

FINANCIAL IMPACT OF CORONAVIRUS ON THE COUNCIL

REPORT OF: CHIEF OFFICERS
Wards Affected: All
Key Decision: No
Report to: Scrutiny Committee for Leader, Finance and Performance
Wednesday 17th June 2020

Purpose of Report

1. This report provides an early opportunity for the Scrutiny Committee to consider the financial implications for the Council of the Covid crisis to date and the forecast implications for the 2021/22 year. The report considered by the Cabinet at its meeting on 1 June 2020 provides useful background (in addition to this report) and is appended.
2. The impact of the crisis is so significant that a revised Corporate Plan for the current year (2020/21) is currently being prepared. The Scrutiny Committee will consider this revised Plan later in the summer before it is considered by the Cabinet and Council in September.
3. In addition, the Council will need to begin work to prepare a budget and Corporate Plan for the 2021/22 financial year in the early autumn. Therefore, this report provides an early opportunity for Scrutiny Members to consider the underlying financial context that will be so important to both work streams.

Recommendations

4. **That the Scrutiny Committee consider the contents of this report, particularly paragraphs 40 to 48; and whether it wishes to offer any advice to the Cabinet to help guide work on the revised 2020/21 Corporate Plan and (in due course) the 2021/22 Corporate Plan and Budget.**
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Introduction

5. The appended Cabinet report (1 June 2020) provides useful background for the Scrutiny Committee. It provides an overview of the unprecedented demands that have been placed on the Council and the communities of Mid Sussex since lockdown was announced on 23rd March 2020. As many Members are still comparatively new to their role as District Councillors, or indeed to Local Government, it is important to emphasise the nature of the Council's role as a Category 1 responder under the Civil Contingencies Act.
6. Since lockdown began the Council has operated using emergency powers within the Civil Contingencies Act 2004, the Coronavirus Act 2020 and existing legislation. The threat to life represented by the crisis has engaged these provisions. As outlined in the appended report, the Council has been participating fully in the work of the Sussex Resilience Forum (SRF). This work has been far reaching and unparalleled.
7. The health pandemic has had a severe adverse financial effect (which is likely to be ongoing), on the Council. Primarily this is the result of increasing demand for services and a very substantial reduction in income. This report gives an overview of this financial impact to date and forecast implications for the 2021/22 year. Detail on this is provided in paragraphs 40 to 48.

Support to Business

8. The report to the Cabinet outlines the support to business that has been provided by the Council. At the time of writing the Council has made grant payments to local businesses to the value of £24m. These payments were made under the Government's own scheme introduced in the Coronavirus Act 2020.
9. More recently the Government also allocated a much smaller amount of money to this Council for an additional scheme to support businesses that did not meet the criteria for the original scheme. An example would be that of a Bed and Breakfast accommodation which is not subject to Business Rates - which was a qualifying criteria under the first scheme. This second scheme, with a total fund of £1.4m, gives the Council a degree of discretion in making awards.
10. The Council led work across West Sussex to devise a scheme with a common framework in order to offer business a consistent approach within the economic sub region. This work was achieved within a very short timescale. The scheme will be available until 15th June 2020 and awards made shortly thereafter.

Hubs and Shielding the Vulnerable

11. As reported to Cabinet on 1st June, the Government's shielding programme commenced on the 20th March. Again, it was introduced under the Coronavirus Act 2020. It shields approximately 1.5m people nationally; 5,194 of whom live in Mid Sussex and 2,300 of whom registered for some form of support with either deliveries of food or assistance with medicine or other types of support. As the pandemic has continued, the groups of people included in the shield has changed, both in terms of numbers and the categories of people shielded. As previously indicated, this is a challenging area of work, and the Council has worked closely with West Sussex County Council and Mid Sussex Voluntary Action, to ensure those people needing support have received it.
12. As the Government rolls out its Track and Trace Programme, it is likely that some individuals who are required to self-isolate as a result of the tracing programme, may be included in the shield. The risk is that this number is unknown and we are anticipating that the number in the shield is likely to increase. The length of time the shield will be in place is also unknown. Therefore, the impact of this work on the Council is difficult to predict but it seems unlikely that it will do anything other than increase service demands.

