s estimated service only challenges due to Covid-19 was requested to be split into expenditure and income pressures. Our return to MHCLG was based on our revised estimates up to the end of July 2020. In headline terms we reported £11.6M of direct Covid-19 expenditure pressures (Including risk to recovery savings plans) and a £4.1M reduction in direct income levels (sales, fees & charges). So, in total we have estimated £15.7M potential pressures, against an initial un-ringfenced grant allocation of circa £10.5M to the end of July 2020. We assessed all our estimates as Amber at this stage of the year.

5.3 The following bar chart illustrates the impact of this assessment against our approved service budget for 2020/21. Although not included in the return we have also estimated that the total cost for the whole year could be in the region of £20M. This is based on a complex series of assumptions and the best information available at the time of writing this report. The key concern is the currently forecasted £5.2M (shaded green) unfunded pressure to the end of July 2020, which could be around £9.5M by the end of 2020/21. Understanding the direct and indirect impact on local demand and the potential permanent pressures on the revenue base of the Council is still difficult to determine. Obviously as the situation develops and some lockdown measures are gradually lifted, the actual financial impact on the Council will be re-assessed.



5.4 The key headline financial support announced so far from Central Government for Southend-on-Sea Borough Council and the local area is summarised in Sections 6 and 7 of this report.

6 Central Government Passported Funding (Total £79,092,378)

The following table summarises the different elements of passported funding which has either already been received or will be 100% refunded via a Section 31 grant for the identified Discount Schemes. The remaining paragraphs in this section of the report provide some insight into the funding levels and the current status locally.

Announcement	Local Allocation (£)
Business Rates Grants*	45,512,250
SBG, RHLG, Retail & Nursery Discount Schemes #	27,223,000
Council Tax Hardship	1,661,945
Top-Up Grants to Businesses* (5% of £38,835,000)	1,941,750
Business Improvement Districts Support	18,750
Infection Control for Adult Social Care	2,734,683
Total	79,092,378

* 5% of intended spend of Business Rates Grant Allocation used to Fund Top-Up Grants to Businesses

To be refunded via a Section 31 Grant.

6.1 Business Rates Grants - £47,454,000 (Revised £45,512,250)

As at 31 May, £35.245m had been paid out in response to 2,885 legitimate grant applications. Our teams are also continuing to contact eligible businesses by phone/email and social media to encourage them to get in touch and apply for the remaining available grants. At the time of writing this report we were waiting on further details from 47 local businesses to finalise their payments. All new applications are reviewed on the day they arrive.

We have also done a local assessment of all our eligible businesses which indicates that we probably should have received around a £38,835,000 grant allocation rather than the £47,454,000 that we have received. A further £1,941,750 has now been earmarked from our initial allocation and confirmed by BEIS to be used to fund the Top-up Grants to Businesses which was announced on 30th April (See Section 6.3). We are then assuming that any remaining funding from our initial allocation will need to be returned to Government. A discretionary policy to allocate these new funds is being developed in co-production with various Southend business networks and once approved will enable the payment of these grants.

6.2 **Expanded Retail Discount and Nursery Discount Schemes (100% business rates relief for 2020/21) - £27,223,000**

The Government announced several initiatives to support businesses in these various categories and sectors. All local Authorities have been assured that this support, which has been passported in the form of 100% business rates relief direct to the bills for eligible businesses for 2020/21 in their local area will be 100% refunded. This will be in the form of a Section 31 grant. The arrangements for the new rates bills was finalised at the end of May 2020, after finally receiving the required systems patch from our external supplier. However due to the delay early indication was provided to all known eligible businesses and all direct debit arrangements were cancelled in advance of finalising the bills, therefore reducing the uncertainty and concern for these local businesses. In headline terms as at the 31st May 1,086 businesses have benefited from Retail, Hospitality and Leisure business rates relief with a value of £24,849,894 and 19 from Nursery business rates relief with a value of £139,342.

