



## Mayor and Cabinet

### Council's response to Covid 19 - Financial update

**Date:** 10 June 2020

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Acting Chief Finance Officer

### Outline and recommendations

The emergence of the Covid 19 pandemic has significantly influenced the Council's activities since early March. This report updates on the work being done to assess and monitor the financial implications of the Covid 19 response.

In summary, the financial impact assessed from the May monitoring identified a potential £82.7m impact to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m (before applying government funding received). After applying government funding received of £33m for business rate reliefs, £18m for Council services, and assuming the remaining estimated Collection Fund lost income of £11.5m is met by government once the full taxation impact becomes clear, the outstanding financial gap for the Council is currently estimated at £20.2m. This represents all the unallocated reserves the Council holds of £20m. This is the current position with the recovery and longer term impacts to the budget still to be assessed and funded.

Members are invited to review and note this update for information.

## **1. EXECUTIVE SUMMARY**

- 1.1. The emergence of the Covid 19 pandemic has significantly influenced the Council's activities since early March. This report updates on the work being done to assess and monitor the financial implications of the Covid 19 response. It is for Members to note.
- 1.2. Government has looked to Councils to support significant elements of its response, through supporting new schemes, working collectively with partners, and delivering the services the Council provides. In response a clear strategy and objectives were put in place to govern the response and this is now evolving to begin the preparations for recovery while maintaining the focus on critical services given the continuing risk of further spikes.
- 1.3. The government schemes are focused on support for businesses with a view to future employment. The main elements include:
  - £33m of additional business rates relief for the 1,560 retail, hospitality, and leisure sectors in Lewisham;
  - £47m of small business grants for the potentially 3,650 businesses identified as eligible in Lewisham; and
  - An amount to be confirmed (circa £2m) of discretionary grant to support small and medium enterprises for guidance is pending from government.
- 1.4. In addition the Council has received £3.2m for residents to be distributed as £150 credits to households of working age in receipt of the Council Tax Reduction Scheme and to supplement the Council's hardship support scheme.
- 1.5. In respect of the burden on Council services, the government has provided some funding to meet the financial impacts. This is via additional funding and early payment of some grants to support cash flow. Of the £3.2bn funding announced nationally, Lewisham has received £18.0m to cover the costs of the Covid 19 response. Monthly monitoring is now in place to the Ministry of Housing, Communities and Local Government (MHCLG) and based on the April returns and analysis by the Local Government Association (LGA) this level of funding is estimated to be only a third or a quarter of what is likely to be needed before Council's return fully to business as usual.
- 1.6. This means the Council has to proceed with caution and be alert at all times to the financial implications and risks as the current arrangements continue and the full range and scale of their impacts emerge. This includes assessing the likelihood and potential implications for the need to use reserves to meet the cost of the response should government support not cover the full costs.
- 1.7. The Council is expected to close 19/20 with a Directorate outturn overspend of £7.0m, up from the £5.4m previously reported, and use the £8m of reserves committed to support the budget – total £15m. It is therefore expected the financial statements will show general reserves of £20m and earmarked reserves of £62m available for 20/21 and future years. This is consistent with the likely outturn position set out in the 19/20 budget. However, the anticipated improvements in control of directorate spending have not been fully delivered.
- 1.8. The 20/21 budget was set without the use of reserves and after the funding of growth and pressures of £23.5m to reset service baseline budgets and reduce the risk of the in-year overspending seen in recent years. The budget was also set with the commitment

from services to deliver £16.6m of agreed cuts. Some of these plans are now at risk of delay or not being delivered due to the Covid 19 response taking priority. These are the revenue budget impacts and the risks also extend to the expanded capital programme which is currently being reviewed.

- 1.9. The May monitoring return to MHCLG identified the potential financial impact at £82.7m to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m - before applying government funding received. After applying government funding received of £33m for business rate reliefs, £18m for Council services, and assuming the remaining estimated Collection Fund lost income of £11.5m is met by government once the full impact becomes clear, the outstanding financial gap for the Council is currently estimated at £20.2m. This represents all the unallocated reserves the Council holds of £20m. This is the current position with the recovery and longer term impacts to the budget still to be assessed and funded.
- 1.10. Extensive work at Mayor and lead Member level through political and London networks and by officer through their professional networks continues to inform and improve the monitoring, benchmarking, and planning for the impact of Covid 19 now and through recovery.
- 1.11. Finally the report looks to the risks and opportunities that are being tracked to ensure their financial implications are considered and the recovery phases supported. All of which requires regular monitoring and a full review of budgets plans and the Medium Term Financial Strategy (MTFS) to be reported to Members early in resumption of full Council business, expected from September.

