

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Executive Director (Finance & Resources)  
To  
**Cabinet**  
On  
**15 September 2020**

Report prepared by:  
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**Updated Local Financial Assessment and Illustration of the Potential Impact of  
Covid-19 on the Council's Medium Term Financial Strategy 2020/21 – 2024/25  
All Scrutiny Committees  
Cabinet Members: Councillor Ian Gilbert  
Part 1 (Public Agenda Item)**

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## **1 Purpose of Report**

- 1.1 To provide an updated assessment of the local financial impact of Covid-19. It remains an evolving situation as the Council continues to respond positively to the crisis and tries to minimise as far as possible the impact on local residents and businesses of Southend-on-Sea. More emphasis has now been placed on understanding the operational and financial impact of the pandemic as the Council transitions to a restoration and recovery phase and assesses the future sustainability of whatever the 'new normal' will eventually look like.
- 1.2 To provide a range of high level scenarios to illustrate the potential scale of the financial challenge over the short and medium term, whilst recognising that the volume of assumptions and understanding of the complexities of the many contributing factors are still under constant review.

## **2 Recommendations**

**That Cabinet:**

- 2.1 **Note the Council's updated assessment of the local financial impact of the unprecedented challenges that has been caused by the pandemic.**
- 2.2 **Note the scale of the potential financial challenge summarised in this report and agree that the Council's Medium Term Financial Strategy is reviewed and a range of options are developed to ensure continuing financial sustainability.**
- 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 still 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 has now turned 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 are at the forefront of implementing the relaxation to the 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 provides an update on the local financial impact and attempts to estimate a range of potential financial scenarios over the medium term based on a series of complex and ever-changing assumptions. All local authorities are struggling with this uncertainty, large financial pressures and concerns for their residents and local areas in such unprecedented times. This report builds on the information that was presented to Cabinet on 9 June 2020. The scale of the estimated financial challenge has increased, and it now looks likely that the total cost will be over the higher end of the range that was estimated in June 2020. The revised estimated gross cost to the Council could now be circa £22.3M, currently offset by £12M of Emergency Grant Funding, so a potential £10.3M extra financial pressure in 2020/21.
- 3.4 This revised assessment is still based on a wide range of assumptions and predicted patterns of cost, service demand and behaviours. Attempts have been made to assess 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 still relatively early stage, the estimated total cost to the Council for 2020/21 and the future is still very difficult to quantify with confidence. The situation will remain under constant review and the Council is preparing for the worst, whilst doing all it can to improve the situation and reduce the immediate potential deficit and its impact in the future.

- 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. This report highlights the potential range of financial impact over the medium term to inform our future planning and highlight the level of preparation and range of considerations required.

#### 4 Summary of Central Government Support Received (End of August 2020)

- 4.1 The report that was presented to the Cabinet meeting in June 2020 provided a full assessment and details of the different levels and types of funding support that Southend-on-Sea had received. This was summarised into the following three main categories.

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

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
<b>Total</b>	<b>79,092,378</b>

\* 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.