6.3 **Council Tax Hardship Funding - £1,661,945**

The Government's expectation is that billing authorities will provide all local recipients of working age local council tax support ('LCTS') during the financial year 2020-21 with a further reduction in their annual council tax bill of £150. This will be achieved by Local Authorities using their discretionary powers to reduce the liability of council taxpayers outside of their formal LCTS scheme design.

Southend-on-Sea as at 20 May had 8,386 working age claimants, 8,330 received the full £150 (£1,249,500) and 56 received an award up to the £150 (£2,699.25) due to their council tax liability being lower than the hardship payment. The total amount of funding currently allocated is £1,252,199.25. We are experiencing an increase in claimant numbers almost every day and priority will be given to pass on this £150 reduction to these new eligible claimants. In April 2019, the number of eligible working age claimants was only 6,200 – so there has been an increase of 2,186 (35%), over the last 12 months, with a significant spike occurring from around the middle of April 2020.

We are currently running with a 48% increase in claims so far for the month of May 2020 compared to the same time in 2019. Phone calls have slowed down and are now on a par with 2019 levels, however we are requesting all claims to be made online and only the extremely vulnerable and those with no internet access to use the phone lines.

Any remaining balance of this funding will initially be held in reserve for future claims but could be used to supplement the Council's existing Essential Living Fund (ELF) for our most vulnerable residents in 2020/21. To provide some context for the month of April 2020, we received 377 ELF applications (a 370% increase compared to April 2019) and 497 ELF General Telephone Calls (a 93% increase compared to April 2019).

6.4 Top-up Grants to Businesses - £1,941,750

On 30 April, the Business Secretary and Minister for Local Government announced £617m (5% on top of the £12bn already committed to business support grants) additional funding for local authorities. The funding is to provide top-up grants to businesses in their local areas not covered by the Small Business Grant Fund (SBGF) or Retail, Hospitality & Leisure Grant (RHLG) scheme. It has recently been confirmed that this will be funded from the balance of the initial £47,454,000 Business Rates Grant allocation (See Section 6.1).

We are disappointed about the size of the allocation we have received, given the nature and volume of small local businesses which potentially meet the initial headline criteria announced by the Government. We have expressed our concerns directly to BEIS about how this allocation was calculated in that it fails to consider local circumstances.

Authorities will have local discretion, but are expected to use funds in their area, subject to local economic need, focusing on small businesses (under 50 employees) with ongoing fixed property costs (e.g. those in shared spaces, markets, small charity properties, and B&Bs subject to council tax). Grant payments can be for £25k, £10k, or any amount under £10k. However, given our limited allocation of just under £2M and the priority businesses this new funding is aimed at we anticipate a relatively small sum will be available for discretionary use to support other businesses.

6.5 Business Improvement Districts Support - £18,750

On 1 May, the High Streets Minister announced that Business Improvement Districts (BIDs) will receive a total of £6.1m of additional funding to support core costs for a three-month period. Local authorities will receive funding via a s31 grant to be passed to local BIDs. The government has already delayed BID ballots, extending existing BID arrangements until 31 March 2021.

6.6 Infection Control Fund for Adult Social Care - £2,734,683

On 13 May, the Prime Minister announced an additional £600m fund to help 'lockdown' care homes. The planned proposals are to distribute our share of the funding to support local care providers. The vast majority (92%) will go directly to local businesses providing care in Southend to Southend residents. 75% will go directly to all care homes in Southend (£2.05m) – this is a requirement of the funding. A further 10% will go directly to all home care providers in Southend (£0.273m). 7% will go directly to supported living providers in Southend working with people placed by Southend Borough Council (£0.192m). The remaining funding (8% - £0.219m) will be used to fund additional infection control professional advisors for Southend care providers and to also provide additional out of hours escalation support.

7 Central Government Additional Direct Grant - Total £10,619,524 plus awaiting two allocations)

The following table summarises the different elements of direct grant funding that has been received. The remaining paragraphs in this section of the report provide some insight into the funding levels and the current status locally.