## **2. RECOMMENDATIONS**

- 2.1. Members are invited to Council's response to Covid 19 - Financial update

## **3. CONTENT**

- 3.1. This report has been prepared to brief the Council's senior officers and Members of the financial funding, impacts and monitoring being undertaken as part of the Council's response to Covid 19.
- 3.2. The report sections include:
  1. Executive Summary
  2. Recommendations
  3. Content
  4. Policy Context
  5. Background
  6. Government Funding
  7. Starting Financial Position
  8. Financial Impact on Council Services
  9. Other Considerations
    - Monitoring
    - Forward look
    - Recovery
    - Risk & Opportunities
  10. Next Steps

#### 4. **POLICY CONTEXT**

4.1. The Council's strategy and priorities drive the Budget with changes in resource allocation determined in accordance with policies and strategy. The Council launched its new Corporate Strategy in 2019, with seven corporate priorities as stated below:

#### 4.2. **Corporate Priorities**

- **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

#### **Values**

4.3. Values are critical to the Council's role as an employer, regulator, and securer of services and steward of public funds. The Council's values shape interactions and behaviours across the organisational hierarchy, between officers, and members, between the council and partners and between the council and citizens. In taking forward the Council's Budget Strategy, we are guided by the Council's four core values:

- We put service to the public first.
- We respect all people and all communities.
- We invest in employees.
- We are open, honest, and fair in all we do.

#### 5. **BACKGROUND**

5.1. The emergence of the Covid 19 pandemic has significantly influenced the Council's activities since early March. The Council moved to a Gold command structure, aligned with the London resilience forum, to focus on services deemed critical to an effective response. The response strategy and objectives are:

#### **Strategy**

- We will work together with our partner agencies to respond to and recover from COVID-19 for our communities, businesses and staff.

#### **Objectives**

- To provide support to the vulnerable.
- Managing resourcing to meet the needs of emergency and maintain essential public services.

- To provide support to our responding partner agencies who are protecting and preserving life.
- To provide support to Lewisham businesses and communities.
- To inform and reassure through communication and engagement.
- To provide community leadership/reassurance.
- Minimize disruption to infrastructure and business.
- To facilitating recovery and the return to normality.

- 5.2. On the 23 March, the Government introduced stringent lockdown measures to restrict movement to essential travel only. This impacted and continues to impact the economy hard and the businesses and many of those in employment in the borough. The Council's and its staff have continued to work as part of the essential public services response.
- 5.3. In addition to the focus on protecting the most vulnerable, the work of the Council has also prioritised those critical services supporting the community. For example; this has included maintaining an education offer for those children eligible to attend schools, providing shelter and housing to those at risk of homelessness, running waste services and opening the parks, and operating the benefits, registrar and bereavement services to cope with the rise in demand for them.
- 5.4. To do this many staff have volunteered and been redeployed to support these priority services in the Covid 19 response. Other services, with staff working from home, have continued in the background as far as reasonably possible, but always with the priority to deliver any requirement for the critical services first. This includes the corporate services such as the human resources, technology, and finance teams.
- 5.5. The government has injected various support measures for councils to implement in support of residents and businesses. However, despite this, the Covid 19 response is also materially impacting the Council's financial plans and service income and expenditure budgets for the year 2020/21. Depending on how long the response continues and nature of the recovery phase(s) these financial risks and impacts will continue.
- 5.6. As the situation continues to evolve the assumptions and estimates will need to be revisited and updated over time. The remainder of this report seeks to set out the work and impacts as they are currently known so that the Council can effectively monitor them to help inform its future planning and decision making.