##### Central Government Additional Direct Grant (Total Allocation £15,778,253)

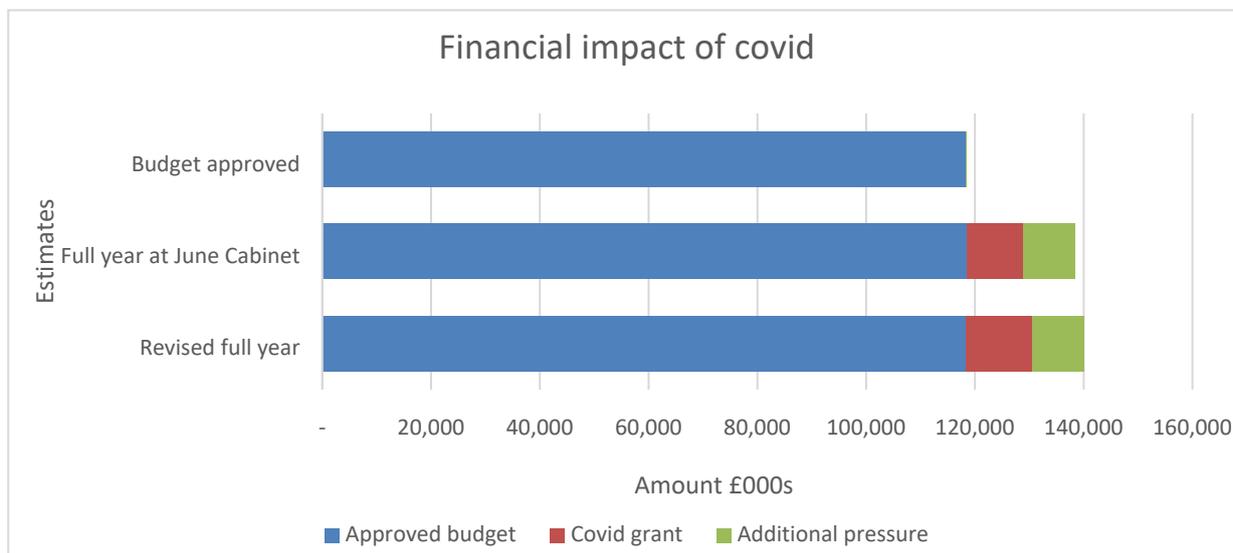
Announcement	Local Allocation (£)
Emergency Grant Funding (Tranche 1)	5,393,935
Emergency Grant Funding (Tranche 2)	5,062,493
Emergency Grant Funding (Tranche 3)	1,571,465
Most Vulnerable in Society Support	Awaiting allocation
New Test and Trace Service	£887,492
Reopening High Streets Safely Fund	163,096
Emergency Active Travel Fund	£1,545,000
South East Covid Kickstart (SELEP wide allocation)	£881,000
Travel Demand Management	£150,000
Additional Dedicated Home to School Transport	£123,772
<b>Total</b>	<b>15,778,253</b>

## Cashflow Support

The Government 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.

### 5 Financial Assessment and Assumptions

- 5.1 The Council has continued to submit monthly returns to MHCLG and the following information represents the latest information that was submitted and also includes the most up to date information that we have available at the time of writing this report. The actual MHCLG returns themselves have evolved and changed each month as the Government attempts to capture more information at a local level.
- 5.2 In headline terms, based on our July return and updated for known activity in August we have estimated £12.695M of direct Covid-19 expenditure pressures for 2020/21 (including risk to recovery savings plans) and a £5.073M estimated reduction in direct income levels (sales, fees & charges) for the year. So, in total we have estimated £17.268M potential service pressures, against an updated un-ringfenced grant allocation of circa £12.0M. The other major concern is our loss in income collection from Council Tax and Business Rates which is now estimated to be around £5.1M in 2020/21, it is hoped that this will be slightly offset by £0.5M due to our participation in the Essex Business Rates Pool. We have continued to assess all our estimates as Amber at this stage of the year.
- 5.3 The following bar chart illustrates the impact of this updated assessment against our approved service budget for 2020/21. This is based on a complex series of assumptions but also on improving local intelligence and small established trends of different customer behaviour patterns. The key concern that remains is the currently forecasted £10.340M (shaded green) estimated unfunded pressure for 2020/21. The comparable figure in the June Cabinet report was £9.544M. So, the estimated 'gap' has increased, even though an extra £1.572M of emergency grant support from the government for tranche 3 has been received. 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. The financial impact on the Council will remain under continual review.



## 6 Business Rates, Council Tax and Housing Rents Collection Impact

- 6.1 Clearly an area of major concern is the impact the crisis is having 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 currently remains in place but will be reviewed in September across different debt types. We have also effectively allowed the deferral of all rents from our commercial tenants for the first quarter of 2020/21. We have encouraged all tenants to open a dialogue with us to discuss and agree appropriate viable payments plans for the future.
- 6.2 We continue to experience significant increases in the number of Council Tax benefit claimants and additional numbers of housing tenants that are struggling to pay their rent. This situation may get even worse with the changes proposed to the national furlough scheme. We are hoping that the relaxation in the lockdown arrangements, combined with a growing number of UK residents opting for a 'staycation' that this will help to provide some additional support and activity for the local economy. Many businesses are still approaching us for further support including requesting additional 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.
- 6.3 Based on our latest analysis and assessment we are currently forecasting a £1.5M deterioration in our collection of Business Rates. A combination of increasing benefit claimants - working age Local Council Tax Support (LCTS) has increased from 7,700 to 9,316 by July 2020 (21% increase) which has the effect of reducing our Council Tax base, together with additional challenges for collection means that we are currently forecasting a £3.6M reduction in Council Tax income for 2020/21. At this early stage of the year we are forecasting to receive a £0.5M benefit from the Essex Business Rates Pool for 2020/21. From a housing tenants' perspective, we are currently forecasting a circa £0.25M potential challenge by the end of the financial year.