Announcement	Local Allocation (£)
Emergency Grant Funding (Tranche 1)	5,393,935
Emergency Grant Funding (Tranche 2)	5,062,493
Most Vulnerable in Society Support	Awaiting allocation
New Test and Trace Service	Awaiting allocation
Reopening High Streets Safely Fund	163,096
Total	10,619,524

7.1 Emergency Grant Funding (Tranche 1) - £5,393,935 (Received 27/03/20)

We have already or are planning to use this emergency grant funding for several one-off initiatives. We have earmarked the remainder of this grant to help offset some of the additional challenges we are facing in delivering the recovery plans for Children's, Adults and Highways and Transport. It is not expected that any of this grant allocation will be available to help to mitigate the impact of the significant reductions we are experiencing in fees and charges income.

The initial one-off investments include circa £1.200M to support the Adult Social Care Provider Market, £0.200M contribution for the temporary Regional Mortuary, £0.220M Food Distribution Centre, £0.370M Accommodation for Rough Sleepers and £0.180M Leisure and Cultural support.

7.2 Emergency Grant Funding (Tranche 2) - £5,062,493 (Received 15/05/20)

This is our share of the 2nd tranche of the £1.6 Billion emergency grant funding. It has provided a bit of extra initial breathing space but the potential scale of the local financial impact, which is dependent on so many factors, means that it is almost certain that further financial support will be required. The potential scale of our financial challenge is illustrated in Section 5.3.

It is expected that this extra allocation will be required to help meet any additional one off Covid-19 emergency response pressures but also to start to support our revenue base budget. It will be used to partly offset the loss of income from sales, fees and charges, to manage the risk of the increased difficulty of delivering our key service financial recovery plans and also to support any potential increase in the local demand for additional social care services.

7.3 **Most Vulnerable in Society Support (Allocation TBC)**

On 2 May, the Communities Secretary announced a £76m package of support for the most vulnerable in society, and a change to housing priority rules meaning that those facing homelessness as a result of fleeing domestic abuse will be considered priority cases.

The £76m consists of: £10m from MHCLG for safe accommodation services, £26.4m from DfE to support vulnerable children (including disabled children, care leavers, and children in early years), £28m from MOJ of which £25m will help victims of domestic abuse and sexual violence to access support services and £3m funding Independent Sexual Violence Advisors (annually, until 2022), and £11.6m from the Home Office of which £3.8m will support community-based domestic abuse and modern slavery support services and £7.8m to support charities helping vulnerable children. The announcement does not provide information on how much funding will go to charities and how much will go direct to local authorities.

7.4 **Test and Trace Service Support (Allocation TBC)**

On 22 May, an additional £300 million funding for local authorities to support a new test and trace service was announced. The funding is ring-fenced for the specific requirements to develop tailored outbreak control plans, working with local NHS and other stakeholders. Data on the virus' spread will be shared with councils through the Joint Biosecurity Centre to inform local outbreak planning, so teams understand how the virus is moving, working with national government where necessary to access the testing and tracing capabilities of the new service.

7.5 **Reopening High Streets Safely Fund - £163,096**

On Sunday 24 May the government announced an additional £50m of funding for English local authorities to prepare for the reopening of non-essential retail. This funding is intended to support a range of practical safety measures including new signs, street markings and temporary barriers. Local authorities will also be able to use this money to develop local marketing campaigns to explain the changes to the public and reassure them that their high streets and other commercial areas are safe.

8 **Cashflow Support and Financial Planning Considerations**

- 8.1 The Government have also introduced a range of measures to either defer payments by Southend-on-Sea Borough Council to the Government to later in this financial year or to make payments to us earlier and more quickly to help with our liquidity and cashflow. Examples of this include paying the value of business rates reliefs (£4,862,155) in advance. Historically the Council would have paid out the reliefs and then had to wait to claim the value issued back from the Government. They have also paid our ASC grant for 2020/21 and S31 grants upfront and delayed our payments for business rates to the Treasury until later in the financial year.