## **6. GOVERNMENT FUNDING**

### **Government Schemes**

- 6.1. The government has announced various schemes to be administered by local authorities on their behalf to support businesses and residents.
- Business
- 6.2. For businesses these have taken the form of extended business rates relief for 2020/21, grants to small businesses and those in the retail, hospitality, and leisure sectors, and a grant to support Small and Medium Enterprises (SMEs) – those with less than 50

employees – not covered by the initial grant arrangements. The latter was confirmed on the 2 May and guidance received on the 13 May. To date the Council has:

- 6.2.1. Credited £33m of business rates relief for the retail, hospitality, and leisure sectors and a limited number of nurseries as the qualifying businesses in the Borough.
- 6.2.2. Received £47m to distribute in grants of £10k or £25k to small business within certain rateable values and/or in the retail, hospitality, and leisure sectors. To the 31 May the Council had assessed all those who have applied and disbursed 2,850 grants from the 3,375 expected (down from 3,720) and over £36.0m. Work continues to actively reach out to those more than 800 businesses who may be eligible but have yet to apply.
- 6.2.3. Expects to receive an estimated £2.3m of further grant (5% of the £47m) to support the recently announced discretionary scheme. Having received the government’s guidance on the 13 May the criteria to do this are being established urgently and will communicated to businesses to invite applications.
- 6.2.4. In summary these are set out in the table below:

<b>Business support from government</b>	<b>Number of business supported</b>	<b>Value £m</b>
Additional business rates relief for the retail, hospitality and leisure sectors	1,560	32.9
Small business grants for those eligible businesses with rateable values below £51k	2,850 (3,375 potentially eligible)	47.0
Small and Medium Enterprise (<50 employees) discretionary grant	TBC	Est. 2.3
<b>Total</b>		<b>82.2</b>

- 6.3. In the case of grant applications the Council is running a process to verify that it has the right contact details for businesses, including an update on their trading status and bank account. This ensures the available grant is targeted to legitimate qualifying entities to reduce the risk of fraud or error. In line with government advice, further checks are also being run post-payment using the Department for Business, Energy, and Industrial Strategy (BEIS) Spotlight counter fraud tool.
- 6.4. Having current contact details for the businesses in Lewisham will also be very helpful to improve the communications and partnership working between the Council and those employing many residents of the Borough to support a strong and sustainable recovery post Covid 19. The establishment of this taskforce is one of the key objectives for the task force proposed in the report to M&C in May on support for business.

Residents

- 6.5. For residents the government has given the council £3.2m to distribute to those of working age qualifying under the Council Tax Reduction Scheme and via local hardship schemes. The Council, as set out in the M&C paper of the 13 May, is preparing to

deliver this support via the Council Tax system and has supplemented the amount available for hardship cases and is responding to address growing demand.

### **Support for the Council**

- 6.6. The government has provided some financial support to councils to undertake additional activities in recognition of the unplanned costs they are incurring in responding to Covid 19. Based on the analysis by the Local Government Association (LGA) in April the £3.2bn from government for local authorities is estimated to be between a third or a quarter of that which will be needed. This is to recognise, that as well as the additional costs being experienced by Councils, they are also facing significant and harder to recover income losses given the scale of economic impact from the pandemic.
  - 6.6.1. The Council is experiencing additional unplanned work and costs to sustain critical services. These include supporting the social care market, distributing Personal Protective Equipment (PPE), and providing shielding support to the most vulnerable as critical services. As well as the extra work to run and support services including housing, waste, benefits, and bereavement services with higher levels of activity while also maintaining social distancing and safe working practices. The lost income considerations as the government's lockdown continues cover the tax base (businesses and residents), commercial and charged for services, and the housing revenue account.
- 6.7. The two main contributions have been £9.6m and £8.4m (total £18.0m) as part of the £3.2bn provided by the Ministry for Housing, Communities, and Local Government (MHCLG) so far. The first allocation was distributed based on the adult social care needs formula and the second on a straight per capita basis, in part to ensure District Councils received more.
- 6.8. Communications from the Secretary of State, most recently in his evidence to the House of Commons Select Committee on 5 May, are starting to suggest the government intends to reimburse councils for those costs arising from the work the government has requested them to undertake. Other costs or lost income from local commercial decisions may not be covered, at least at this time, with the expectation councils will need to draw on their reserves to cover these costs.
- 6.9. For Lewisham, the activities that may therefore not be covered include sales, fees and charges, the financial impact of support the Council chooses to offer local businesses and residents, and commercial risks on investments in regeneration vehicles (e.g. Catford and Besson Street). The Council will continue to make the case this should not be the case and that support should extend to also covering the financial impact from delayed plans, the lost ability to deliver agreed budget cuts in 2020/21, and the cost of recovery to return the Council to a sustainable 'new normal'.
- 6.10. In respect of two big potential impacts from the loss of income – business rates and council tax – MHCLG are stating that the position will be reassessed later in the year when the likely impact can be more accurately assessed based on actual figures. In the meantime the government have provided some cash flow support measures. The most significant are the payment of £6.5m in advance of expected section 31 grants and £11m for three months of grants in advance, most significantly the Better Care Fund and improved Better Care Fund.