Housing and Homelessness

13. Alongside most other District Councils in the Country, pressure on housing and, in particular, services to support those who are homeless or threatened with homelessness is challenging.
14. It is unsurprising that the demand for assistance with housing throughout the pandemic, particularly as a result of the lockdown has created greater challenges, with the Council seeing unprecedented numbers of households in temporary accommodation. Some of those consist of households to whom the Council has a statutory duty to assist and whose housing situation has been worsened as a result of the pandemic and lockdown. Others placed in temporary accommodation have been placed under the Coronavirus Act powers, which required Councils to place rough sleepers and those at risk of rough sleeping into temporary accommodation. District Councils would not ordinarily have responsibility for this group.

15. As at 8th June 2020, the Council have 97 households in temporary accommodation, 9 of which have been placed under Covid powers. This is an unprecedented number in temporary accommodation.
16. The Government is now requiring District Councils to identify move on strategies where possible for those placed under the Covid powers. This group have historically been extremely difficult to accommodate, mainly because they require high levels of intensive support.
17. Members will note that, in the financial year 2019/20, West Sussex County Council withdrew funding for this group, resulting in District Councils having to budget for an additional £25k in 2019/20 and a further £50k in 2020/21. In recognition of increasing demand for assistance from this group, prior to the pandemic, Cabinet on 16th March 2020 agreed to recommend that Council makes £4.2m capital funding available to provide 10 properties specifically for single people. There will also be revenue implications which are currently unknown.
18. The risk for the Council is that at a time of diminishing resources, we are experiencing a significant increase in the numbers of people in temporary accommodation at a cost to the tax payer. As indicated in the Cabinet report appended, we are anticipating a further increase in demand due to pent up need for assistance in housing. This is likely to have an ongoing impact on the Council's housing service, with significant increased pressure on the temporary accommodation budget. Therefore this is another service area where demands (both financially and in staff time) are increasing.

Council Tax Support / Hardship Support

19. The lockdown has had a severe effect on the local economy, evidenced in part by the increase in the numbers of council tax support claims which have already risen from approximately 5,500 to just over 6,000. This has the effect of depressing the Council Tax Base and may give rise to a Council Tax deficit on the collection fund which then needs to be taken into account in 2021/22.
20. The combined effect of this is to put pressure on the ability to increase tax in 2021/22 and that a tax increase effectively funds a deficit rather than actually raising revenue for services and improve the Council's financial position in future years.
21. The Government is examining whether any deficit can be spread over perhaps two or more years to mitigate against this pressure on tax raising powers.

Leisure

22. Members will be aware that on 20th March 2020, the Government instructed leisure facilities to close, once more under the provisions of the Coronavirus Act 2020. This triggered a change in law in relation to our leisure contract. On 23rd March, Places Leisure (our leisure contractor) informed the Council that they would be relying on the change in law and had furloughed all their staff except 2.

23. Under the terms of the contract, the change in law requires the Council to negotiate with the contractors a fair and reasonable sum to support the closure of the leisure centres in order to cover the contractor's fixed costs. This impacts on all leisure contracts nationally. The Local Government Association, in partnership with Sport England, have made funding available to assist Councils to procure expert advice to assist them in this unprecedented matter. This Council has availed itself of this support and has retained The Sports Consultants who are providing advice on our negotiations with our contractor, Places Leisure (PL) on the close down.
24. In accordance with our leisure contract and following challenging negotiations, the Council is likely to have to agree to pay the contractor something in the region of £156k per month from 21st March up to reopening of the Centres to cover the contractor's costs. In addition to this, Members will be aware that PL currently pay the Council a management fee of £117k per month (£1.4m per annum) and as part of this change in law, the Council is required to forego this income.
25. In addition to this, the Contract requires the Council to negotiate and agree a revised financial settlement in relation to reopening the facilities. The cost of reopening leisure centres is likely to be higher than maintaining a closure of them.
26. The latest Government guidance advises that leisure facilities should plan to reopen after 4th July. Although, at the time of writing, further guidance is awaited and this may change.
27. Officers are currently working with our consultants and PL to agree the timing and costs of reopening. Due to the need to comply with the Government's restrictions, it is highly likely that, if reopened, facilities will run at very reduced capacity, possibly as low as 30%. However the costs of running Centres will remain high; at best 60%. This means the costs to the taxpayers of reopening Centres could be as high as £160k per month.
28. It is likely that any agreed figure for reopening the leisure centres is likely to run until at least March 2021 and clearly given the nature of the Covid 19 pandemic, it is extremely difficult to predict when social distancing requirements will be lifted.
29. The impact of closure and reopening of our leisure centres is the most significant single issue to impact negatively on the Council's medium term financial plan.