8.2 The Government have now confirmed that the planned Fair Funding Review and 75% Business Rates Retention Scheme will NOT be implemented as planned in 2021/22. It is still unclear at this stage whether a traditional three-year Comprehensive Spending Review will take place in the Autumn of 2020 or now and probably more likely that the Government will decide to just focus on developing a single 2021/22 Financial Settlement for the Local Government Sector.

8.3 A major concern will be that as the current year progresses, the lack of any clarity over the potential future level of available financial resources will add further significant complexities and challenges to our future business planning arrangements.

9 Business Rates, Council Tax and Housing Rents Collection Impact

9.1 Another area of major concern is the impact the crisis will have in terms of income collection and the potential increases in bad and doubtful debts across all our main income sources. The Council has quite rightly prioritised support for local residents, tenants and businesses by not issuing any recovery documentation, no enforcement action by agents and no summons have been issued. This moratorium has been put in place until the end of June 2020. We have also effectively allowed the deferral of all rents from our commercial tenants for the first quarter of 2020/21.

9.2 We are also experiencing significant increases in the number of Council Tax benefit claimants, additional numbers of tenants that are struggling to pay their rent and many businesses are approaching us for further/additional support including requesting payment holidays/deferred payments/writing off debt for historical rent and service charges etc. We are responding to these requests on a case by case basis and following the national guidance where applicable.

9.3 The following data has been compiled to present an initial comparison of collection activity from when the lockdown was first announced until 3rd May 2020. This comparable data is shown in the following tables, together with some initial supporting analysis and commentary. The situation is under constant review and updated each week to establish key trends and underlying issues.

9.4 Business Rates - Collection

	Sum Collected 2019	Sum Collected 2020	Number of Payments 2019	Number of Payments 2020
22nd March 2020	£279,547	£212,614	179	152
29th March 2020	£814,134	£271,262	353	197
5th April 2020	£3,130,511	£992,301	1,337	715
12th April 2020	£497,127	£307,560	427	164
19th April 2020	£153,672	£208,429	82	51
26th April 2020	£793,561	£245,070	454	114
3rd May 2020	£2,322,519	£965,267	1,385	610
Total	£7,991,071	£3,202,503	4,217	2,003

The final two weeks in March saw a decrease in collection from £1,093,681 to £483,867. A decrease of £609,805 (a reduction of 56%). There was also a downturn in the number of payments received over this period but not to the same extent as the sum collected.

In April there has been a huge reduction in payments received from businesses and this has also been the case via Direct Debits, with many of the plans terminated in view of the announcement of the expanded retail rate relief scheme. This will result in many businesses within the borough receiving a 100% discount from rates for the whole of the 2020/21 financial year.

Once the 100% relief for all eligible businesses is applied, we will have a better idea of the impact on Business rates collection because for the 100% relief granted we will in return get 100% funding of this through a S31 grant from Government.

In April, the payments received have decreased from £4,574,871 to £1,753,360. A reduction in financial terms of £2,821,511 (65%). This trend has continued into May. There has clearly been a reduction in actual collection (after an adjustment for the large amount of Business Rates support from the Government). The situation will continue to be closely monitored.

9.5 Council Tax – Collection

	Sum Collected 2019	Sum Collected 2020	Number of Payments 2019	Number of Payments 2020
22nd March 2020	£953,121	£858,013	6,245	6,131
29th March 2020	£1,117,042	£1,006,929	8,583	7,557
5th April 2020	£5,446,202	£5,714,512	42,863	42,049
12th April 2020	£1,102,889	£1,113,284	9,455	8,935
19th April 2020	£244,240	£216,217	1,913	1,790
26th April 2020	£2,211,392	£2,132,788	18,616	17,390
3rd May 2020	£5,322,190	£5,030,055	43,995	39,919
Total	£16,397,076	£16,071,798	131,670	123,771

In the final two weeks of March 2020 there was a reduction in collection, approximately 10% each week. The final two weeks in March saw a decrease in collection from £2,070,163 to £1,864,942. A reduction of £205,221. Unsurprisingly there was also a corresponding downturn in the number of payments received over this period.