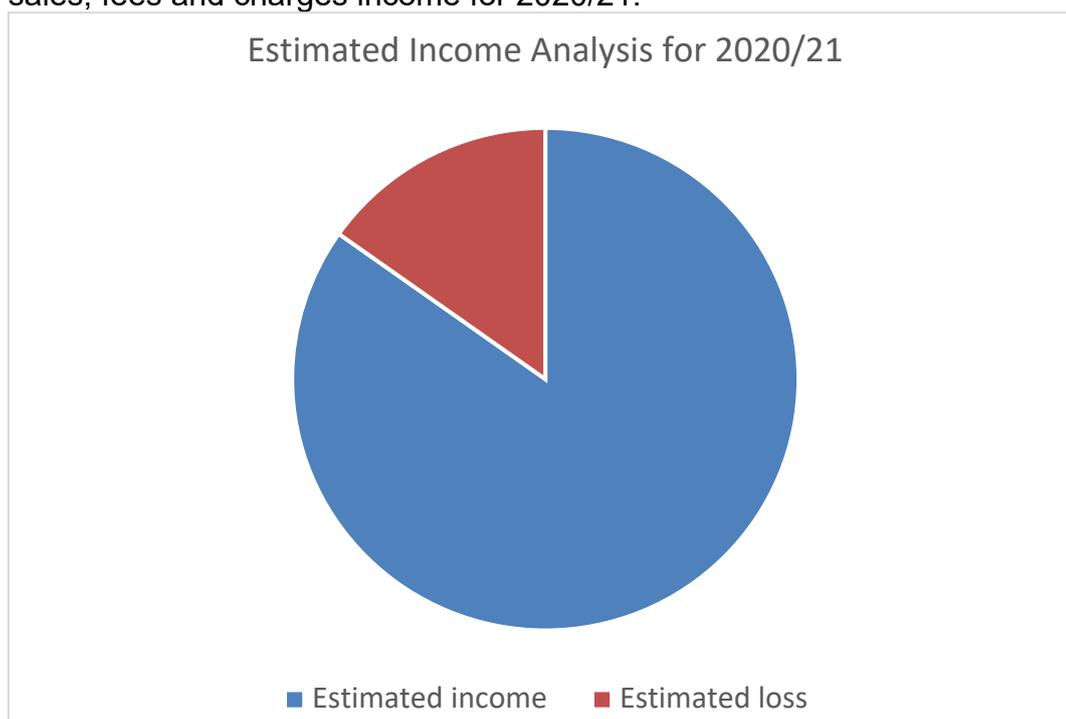
6.4 The government have recently announced their intention to allow authorities to spread 2020/21 collection fund deficits over three years. This is a year longer than the usual spreading over two years, with the estimate as at January 2021 being recovered the following year (2021/22) and the final outturn being recovered the year after (2022/23). We are still awaiting the technical details around the application of this initiative. MHCLG will prescribe the scheme in secondary legislation and intends to lay the relevant regulations in the autumn. MHCLG will be working with CIPFA and the local government sector to resolve the detailed accounting, audit, and reporting implications of this change.

## 7 Local Impact on Sales, Fees and Charges Income

7.1 Southend-on-Sea Borough Council budgeted to receive around £33.5M in total from a range of other income sources in 2020/21. It is very difficult to determine how activity levels will continue to fluctuate, reduce or in some cases even increase, particularly when lockdown measures are fully relaxed. The impact of Covid-19 and the associated lockdown did have a dramatic immediate negative effect on some of our universal income areas such as car parking, leisure and tourism.

7.2 There have been signs of improvement in some income areas but the continuing challenges for leisure, hospitality, adult social care client income and cultural services remain. 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 but we are beginning to see some established patterns and if there is no further local lockdown in Southend-on-Sea then we are optimistic that some income streams may return to more normal levels of activity.

