Review of the Financial Implications to the Council of the First Wave of the COVID19 Pandemic

1.0 Introduction

1.1 The following is a synopsis of the proceedings and recommendations made by the Covid 19 Scrutiny – Financial Implications of Covid 19 Response Task and Finish Panel (“the Panel”) to consider the financial implications of the Council’s response to the first wave of the Covid 19 pandemic.

3.0 The Panel

3.1 The Review was undertaken by the Panel which included the following members:

Councillor Briggs (Lead Councillor)
Councillor Branson
Councillor Carpenter
Councillor Thomas
Councillor Wade

3.2 The Panel would like to record its gratitude to the Members and Officers of Havant Borough Council for making themselves available to meet with the Panel. Full details of contributors to this review may be found in the document entitled “Background Papers”.

4.0 Terms of Reference

4.1 The Panel agreed to:

a) understand what had already happened

b) understand what controls and oversight existed in light of the pandemic which sat outside the councils’ budget and policy framework

c) consider the financial implications of what was coming

d) consider how scrutiny could play a part in understanding and acting on these implications

5.0 Methodology

5.1 The Panel’s activity fell into 3 parts:

(a) Review of Background Information

Throughout the review the members of the Panel had access to the report on the Council’s Covid 19 response submitted to Cabinet on 1 July 2020 and to the resource back established by the Local

Government Association, which included examples on how other Councils had reacted to the Covid 19 pandemic

(b) Interviews with the relevant officers

To discuss the Council's support to vulnerable people during the first wave of the Covid 19 pandemic.

(c) Arriving at recommendations

Key Observations

6.0 Actions Taken Manage the Financial Implications of the Council's Response

6.1 The Panel was pleased to note that from 17 March, 6 days before lockdown, actions were discussed and put in place to enable the Council to respond to the pandemic. Business continuity plans had been reviewed to ensure that the Council continued to deliver its critical services and support vulnerable residents.

6.2 To manage the financial implications of the pandemic:

(a) income and expenditure relating to the Council's response had been recorded to maintain a log of lost income and additional expenditure as a result of Covid 19 and was being used for assisting with central Government returns and monitoring income/expenditure;

(b) arrangements had been put in place to identify potential budgetary savings as a result of reduced activity during the lockdown and delay of Council projects – this has been used to mitigate the lost income and additional expenditure as a result of Covid.

(c) a methodology had been agreed with the property team to help our tenants;

(d) all recruitment has been put on hold and only agreed subject to Executive Board approval;

(e) car parking charges were not suspended as it was felt that this would encourage residents to undertake additional trips contrary to Government advice during the lockdown

(e) main expenditure was focussed on:

i) supporting vulnerable residents,

ii) supporting business through additional expenditure on ensuring appropriate resources and systems to deliver the business grants; and

iii) IT costs to support staff working from home.

(e) Hampshire County Council helped the Council's cash flow by reducing precept payments by 10% for the first quarter; to be paid at the end.

6.3 How the Pandemic Affects the Council's Financial Resilience

6.3.1 The corporate finance monitoring report for Quarter 1 revenue position forecast included a significant loss of income of £1.857M resulting from the Covid-19 pandemic which is partially offset by additional Covid-19 related grant of £1.558m. The Council had identified additional service-related savings to mitigate the impact of Covid-19. The latest forecast for the year showed a projected increase in the net cost of services of £1.685M and an overall projected deficit of £0.127M (which was 0.9% of the Budget Net Cost of Services)[1].

6.3.2 The Council had modelled impacts on cashflow and was comfortable with the position in the short term. The impact on the financial health of the Council had been reduced by stopping discretionary expenditure, freezing non-essential recruitment and redeployment[2].

6.3.2 The External Auditors were satisfied with respect to the position of the Council[3]l.

6.3.3 There were considerable financial pressures on the current MTFS going forward (a total of £11m over the next 5 years within year savings required of £2M from 2021/22 onwards (based on MTFS when budget accepted in February). Without financial support from the Government, the Council probably could not have been managed by just cutting services and expenditure[4].