Within the first month of this financial year, collection has been at a steady rate, with an extra £172,078 collected (£9,176,802 in comparison to £9,004,723). Obviously with the increase in Council Tax approved – it needs to be highlighted that there is a higher level of Council Tax to collect in 2020/21. At the expected collection rate for this time of the year, then it is probably more realistic to estimate that collection is around £600,000 less than anticipated.

Around 2,700 households have agreed new payment plans, with the majority electing to defer payment for April and May and then spread the cost over the remaining 10 months of the financial year. It will be important to see if there is a corresponding increase in the value collected from June 2020 onwards.

It is too early to form any definitive conclusion at this stage in the financial year. The tracking of payment activity will continue, and the situation will be closely monitored and updated regularly. There are clearly early signs of an overall reduction in collection rates, which given the circumstances was expected. The difficulty will be if this trend continues or deteriorates further in the coming weeks.

9.6 Housing Rents – Collection

	Sum Collected 2019	Sum Collected 2020	Number of Payments 2019	Number of Payments 2020
22nd March 2020	£22,429	£37,333	190	218
29th March 2020	£37,185	£33,412	315	252
5th April 2020	£27,991	£38,945	237	264
12th April 2020	£26,986	£19,420	229	216
19th April 2020	£48,714	£25,708	413	249
26th April 2020	£30,515	£22,092	259	238
3rd May 2020	£45,853	£26,100	389	199
Total	£239,673	£203,010	2,032	1,636

It is clear from the amount collected and the number of payments received that there has been a sizeable reduction in the level of rent collected, compared to the same period in 2019. The level of housing rent was also increased from April 2020, so the actual collection should be around 2.7% higher than compared to the same period for 2019.

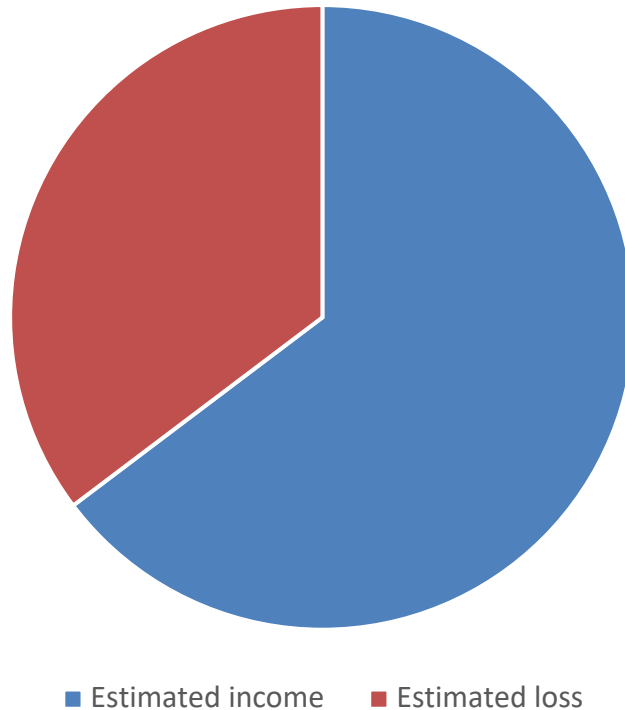
The 2,030 (33%) increase in eligible working age claimants highlighted in Section 6.3, will be a contributory factor and further work has commenced to understand the inter-relationships and working with tenants to better understand their individual circumstances. No enforcement action has or will be undertaken in this first quarter. This situation will be reviewed again before the end of June.

9.7 It is also far too early to assess the total potential cost to the Authority at this stage of additional bad and doubtful debts. It is estimated that if there is a 1% overall increase in bad debt for Council Tax and Business Rates that needs to be written off, then that would be the equivalent of approximately a £1M loss. This is a very real additional risk to the financial health of the Council, and it will undoubtedly translate into a real cost – it is just impossible to estimate the scale of the impact at this time.