7.3 The following pie chart illustrates the revised estimated impact on our overall sales, fees and charges income for 2020/21.



- 7.4 There obviously also remains the potential impact of increasing bad and doubtful debts for a range of income streams that are not collected at point of sale or service delivery. It is an area which we are continuing to monitor and assess.
- 7.5 Encouragingly the government have recently announced an income guarantee scheme, whereby authorities would be compensated for 75% of losses of income after the first 5%. This is intended to shield authorities from significant losses, whilst also continuing to encourage authorities to ensure that they maximise income. The scheme's initial design and scope suggests that it will cover sales, fees and charges income, and the amounts are to be calculated using the 2020/21 budget. MHCLG intends to take a 'principles based' approach and to allow authorities to use their discretion in making claims. This is a positive development and we are currently awaiting the detailed technical guidance to make a formal assessment of the benefit this will bring and to get a better understanding of the arrangements for making our claims. An updated assessment and clarification on our position will be presented to a future meeting of Cabinet. It is hoped that this new initiative will be factored into the planned Period 6 monitoring report, scheduled to be presented to Cabinet in November 2020.

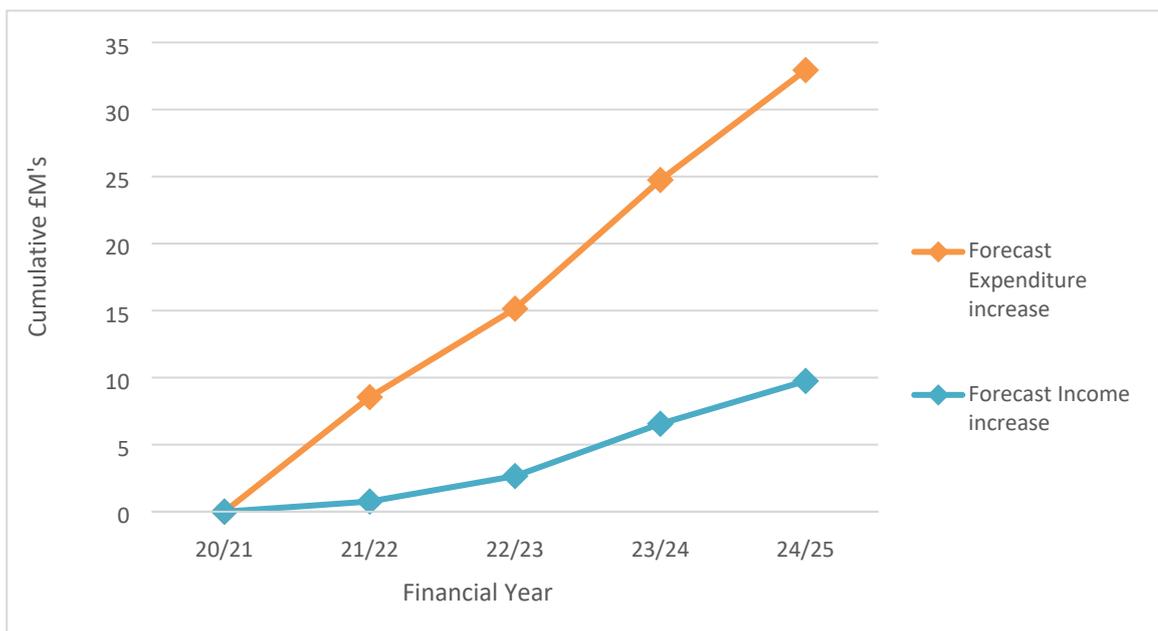
## **8 Future Demand and Potentially Currently Hidden Financial Challenges**

- 8.1 A potential further concern surrounds the possible future impact on key Adult and Children's Services after restrictions are fully 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 pre Covid-19. 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. This situation is in line with many other upper tier authorities across the country.
- 8.2 An area of ongoing concern that we are continually monitoring 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 have been 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 are keeping under review and regularly assess the impact on provision across Southend-on-Sea. Some of this concern should be mitigated by the Government's announcement of £600M nationally for an Infection Control Fund for Adult Social Care and the support already provided by the Council to adult social care homes through the deployment of our Covid-19 Emergency grant.