6.3.4 A transformation programme had been launched to address the MTFS financial shortfall and this would be linked to the Covid recovery work in order to address the financial implications as a result of Covid. Consideration would be given to delaying some projects[5].

6.3.5 Financial resilience with respect to Covid would depend on whether there was a second lockdown/a local lockdown and the severity of the expected recession[6].

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[1] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21
[2] Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020
[3] Ibid
[4] Ibid
[5] Ibid
[6] Ibid

6.3.6 With regard to reserves, the Council could remain financially viable for the next 2.5 years if it did nothing and stood alone. However, this was not the intention of the Cabinet[7]

6.3.7 Although the Council had lost income, it was expected that the full impact would be felt when the furlough period ended. It was doubtful whether increases in discretionary sources of income will cover any shortfall[8].

6.3.8 100% relief to business would be clawed back. Council tax, Council already received some relief[9]

6.4 Expenditure

6.4.1 At end of Quarter One proposed additional expenditure had amounted to £138,500 which consisted predominately on:

i) additional costs supporting the homelessness (£58,000);

ii) costs associated with IT (£13,500) as staff moved to homeworking; and

iii) community support costs (£13,000).

6.4.2 An amount had also been set aside with respect to additional costs with respect to administering the grants scheme that Capita undertook, these costs were subject to negotiation (See 7.0 below).

6.4.3 Costs associated with homelessness would potentially be recovered through Housing Benefit/Universal Credit[10]. The Panel noted that the purchase of Brent House to house homeless residents had been financed from S106 money. It was anticipated that the use of Brent House should have positive effect on savings in bed and breakfast costs[11].

6.4.3 A breakdown of the additional expenditure relating to Covid is shown in the figure below[12]

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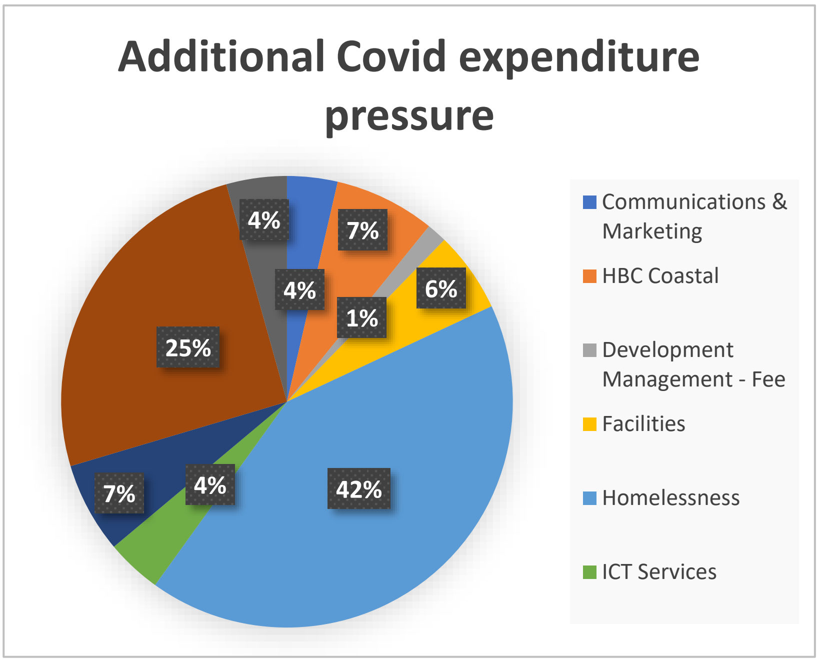
[7] Ibid
[8] Ibid
[9] Ibid
[10] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21
[11] Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020
[12] Ibid



6.4.4 There were expected further costs as one supplier had submitted a Financial Relief Notice which was currently the subject of discussions. In addition, further costs might be associated with any second wave of cases and/or a local lockdown – these were currently being monitored[13].