10 Local Impact on Sales, Fees and Charges Income

- 10.1 Southend-on-Sea Borough Council budgeted to receive around £34M in total from a range of other income sources in 2020/21. A lot of this income could still be received in 2020/21 but the timing of when it might be received could be significantly delayed. It is very difficult to determine how activity levels will fluctuate, reduce or in some cases even increase, particularly when lockdown measures are fully relaxed. The impact of Covid-19 and the associated lockdown has had a dramatic immediate effect on some of our universal income areas such as car parking, leisure and tourism.
- 10.2 We have currently suspended all financial assessments for Adult Social Care clients for services post hospital discharge. The CCG have been given additional funding from the Government for this purpose and are currently picking up costs of all new related care packages for up to 12 weeks. They will also be picking up care package costs associated with admission avoidance cases. Individual client financial assessments will need to be introduced at the appropriate time for each individual case. We are experiencing a loss of income from services that are currently not operating or from individual clients where a family member is temporarily providing care but we have committed to paying the provider to help with maintaining their viability during the crisis.
- 10.3 Depending on how long the lockdown continues for and then how long the gradual return to more normal activity levels takes, then it would not be unreasonable to estimate that we could easily lose and we have done so far around £1M a month and potentially significantly more during the summer months. As with some of the expenditure pressures it is still too early to draw any definitive conclusions, with so many factors that could change over the coming weeks and months. This is an area that will remain under intensive review over the coming weeks and careful consideration and assessment of the current profile of a range of income budgets will be undertaken.
- 10.4 Our approved income budget for sales, fees and charges profiled to the end of July 2020 was £11.598M. The following pie chart illustrates the estimated impact on our income to this date. This assessment was included in our May return to MHCLG.

Income analysis to July 2020



10.5 There is also the potential impact of increasing bad and doubtful debts for a range of income that is not collected at point of sale or service delivery. It is an area where we are undertaking further work and an update will be provided at a future meeting.

11 Local Impact on Major Projects and the Capital Investment Programme

11.1 Our ambition for delivery of key schemes has not diminished if anything our determination and desire to drive regeneration and growth has intensified. Realistically though Covid-19 has brought with it a whole additional set of new challenges. There will inevitably be some delays in construction related projects. Although Government advice is that construction activities should continue, works may be delayed due to the availability of labour, plant and materials and some contractors opting to cease activity for a period of time.

11.2 There may also be additional cost pressures due to disruption of normal supply chains. Some projects require materials from overseas, so it is not just related to UK lockdown arrangements. There is also the potential for additional costs to be incurred relating to re-tendering exercises. Some seasonal dependent schemes may also miss their opportunity for completion. Where possible works planned to operational buildings which are currently closed will be accelerated to minimise disruption when they re-open. Re-prioritising, re-phasing and re-sequencing will be essential to try and maintain momentum and minimise cost increases and delays.

- 11.3 The Council has been very innovative and creative in developing a variety of funding arrangements for some major schemes, to take advantage of external grant initiatives and to reduce the financial impact locally. We are seeking reassurance from Government, that these often time limited grants, get suitable extensions for defrayment and completion. In most cases we are seeking 12-month extensions, but we also have the added potential complexity of Brexit and what impact that could have on EU secured funds. We will keep this under constant review.

12 Potential Future Demand and Currently Hidden Financial Challenges

- 12.1 Another major concern surrounds the possible future impact on key Adult and Children's Services after restrictions are lifted that could lead to a major increase in demand caused by isolation, stress and pressure building up in family units, domestic violence, vulnerable adults, children etc. Services have been working hard to try and manage the spikes in demand that we were experiencing and reporting throughout 2019/20. Recovery savings plans were in place to reduce demand and associated costs that are now at greater risk of non-delivery because of the uncertainty and pressure directly caused by the pandemic.
- 12.2 An area of immediate concern that we need to monitor is the potential impact of Covid-19 on the adult social care provider market. Generally, care homes are based on around 90% occupancy levels, but some are now running closer to 70%. This is potentially damaging and unsustainable in terms of viability if occupancy levels remain this low or reduce further for an extended period. This is an area which we need to keep under review and regularly assess the impact on provision across Southend-on-Sea. Some of this concern may be mitigated by the Government's announcement of £600M for an Infection Control Fund for Adult Social Care, as referenced at Section 6.5 and the support already provided to the Adult social care homes through the Covid-19 Emergency grant.