## 9 Medium Term Financial Strategy 2020/21 – 2024/25 Impact Assessment

9.1 The Government have confirmed that the originally planned Fair Funding Review and 75% Business Rates Retention Scheme will now NOT be implemented 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 that the Government will decide to just focus on developing a single 2021/22 Financial Settlement for the Local Government Sector. This lack of clarity adds further uncertainty in trying to assess the future level of resources that may be available to Southend-on-Sea and adds further significant complexities and challenges to our future business and financial planning arrangements.

9.2 Despite this uncertainty and the need for many more assumptions and estimates to be applied than in previous years it is still vital that an assessment is undertaken to try to predict the potential range of financial pressure and challenge over the medium term. This initial work will be refined and developed further over the coming weeks. The estimated best case is that all extra costs and lost income caused by Covid-19 will be compensated for by Central Government and the Council's future financial gap returns to the level that was presented and approved as part of the setting of the 2020/21 Budget in February 2020. This is represented in the graphic below for reference.

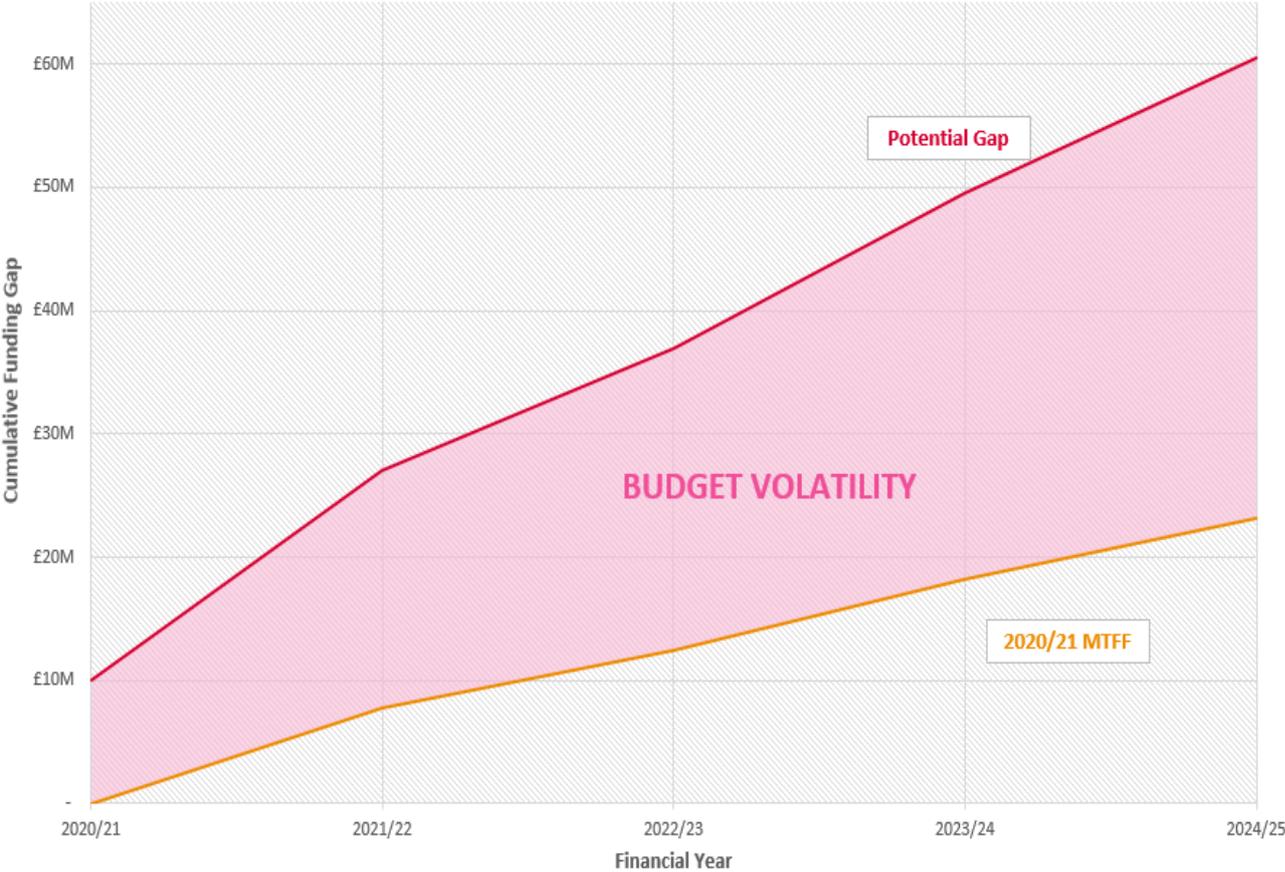


The forecast profiled budget gap represented in the chart above over the next five years is summarised financially in the table below: -

