Update on Financial Impacts of COVID-19 for Council - 10th December 2020

Whilst we have been through two national COVID-19 lockdowns and are now under Tier 2 restrictions, the full economic and financial impacts of COVID-19 on the Borough and the Council are not yet known. We do not know whether restrictions on businesses will again need to be tightened in the New Year before the country starts to see the positive impacts of the vaccination programme. In particular, we await to see what impact the ending of the national furlough scheme in March 2020 will have on unemployment numbers, and the number of families needing to claim benefits, receive localised council tax support or housing support. In turn the future impacts on the economy and how it recovers will have an impact on the Council's service fees and charges income for a number of years to come. It should be noted that in relative terms the unemployment rate for Spelthorne has risen by a higher percentage than the averages for Surrey, South East

The Council is continuing to monitor financial impacts of COVID-19 on its expenditure and income and to provide regular returns to the Ministry of Housing Communities and Local Government (MHCLG). Tomorrow we provide the next Delta Financial Impacts return to MHCLG, which will reflect slightly higher additional ICT costs relating to home working than previously reported, and a week tomorrow we will provide our claim for the period August to November for the 71.25% reimbursement of service, fees and charges income lost as a result of the Pandemic. As we reported last month to Cabinet and Overview and Scrutiny, we currently anticipate to need to make use of approximately £0.7m of the £2.2m use of reserves approved by Extra Ordinary Council on 21st May 2020 to assist the Council get through the financial impacts of COVID-19 in 2020-21.

The Council's commercial assets' rental income streams have continued to perform well in the face of what the Chancellor confirmed in his Spending Review speech has been the biggest economic downturn for more than three hundred years. For the nine months since the first national lock down commenced, the Council has received 96.7% of the rent demanded with all but 0.2% of the remainder covered by short term rent deferral agreements with tenants. The December quarter day rent demands have been issued and 5.2% of the rent has already been collected in advance of the due date. This performance is considerably better than most other commercial portfolios and is a reflection of the quality of the assets, the strength of the tenants and the skills and hard work of our Assets Team in pro-actively engaging with tenants. There will not be any adverse impact on this year's Revenue Budget outturn arising from any shortfalls in rental income and indeed our 10 year worst case scenario projections for our sinking funds continue to indicate that we have more than sufficient sinking funds to insulate the Revenue Budget and council taxpayers from any short term reductions in income.

As might be expected, the Elmsleigh retail rental income has been more challenging with 60% rent collection achieved for the third quarter. For the

current year we anticipate a rental income approximately £900k lower than our base case projection at the time of acquisition. This shortfall can be absorbed through sinking funds adjustments without any impact on the Council's Revenue Budget or council tax payers.

Not needing to make full use of the reserves approved by the 21st May ECM, potentially provides the Council with some room for manoeuvre to help us address the challenges of balancing the 2021-22 Budget when we will be facing ongoing impacts of COVID-19. We will bring the Outline Budget Report to Cabinet in January, setting out medium term budget gap projections and medium term financial strategy. The detailed budget will be brought to Cabinet in February with Overview and Scrutiny having an opportunity to scrutinise on 9th February. We had a useful Budget Briefing session with all the Group Leaders and finance leads last week.

On 25th November the Chancellor delivered his Comprehensive Spending Review and following on from that there were several helpful COVID-19 related funding announcements. In his statement, the Chancellor highlighted that the Office for Budget Responsibility forecasts that the economy will contract by 11.3% this year, the biggest one-year drop in 300 years (since 1709). The Chancellor recognised the long-term scarring of the economy with GDP likely to be 3% lower than otherwise would have been the case in 2025. The economic emergency has "only just begun".

Forecast borrowing this year is £394 billion = 19% of GDP highest ever level in peacetime history. In 2021, the Government still anticipates borrowing to be more than £100bn per annum.

Unemployment is projected nationally to peak at 7.5% or 2.6m people, before falling to 4.4% by the end of 2023. The Chancellor announced a £3 billion unemployment support package.

Following the Spending Review the MHCLG has made several positive announcements:

- £1.55bn further expenditure COVID-19 financial impacts grant to be paid in first quarter of 2021-22. We are expected to learn details of allocations as part of the Provisional Funding Settlement for Local Government expected to be announced next week,.

- 75% cover of irrecoverable local tax losses for 2020-21 – we are waiting for the detailed guidance on how 'irrecoverable' is defined. The shortfalls in collection would have hit 2021-22 budgets. On top of this councils will then spread the deficits over three financial years.

- 71.25% reimbursement of sales, fees and charges income lost as result of COVID-19 to be rolled forward for the first three months of 2021-22. We understand that MHCLG is considering using the 2020-21 Revenue Budget as the baseline comparison.

- £670m Grant to assist with impact of more residents moving onto Localised Council Tax Support.

- Negative grant in future years will be dropped; we had been assuming a need to make a £750k payment in 2022-23.