Test and Trace

30. The Test and Trace scheme is being developed this month nationally and will be operated locally by West Sussex Public Health England. Two staff from the Environmental Health team at Mid Sussex are likely to be seconded to provide specialist advice to the recently recruited track and trace staff given their experience in the community, tracking down food poisoning outbreaks. This is a long-term commitment because track and trace is the method to keep the virus under control ahead of an effective treatment or vaccination. Should a local outbreak of the virus occur additional lockdown measures may need to be implemented in that small area. At the present time all enforcement powers remain with the Police, but those powers may be delegated by Government Regulation.
31. Therefore, this additional demand on the Council's Environmental Health team is likely to continue into the medium term.

Safe Parks and Open Spaces

32. On 24th March 2020 the Government ordered the closure of playgrounds, outdoor gyms, outdoor sports facilities and MUGAs. On 13th May 2020, the Government ordered the reopening of tennis courts, skate parks and lawn bowls facilities.
33. On 24th May 2020 the Government issued the Coronavirus (Covid 19) Safer Public Places: Urban Centres and Green Spaces Guidance. This guidance required Councils to work together on a very short timeframe to ensure the Government's requirements on social distancing measures were adhered to in our urban centres and green spaces. It set out the principles for safe urban centres and green spaces, which include high streets, urban parks and car parks.
34. The Council has carried out an audit of its urban parks, open spaces and car parks. The work has been risk assessed on the basis of those areas with the highest footfall and those with constrained areas for transport modes, pedestrian, cycle and vehicular access. In accordance with the guidelines, a number of measures are being put in place across seven parks and open spaces and 34 car parks. These measures consist of additional signage, hand sanitizers and enhanced cleaning regimes, advisory signage, path markings and one-way systems where appropriate. It is planned that these measures will be in place by 15th June. Members will appreciate that this work has been carried out on a very short timeframe and has been resource intensive in terms of officer time.

Safe Urban Spaces

35. As indicated above, the guidance has also been applied to the Council's urban centres. On 25th May, the Government announced the 'Reopening of High Streets Safely' fund, a £50m fund to support local authorities nationally in restarting the local economy and creating safe, welcoming spaces for local shops and businesses. The fund provides a grant allocation of £134k for Mid Sussex. The Government also published guidance on the use of the fund along with links to other sources of support, such as checklists developed by a high street task force led by the Institute of Places Management and Revitalising High Streets and Town Centres developed by the People and Places Partnership.
36. In accordance with the guidance, the Council has also carried out a risk assessment of its urban spaces. On this basis, the Council is proposing a business and public facing communications campaign for all towns and the larger villages (Haywards Heath, Burgess Hill, East Grinstead and Hassocks, Cuckfield, Lindfield, Hurstpierpoint and Crawley Down) to encourage a safe return to urban areas. We will also commission a 'Mid Sussex Is Open' launch pack to disseminate free to local businesses in town and larger village centres. In addition, we will implement a range of temporary public realm changes which are aimed at reducing the risk of contagion in town centres through the presence of visible improvements which offer reassurance and confidence to residents to begin returning to using the town centres. These actions will include the management of pedestrian ways in locations such as alleyways from car parks to shops; installation of temporary bollards and other street furniture to create pedestrianised spaces; footway widening to accommodate distancing between pedestrians and the reduction of unnecessary obstacles, for example planters, and tape markings to maintain social distance.
37. This work will complement the work the Council is carrying out in order to ensure the safe use of green spaces, urban parks and car parks where they touch the high street.

38. It is intended that these measures will be in place by 15th June 2020 in line with the recent Government's guidance on reopening the high street on 15th June 2020.
39. With regard to the matters above, most of which have been necessitated by the emergency legislation, the Council has had to undertake work it has never been required to do before. This has had to happen on a very short timescale. Over the course of the crisis to the date, the Government has issued 116 items of guidance to Local Government and this has been revised over 180 times. This highly dynamic environment has put unprecedented pressure and workloads on Council staff.