Year	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Budget gap	£0M	£7.8M	£4.7M	£5.7M	£5.0M	<b>£23.2M</b>

9.3 The potential size of the financial gap in each of the next four years could change significantly and it will depend upon many factors, which are mostly very difficult to determine given the current uncertainty. The Government may only partly compensate the Authority for the actual full costs of Covid-19 that have been incurred, there could be long term or even permanent damage to the local economy and the revenue base of the Council. This can manifest itself in many ways including the need to fund additional welfare needs and benefits requirements, reductions in the generation and collection of income, additional demand and cost pressures for adults and children social care interventions etc.

9.4 There could potentially be further lockdowns caused by a second major spike of the pandemic. The following graph attempts to factor in these assumptions to try to establish a sensible and reasonable range of what the financial gap for the Authority could potentially look like over the medium term. The likelihood is that the size of the actual financial challenge will be somewhere within this spectrum. The Authority, along with the rest of the Local Government Sector has already started its budget preparations and some difficult choices and decisions will undoubtedly be required over the coming months. These are unprecedented times and Local Government has never faced such a challenge whilst also wrestling with so much uncertainty.



## **10 Local Impact on Major Projects and the Capital Investment Programme**

- 10.1 Our ambition for the delivery of key capital 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 and the viability of schemes will have to be reviewed and considered. A report elsewhere on the agenda provides an assessment on the Forum 2 project as a direct result of the impact of Covid-19 on the College and the Council. There will inevitably also be some delays in construction related projects. Although Government advice remains that construction activities should continue, works may have been delayed due to the availability of labour, plant and materials and some contractors did opt to cease activity for a period.
- 10.2 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 still seeking reassurance from Government, that these often time limited grants, get suitable extensions for defrayment and completion. In most cases we are still 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.

## **11 Tactical and Strategic Response to Managing the Financial Challenge**

- 11.1 The Authority responded positively and quickly to the challenge that Covid-19 brought to the Borough. 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.
- 11.2 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.
- 11.3 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 currently estimated to be around £10.3M 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 £12M of emergency grant funding that we have already received and clearly evidence and lobby Central Government for additional resources.

- 11.4 We continue to respond to MHCLG's request about potential use of our reserves in every return. We have still 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.
- 11.5 We need to assess the positive impact of the opportunity to spread collection fund deficits over three years and the Government's new income guarantee initiative. Realistically further resources will be required and if our current estimates over the size of the financial gap is 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 reviewing our future cost base and income generating potential. This could ultimately result in permanent changes to our local service range and offer.
- 11.6 Our other clear strategic challenge back to Central Government is to give some urgent clarity over the estimated future levels of financial settlements for Southend-on-Sea and for the overall Local Government Sector.

## **12 Conclusions**

- 12.1 This report 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. At the time of writing this report we are waiting for further details and guidance around the two new government schemes for income guarantee and for spreading collection fund deficits. These initiatives will undoubtedly help to improve the currently predicted financial situation for the Council in 2020/21. From a future financial planning perspective, it is still very difficult to form accurate definitive conclusions with confidence at this stage.
- 12.2 The pandemic will continue to have financial implications for our residents, businesses, and the Council itself over the coming weeks and months. Better and more informed intelligence is being gathered each week and a greater understanding of potential future scenarios and outcomes is being established. It is proposed to continue to bring updated reports to future Cabinet meetings. These will inform the deliberations of Cabinet and highlight with more certainty the potential financial impact on the Council for 2020/21 and the future.
- 12.3 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 may be used to form a fair financial compensation request to the Government if needed.

- 12.4 Further work is continuing 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 our visitors.

### **13 Background Papers**

Various Government Announcements relating to Covid-19  
Medium Term Financial Strategy 2020/21 – 2024/25  
Initial Local Financial Assessment of Covid-19 (9 June 2020 Cabinet Report)