## Reporting

- 6.11. As expected, given the unusual circumstances and sums of money involved, the Council is required to report back to government regularly on how this funding is being used.
- 6.12. At present the BEIS have instigated a weekly reporting process to confirm progress with the disbursement of grants to business. At the 11 May Lewisham was 267 of 314 authorities in terms of the number of businesses to whom grants had been paid.
- 6.13. The MHCLG have begun collecting monthly returns from councils on their expected costs and loss of income. This continues to change and be refined as more detail and history of the financial impacts is recorded the longer the response continues. The shape it is taking is based on extensive consultation between the Ministry, LGA, and the Treasurer societies. The considerations and detail of the first return for Lewisham are discussed below in section 8. The most recent return was completed on the 15 May.

## 7. STARTING FINANCIAL POSITION

### Outturn

- 7.1. The forecast outturn position for 2019/20 reported with the Budget in February to Council was a Directorate overspend of £5.4m with continuing pressures in certain services. In particular for children social care, environment, and technology services.
- 7.2. The full final outturn position has been delayed by two weeks as the finance teams are supporting more of the service finance work while service managers focus on the delivery of critical services. This has delayed closing, originally timetabled for the 4 May, and will also impact the preparation of financial statements for audit. Such delays are not unique to Lewisham. Indeed they have been recognised by government with the date for audited accounts to be approved by Councils pushed back to November 2020, from July.
- 7.3. The Directorate outturn estimate is now provisionally for an overspend of circa £7m, an increase of £1.6m. The schools and housing revenue budgets are expected to be in balance and the capital budgets underspent as forecast. The corporate provisions budget is also forecast to be in balance and used to replenish those reserves with regular but uncertain spend against them, such as; project costs, redundancy and pension costs, change work, and elections.
- 7.4. The table below summarises the provisional outturn:

PROVISIONAL	Net Budget	Forecast over / (under)		Outturn variance	
OUTTURN	2019/20	Dec-19	Outturn	v Net budget	v Dec-19
2019/20	£m	£m	£m	%	£m
<b>CYP</b>	58.9	3.7	6.5	11%	2.8
<b>COM</b>	91.8	-2.3	-3.3	-4%	-1.0
<b>HRE</b>	34.7	2.6	2.6	7%	0.0
<b>Corp. Serv.</b>	34.0	1.4	1.2	4%	-0.2

PROVISIONAL	Net Budget	Forecast over / (under)		Outturn variance	
OUTTURN	2019/20	Dec-19	Outturn	v Net budget	v Dec-19
2019/20	£m	£m	£m	%	£m
<b>Directorate</b>	<b>219.4</b>	<b>5.4</b>	<b>7.0</b>	<b>3%</b>	<b>1.6</b>
Corporate	23.6	0.0	0.0	0%	0.0
<b>Total</b>	<b>243.0</b>	<b>5.4</b>	<b>7.0</b>	<b>3%</b>	<b>1.6</b>

- 7.5. The reason for the increase in the final position for Children Social Care, compared to the previously forecast position, was due rising expensive placements not fully reflected in the finance monitoring extrapolation of activity and costs to the year-end from November onwards when the service was predicted to overspend by £3.7m. A full outturn report and first budget monitoring is scheduled for scrutiny and M&C in July.