13 Tactical and Strategic Response to Managing the Financial Challenge

- 13.1 The Authority responded positively and quickly to the challenge that Covid-19 brought to the Borough. The tactical financial response is referenced in Section 7.1 which outlined the series of initial 'one-off' investments that were made. The immediate priority was given to keeping local people and everyone connected with our Organisation safe. The Authority mobilised support for residents and businesses and at incredible speed developed the capability for a large proportion of our workforce to continue to work safely and remotely.
- 13.2 The Authority has also re-deployed staff to priority areas such as food and PPE distribution, community hubs and safety support, together with enabling processes for new requirements like business grants to be paid. The Authority has not furloughed any staff, despite the challenges and reductions in income in certain service areas.

- 13.3 After the initial urgency of our response passed, more time has now been devoted to designing, preparing, and implementing our transition and restoration to whatever the new normal will look like. The potential size of the financial challenge of Covid-19 for the Authority is summarised in Section 5.3 and is currently estimated to be around £15M to the end of July 2020 and around £20M for 2020/21. Our strategic response has been to try and reduce our financial exposure in lower priority areas, make sure we passport all new Government support to local businesses and residents as fast and as accurately as we can, fully deploy the circa £10.5M of emergency grant funding that we have already received and clearly evidence and lobby Central Government for additional resources.
- 13.4 There could still be around a £9.5M financial gap in 2020/21, based on our current range of estimates and assumptions. We responded to the MHCLG request about potential use of our reserves in the May return. We estimated that we could use £1M of our general balance (which would then reduce to £10M). We also estimated that up to £2M of our Corporate Earmarked Reserves could be used, which will effectively reduce our Business Transformation Reserve and our ability to respond to 'invest to save' opportunities and delay planned transformational projects. We stressed that this could only be used on a short-term basis and that our reserves would need to be topped back up again in 2021/22.
- 13.5 If no further resources were secured from Central Government and our current estimates over the size of the financial gap are realised, then we would have to look again at in-year service changes and our earmarked reserves to try and fund the difference. This would be very challenging and have major repercussions for our future medium-term business planning, leading to some very difficult choices in terms of reducing our future cost base and ultimately our permanent local service range and offer.
- 13.6 Our other clear strategic challenge back to Central Government was to give some urgent clarity over the estimated future levels of financial settlements for Southend-on-Sea and for the overall Local Government Sector.

14 Conclusion

- 14.1 This report summarises the level of Central Government support announced and received so far. It also provides an insight into the potential financial impact of Covid-19 on Southend-on-Sea Borough Council. This assessment is based on a huge amount of disparate information, together with a range of constantly developing assumptions. From a financial planning perspective, it is very difficult to form accurate definitive conclusions with confidence at this early stage.

- 14.2 The pandemic will clearly continue to have major financial implications for our residents, businesses, and the Council itself over the coming weeks and months. Better and more informed intelligence will be gained each week and a greater understanding of potential future scenarios and outcomes will be established. It is proposed to bring updated reports to future Cabinet meetings. These will inform the deliberations of Cabinet and highlight with more confidence the potential financial impact on the Council for 2020/21 and the future.
- 14.3 We will continue to lobby Central Government with our other Essex local authorities for extra resources to both help with our local response but also the transition, preparation, and implementation of our restoration. We are recording all our costs and measuring the impact on all our income budgets to provide appropriate evidence. At some stage in the future it is hoped that this will help to form a fair financial compensation request to the Government.
- 14.4 Further work is also being undertaken to refine our understanding of what our estimated financial position will be in the longer term. This is essential to revise our Medium Term Financial Strategy and to inform the Authority's strategic response to maintain our financial sustainability and continue to strive to deliver better outcomes for our local residents, businesses and hopefully in the near future our visitors.

15 Background Papers

Various Government Announcements relating to Covid-19
Medium Term Financial Strategy 2020/21 – 2024/25