Additionally at same time, the Government published its response to the consultation on Public Works Loan Board Terms, dropping with immediate effect the margin on its loan rates by 100 basis points but requiring authorities to confirm that when applying for PWLB finance that they do not plan to purchase any commercial assets within next three years primarily for income. This Council has no plans to purchase any such assets in the coming years. The loans rates reduction will help make any new Council housing and regeneration delivery and the leisure centre more affordable to finance from borrowing.

The measures above help reduce the gaps we are facing, particularly for 2021-22. However, we still have the challenging gaps which Management Team, Group Heads, Accountancy and the Cabinet are working on.

We are recommending that we apply £1.5m of unused reserves, from the £2.2m use of reserves approved by the Extraordinary Council on 21st May, to help reduce the budget gap for 2021-22. Despite the challenging gaps we are in a stronger position than most councils.

Councillors will have picked up that the Chancellor talked about his desire to see a 'pay pause' in 2025 for public sector workers other than NHS staff. The Chancellor cannot direct councils who have local pay settlement to freeze pay. In the context of the budget gaps we are still facing next year and the following year, the Council is looking at what is affordable, and we are undertaking benchmarking with other Surrey local authorities. We do need to be mindful of the need to be able to compete with other councils in recruiting and retaining the staff we need to deliver services for residents. Equally we should be mindful of how staff across the organisation stepped up in response to COVID-19. Clearly the level of a pay increase will be a decision for councillors to make as part of the Budget process.

Business rates, and economic development teams have been busy with the new local restrictions grant (closed) for businesses closed by regulations and the council has issued is discretionary policy to apply for Additional Restriction Grant (ARG) of just under £2m in total– 40% upfront, 60% for wider economic support to assist with recovery in 2021-22. The deadline for phase 1 ARG was 6 December. To date we have paid 155 businesses Local Restrictions Grant support totalling £252,068. In addition, we have received a further 113 Local Restrictions Closed applications. The Local Restrictions Closed scheme will close 18th December (after the govt announcement), So far we have received 96 Discretionary applications. To date we have 27 cases requiring further checking (9 closed and 18 discretionary) which includes a number of duplicates and potentially some fraudulent claims.

New tier 2 applications will open tomorrow.
We have used a variety of communication channels to try to ensure that local businesses are aware of these funding opportunities.

To date the Housing Benefits and Finance team have made 108 payments of the £500 Track and Trace Self Isolation grant to individuals isolating.

Spelthorne and other Surrey Districts and Boroughs have been having some frustrations with the way Surrey County Council (SCC) are passing on COVID-19 funds allocated to themselves as an upper tier authority which are meant to be shared with lower tier authorities. We recently received confirmation that SCC will not fund £40k towards Support 4 Spelthorne for the costs we incurred providing food and support to shielded residents. Shielded residents are meant to be the responsibility of upper tier authorities. Surrey has received £8 per head from a Contain Outbreak Management fund and has decided to retain £5 per head and pass on only £3 per head. £5 per head equates to £6m for SCC and we believe they are planning to use this for track and trace. £3 per head for Spelthorne is roughly £300k and we will use some of it to fund additional temporary resources to address the heavy pressures Environmental Health are under seeking to meet the additional statutory duties currently placed on them.

The Council's leisure centre operator, Everyone Active, have highlighted that they are currently estimating a significant deficit for next year and would like a conversation with the Council about financial support for 2021-22. Nationally approximately 200 leisure centres have not reopened. The £100m Government Fund for supporting leisure centres is be launched this week. The scheme has been developed by Sport England for the DCMS. Local authorities are to lead on bids. The first step will be for the authority to lodge an expression of interest. Funding is intended to cover forecast losses from Dec 2020 to March 2021 (not retrospective to cover losses to date). A notional sum will be assigned for each authority based on a formula to indicate how much they might be allocated, but actual sums require submission of a bid.

Bidding opens on 11 December (i.e. tomorrow) and closes on 21 December; so a very quick turn around. Council officers are liaising with Everyone Active to ensure that we make a funding submission.

It is important to recognise that behind our income and expenditure figures movements there are non-financial costs and impacts.

- The reduction in car parking income reflects reduced footfall in our town centres and a challenging environment for local retailers, restaurants and businesses.
- Reduced income at our Community Centres reflects the fact many vulnerable, elderly and frail residents are not able to access services,

although our staff have been creative in coming up with alternative ways to provide support.

- Additional expenditure is being incurred in areas such as Environmental Health who are under immense pressure meeting their additional statutory responsibilities in the face of COVID-19. We will be using some of the approx. £300k Contain Outbreak Management Fund to help finance this.

Across all levels of the organisation staff and managers have responded flexibly to the very significant impact of COVID-19. Many were for a while being redeployed to support priority areas, and many have faced increased workloads and stress levels. So I am sure all of our workforce, will be looking forward to a short break at Christmas.