### Reserves

- 7.6. The audited revenue reserves position for 2019/20 identified that the Council held £20m of general unallocated reserves and specific earmarked reserves of £77m. Other earmarked reserves totalling £69m are held but these are committed (e.g. to schools or via PFI contracts) and to support the Council's self-insured risks. This placed the Council in the middle or towards the upper end of the CIPFA financial resilience index.
- 7.7. Spend against the corporate provisions and reserves, including the outturn position above, is expected to be as planned for 2019/20. This position will be confirmed as part of closing and the preparation of the financial statements. After the impact of the 2019/20 planned commitments from reserves and outturn, reserves are expected to fall by £15m for the start of 2020/21. This is consistent with the position forecast in the Council 2019/20 Budget report (February 2019). This would mean the Council has general and available earmarked reserves of at least £20m and £62m respectively for 2020/21, aside any monies held as part of Covid 19 cash flow support.
- 7.8. The impact of Covid 19 on the Council's financial plans, if not covered by further government funding support (as they assess the ongoing costs of responding to the pandemic and disruption to councils income streams, especially from lost Council Tax and Business Rates), will fall on these reserve balances. First from the general unallocated reserves and then, if needed, the earmarked reserves. These are one off balances so once spent are no longer available, reducing the Council's resilience in the face of any other crises until replenished.
- 7.9. If the Council has to use earmarked reserves this will impact other plans with choices having to be made of what to no longer support. A key vulnerability here is the risk to investment in the transformation work necessary to support the recovery phase while the Council also prepares for the next Comprehensive Spending Review and Fair Funding Review, now delayed to 22/23. This investment will be needed to realise the opportunities from Covid 19 changes to delivering services and ways of working to improve the Council.

### 2020/21 Plans

- 7.10. The Council's 2020/21 budget was set without the need to commit reserves. This was predicated on services being able to deliver £16.6m of cuts and recognised pressures and growth of £19m being funded. The Budget also included a significant expansion of the Council's capital programme for 2020/21 and future years. Primarily focused on supporting the Building for Lewisham priorities from both the General Fund and Housing Revenue Account (HRA).
- 7.11. With the impact of Covid 19 at the start of the financial year, many of the assumptions will need to be monitored closely and potentially revisited during the year.

### Cuts and Pressures

- 7.12. The detail of the cuts and growth pressures built into the 2020/21 financial plans are set out in the Budget report for Council from February. Presenting these in summary by Directorate, they are:

Directorate	Cuts £k	Growth funded £k
<b>Children and Young People</b>		
Children Social Care	1,375	5,900
Commissioning	-	900
Schools catering and FM	-	690
<b>Community Services</b>		
Adult Social Care	5,982	2,278
Crime & Enforcement	221	230
Culture and Community	125	120
<b>Housing, Regeneration &amp; Environment</b>		
Housing	1,871	-
Environment Services	957	2,500
Regeneration & Property Service	1,000	1,360
Planning	100	-
<b>Corporate Services</b>		
Public Services	1,624	1,315
Financial Services	350	450
Corporate Resources	2,500	310
IT and Digital Services	-	1,675
Legal Services	32	-
Policy and Governance	259	280
Strategy & Communications	80	430
Human Resources	133	520

Directorate	Cuts £k	Growth funded £k
Transformation funding (once off)	-	4,570
<b>Total</b>	<b>16,609</b>	<b>23,528</b>

- 7.13. Given the focus for the Covid 19 response, those at risk of delay or non-achievement in 2020/21 are most likely to be those in respect of critical services. In particular adult social care, community services, housing, and technology for higher spend; and environment, regeneration, and public services for lower income. At the same time some of those services which have been operating at a lower than expected level during the response may not need the full allocation of pressures monies. Both cuts and pressures are being actively reviewed and will re-assessed with services as part of the budget planning for recovery work. The need and importance of working together as a senior leadership team to work through the implications for the re-allocation of resources going forward and their alignment to effective ways of working is acknowledged and forms part of the recovery work and need to reset the Council's Medium Term Financial Strategy (MTFS) and Budget.
- 7.14. At this stage, some early assumptions are made in the Covid monitoring modelling discussed in section 8 below. This is also being tracked in the financial monitoring to build the evidence base so that any returns to government clearly reflect the full impact of the Covid 19 response on the Council's budgets and financial plans.

### **Capital Programme**

- 7.15. The Capital programme as currently set in the budget for 2020/21 reflects the priorities and momentum going into the start of the year. The capital programme is looking to commit £560m across the general fund and HRA over the next three years. While principally for the delivery of the Building for Lewisham housing programme plans, the plan also includes spend on Council offices and the theatre at the heart of the Catford complex.
- 7.16. There is now considerable uncertainty for London over future property values and rents as the market has stalled during the Covid 19 response and the impact through recovery on employment is not yet understood. This comes on top of the Brexit uncertainties already in place going into this pandemic. Additionally the Covid 19 response is likely to have fundamentally shifted the ways of working of the Council and the current plans may no longer reflect the estate the Council needs to maintain.
- 7.17. For these reasons and while the programme is effectively stalled, a review of the capital programme set in the Budget is being undertaken as part of the recovery planning phase. The conclusions of this will be brought back to Members at the earliest opportunity for their review and decisions on future plans post Covid 19 as part of future budget updates.