6.5 Income

6.5.1 The corporate finance monitoring report for Quarter 1 revenue position forecasted a significant loss of income of £1.857M resulting from the Covid-19 pandemic which was partially offset by an additional Covid-19 related grant of £1.558m[14].

6.5.2 Central Government had recently announced that they would contribute 75p for every £1 lost over the initial 5% of losses. The full details of the scheme had not been released but it was expected to cover lost income from car parking and regulatory services. Lost income from commercial activities would unlikely be covered through this scheme[15].

6.5.3 **Impact on the Council's Investment Programme**

6.5.3.1 During the first quarter 96% of rents were collected, which was considered a particularly strong performance. The Panel noted that if there was no

[13] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21
[14] Ibid
[15] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21

improvement in the economy, the loss of rental income could have a bigger impact on the Council's finances[16].

Quarter amount requested (25 March-24 June)[17]	Quarter amount collected	%
£469,008	£453,119	96.6

6.5.3.2 There had been significant closures in the Meridian centre and the Panel was advised that the Council was looking to mitigate any financial pressures from the Meridian onto the Council's own budgets. Although the revenue budget for the financial year was not dependent on the income from Meridian, it would impact on the ability to build up the Regeneration Reserve[18].

6.5.3.3 Meridian Income Received to date[19]

Meridian Shopping Centre				
Due Date	**Invoiced**	**Outstanding**	**Received**	**Collection %**
25/03/2020	£89,349.50	£28,770	£60,579.73	67.80%
01/04/2020	£34,250.00	£14,725	£19,525.01	57.01%
01/05/2020	£34,541.67	£15,933	£18,608.34	53.87%
01/06/2020	£34,541.67	£16,096	£18,446.07	53.40%
24/06/2020	£95,099.50	£66,776	£28,323.97	29.78%
01/07/2020	£33,448.47	£30,987	£2,461.64	7.36%

6.5.3.4 Although the Coronavirus Act 2020 did not waive or suspend the tenant's liability to pay rent under a lease, the Act prevented the Council from forfeiting a lease and commencing possession proceedings for failure to pay rent or other sums, including services charges and insurance rent between 26 March 2020 and (currently) 30 September 2020. Leases could still be forfeited where a tenant breached other covenants contained in the lease, such as tenant duties to maintain fixtures and fittings. Recovery action of all outstanding debt was continuing[20]

6.5.3.5 The Panel noted that, in the event of more staff continuing to work from home after the pandemic, the Council would seek to maximise the potential commercial income from letting out the empty spaces in the Plaza[21]

[16] Ibid and Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020
[17] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21
[18] Ibid and Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020
[19] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21
[20] Ibid
[21] Ibid and Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020

6.5.4 Impact on Fees and Charges Income

6.5.4.1 Income reductions were profiled at both 30% and 50% during the lockdown and to took account of potential future lockdowns. Based on information to date the current assumption was that there would potentially be a 30% income reduction of key income streams[22].

6.5.4.2 Actual income from fees and charges for Quarter One against budget for selected income lines was as follows[23]:

INCOME	Q1 BUDGET	Q1 ACTUAL	VARIANCE
Beach Huts	63,705	399	-99%
Building Control - Fee	34,485	29,479	-15%
Cemeteries*	53,727	0	-100%
Development Management - Fee	144,942	71,298	-51%
Green Waste**	170,433	710,395	317%
Hackney Carriage/Private Hire	24,990	11,436	-54%
Local Land Charges Chargeable	30,237	13,112	-57%
Norse Contract Payments	139,695	33,903	-76%
Off-Street Parking	562,458	106,116	-81%
On Street Parking (Fixed Penalty Notice)	40,854	905	-98%
Open Spaces*	78,717	0	-100%
R&B Contract Management	66,723	0	-100%
Transport & Implementation	106,206	607	-99%