Financial Impact on the Council 2020/21 and anticipated impact for 2021/22

40. This Council, along with all District and Borough councils nationally, is experiencing increases in expenditure and increased service demand as a result of the crisis. However, the overwhelming financial impact is on income levels. Districts and Boroughs receive very little grant funding from Government and are therefore highly dependent on the income they can generate in order to fund services. Approximately two thirds of MSDC's net budget is derived from income sources other than Council Tax receipts and Government grants.
41. As a consequence, the impact of the Covid lockdown has been severe: the Council is currently losing between £600k and £700k per month in its income. The Cabinet will receive a Budget Management report at its meeting on 7th July which will provide an update on this position. The Council is forecasting that at the most pessimistic end of a range, it may lose £6.5m of its £14m net annual budget by the end of the financial year if significant intervention is not forthcoming from the Government.
42. The Council has to date received two tranches of funding from the Government, the first of just under £38k and the second £1.5m. This only covers income lost in April and May 2020. Significant further support is required if the Council is to deliver services as planned for 2020/21.
43. If further support from the Government is not forthcoming, it is likely the Council will have to significantly reduce the services it is able to provide, with the consequent impact on local people. This is particularly worrying given the impact of Covid 19 on business and vulnerable groups.
44. The main income losses relate to the areas of car parking, planning and building control, leisure centres, and commercial rents. The largest individual area is the Leisure Management contract where there are high fixed costs for the operator without any income during the last two months. (See paragraphs 22 to 29). The contractual position is that we must assist with those costs and then review our position on the reopening costs and income potential at the appropriate time. Paragraph 24 above outlines the position and that we may need to pay to reopen the leisure centres and this is likely to be even more expensive.
45. The position for commercial rents is less clear cut as income losses will only become real when the rent deferrals that have been agreed in liaison with individual tenants become defaults; i.e. when there is no realistic prospect of receiving the rent. Given that it is presently too early to tell, we are making an assumption over the level of default that we could realistically expect to see over the year.
46. Car parking charges have not been levied since 30th March 2020, representing lost income of approximately £300k. Whilst these were reinstated from 15th June, it is not expected that the car parks will be at their pre-Covid capacity for some time, and a prudent income reduction estimate has therefore been made for the rest of the year.

47. Based on current demand, we are anticipating a pressure of approximately £400k on the Temporary Accommodation budget by March 2021.
48. Finally, both building control and planning fee income is down by 40% or £200k in cash terms. This is unlikely to recover and it is quite probable that income levels remain very subdued for the rest of the year. We are seeing fewer small applications coming forward although the majors applications have continued, with only a short pause during the worst of the pandemic.

Conclusions

49. The Covid 19 pandemic has seen unprecedented demands on the Council. The work has been intense, dynamic and extremely challenging. Officers have worked very hard to meet these requirements in a thorough, timely and effective way. Managers and staff have shown exceptional agility in adopting new ways of working while maintaining good service levels in key services and adopting new service requirements too.
50. Like all organisations nationally, the Council will need to adjust and recalibrate to a post-Covid world. This is likely to impact on all that we do.
51. Members and officers will need to work together to consider the implications. This will involve work in the short and longer term.
52. As outlined above, the Council is very unlikely to be able to undertake the work envisaged in the Corporate Plan agreed in February 2020. Therefore, a revised Plan is being developed for Members to consider in September. All the Council's workstreams and projects will need to be reviewed in the light of Covid. An assessment will need to be made about whether they should continue, and if so, in what way.
53. There is still enormous uncertainty about the overall impact of Covid on the Council and the communities of Mid Sussex, but what we do know is that the demand for certain services will increase and the finances of the Council have been very detrimentally affected. Therefore significant cuts and changes to services seem inevitable.
54. Reducing service provision is always very difficult and so challenging decisions undoubtably lie ahead. This report provides Scrutiny Committee members with an early opportunity to familiarise themselves with these challenges. In addition, the Committee may wish to offer early advice to the Cabinet as work progresses over the summer to draw up a revised Corporate Plan for the current year and the guidelines that will steer the 2021/22 Corporate Plan and Budget.

Risk Management Implications

55. The Council's Strategic Risk Register is being updated to reflect the impact of the Covid 19 crisis on the Council's work.

Equalities Implications

56. None. Equality impact assessments will be undertaken within individual services as required.

Financial Implications

57. The financial implications of the crisis to date are outlined in this report. Further detailed work to analyse this is underway and will be brought forward for consideration as outlined in paragraphs 40 to 48 above.

Background papers

None.