* awaiting Norse payment who collect the money on our behalf

** billed at beginning of year

6.5.5 Income from Council Tax and Business

6.5.5.1 The collection rates for Council Tax and Business Rates up to the end of Quarter One was as follows:

HAVANT COLLECTION RATES

CTax:		NCD		Collected	as %
Jun-19	£	70,334,843.69	£	20,730,077.58	29.47%
Jun-20	£	73,199,125.36	£	21,159,252.76	28.91%
Change	**£**	**2,864,281.67**	**£**	**429,175.18**	**-0.57%**

NNDR:		NCD		Collected	as %
Jun-19	£	35,870,762.65	£	10,008,710.85	27.90%
Jun-20	£	18,754,874.21	£	4,301,176.50	22.93%
Change	**-£**	**17,115,888.44**	**-£**	**5,707,534.35**	**-4.97%**

[22] Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020

[23] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21

6.5.5.2 The Council had decided not to give a blanket deferral on direct debits for Council Tax for the first two months consider individual requests for a deferral. A total of 2220 households within the borough have had agreed Council Tax alternative payment plans through deferral to later collection periods.[24]

6.5.5.3 Although the impact of the loss of business rates did not impact the general fund in 2020/21 it would need to be recognised in the government return (NNDR1) for 2021/22 and need to be recognised in the 2021/22 budget and the monies set aside. This deficit would be offset by the monies set aside in 2020/21 earmarked reserves. MHCLG has confirmed that collection fund deficit repayment can be spread over three years as opposed to the usual one and this will further assist cashflow. As a result of the expanded retail relief a section 31 grant of £17.1M is expected to cover the retail reliefs[25].

6.5.5.4 Additional support had been provided for Council Tax Support Schemes (£1.099M) for Havant. A decision would be made how best to utilise this money to support those residents in financial hardship with respect to Council Tax. To date £300,000 has been identified for support to those in need[26].

6.5.5.5 The Government was also allowing tax deficits to be spread over 3 years rather than the usual 1 year. This would allow for deficits to be paid off in a reasonable timescale and would limit cashflow pressures[27].

6.5.5.6 With respect to business rates; the majority of lost income would be covered through the central Government s31 grant covering retail reliefs that were announced early in the pandemic (see below). The Panel learnt that the full impact would not be known until the NNDR1 return had been completed for central Government later in the year. However, the s31 grant would ensure that there should be no cashflow issues for this financial year. Further details on collection rates for Q1 are detailed below as well[28].

7.0 Business Grants

7.1 The utilisation of the Business Grants scheme and the Local Authority Discretionary Grants scheme had been put in place to support local businesses and funds had already been distributed for both schemes. Round 2 of the Local Authority Discretionary Scheme has recently closed with further payments for businesses due shortly[29].

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[24] Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020

[25] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21

[26] Ibid

[27] Source: Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020

[28] Source: Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21

[29] Report to Governance Audit and Finance Board on 7 October 2020 - Corporate Performance Report Quarter One 2020/21 and Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020

7.2 Whilst discretionary grants were administered by the Council's staff, Business Support grants were processed by Capita. Therefore, provision has been made to cover Capita's costs.

7.3 The Panel discussed in detail the problems involved with Capita's administration of the Business Grants Scheme and the additional costs incurred by the Council to resolve these problems. The Panel was concerned about the lack of resources initially allocated to the provision of this Scheme by Capita and the length of time and pressure that had to be exerted by the Council and its partners to get the issues resolved. The Panel noted that in contrast, East Hampshire District Council, who had not outsourced its financial services was able to respond quickly to provide a more efficient and flexible service to businesses. The Panel was pleased to note that the Council would seek to recover these costs from Capita and that negotiations were taking place to bring some of the services back in house. However, there was concern that if there was another round of similar grants, the same problems would reoccur. It was therefore felt that this problem should be registered as a risk[30]

[30] Briefing paper submitted to the Panel and meeting of the Panel held on 30 July 2020