## **8. FINANCIAL IMPACT ON COUNCIL SERVICES**

- 8.1. In March, at the start of the Council's Covid 19 response, cost codes were established corporately and in each Directorate to capture the direct and indirect costs of responding. The intention being to enable the full cost of the response to be identified and reported and to preserve the underlying integrity of the Council's budgets in respect of 'business as usual' to facilitate the recovery phase. Subsequently in areas with particularly high activity additional codes have been set up by finance to capture specific service costs. For example; some adult social care provider costs, tracking free school meals, and certain housing costs.
- 8.2. The April monitoring has closed and the costs and income impacts evaluated to enable a more accurate picture of the impact and cost of the Covid 19 response to be reported and accounted for. At part of this, discussions with service managers on the activities they are changing and assumptions on how this will impact their budgets going forward are being captured. The most notable example being how quickly the workforce has adapted to flexible working and greater use of technology to facilitate effective working. This intelligence informs the monthly reporting to MHCLG, with the most recent return reviewed by Executive Directors and submitted on the 15 May.
- 8.3. The May monitoring return to MHCLG identified the potential financial impact at £82.7m to the 20/21 budget - from additional costs of £22.9m and lost income of £59.8m - before applying government funding received. After applying government funding received of £33m for business rate reliefs, £18m for Council services, and assuming the remaining estimated Collection Fund lost income of £11.5m is met by government once the full impact becomes clear, the outstanding financial gap for the Council is currently estimated at £20.2m. This represents the all the unallocated reserves the Council holds of £20m.
- 8.4. This is the current position with the recovery and longer term impacts to the budget still to be assessed and funding sought from government. This gap and the future risks are being reviewed with neighbouring Boroughs, London Councils, and with the Treasurer societies and LGA.
- 8.5. The Covid response to MHCLG focused on expenditure and income impacts which are set out in the table below. The summary of the monitoring reported to MHCLG is set out in the tables below for expenditure and income. These impacts are summarised against the Council's service structures as an appendix.

EXPENDITURE	May	Apr	Diff		Comment
	£m	£m	£m	%	on Apr to May movement
Adult Social Care	5.8	5.7	0.1	2%	
Children Social Care	1.3	1.7	-0.4	-24%	less demand than anticipated
Education	3.5	3.9	-0.4	-10%	less demand than anticipated
Highways & Transport	0.0	0.4	-0.4	-100%	impact now in loss of income
Public Health	0.4	0.4	-0.0	-10%	
Housing (non HRA)	1.9	1.0	0.9	90%	more demand and higher costs
Housing HRA	1.0	0.5	0.5	100%	more demand and higher costs
Culture & Leisure	1.0	0.6	0.4	67%	supporting leisure contracts
Environment & Regulatory	0.8	0.9	-0.0	-6%	
Planning & Development	0.0	0.0	0.0	0%	

EXPENDITURE	May	Apr	Diff		Comment
	£m	£m	£m	%	on Apr to May movement
Finance & Corporate	0.7	0.5	0.2	40%	ICT and additional staff support
Other	6.5	8.4	-1.9	-23%	impact on capital prog. reduced
<b>Total</b>	<b>22.9</b>	<b>24.0</b>	<b>-1.1</b>	<b>-5%</b>	

The key costs noted include:

- Social Care (Adults and Children) includes demand, workforce, PPE, and market pressures
- Education includes SEND, Transport, and Catering contract
- Housing includes homelessness, rough sleeping, etc..
- HRA includes workforce, materials, and other costs
- Environment & Regulatory - includes waste, bereavement & mortuary services, and parks
- Other includes shielding, non-social care PPE, and unachieved savings / projects

INCOME	May	Apr	Diff		Comment
	£m	£m	£m	%	on Apr to May movement
Business Rates (ex. reliefs)	4.0	7.0	-3.0	-43%	less risk after £33m of reliefs
Council Tax	7.5	8.5	-1.0	-12%	collection not falling as fast
<i>Collection Fund losses</i>	<i>11.5</i>	<i>15.5</i>	<i>-4.0</i>	<i>-26%</i>	
Sales, Fees & Charges	9.0	4.5	4.5	100%	loss of TfL income & reclassification
Commercial income losses	4.4	2.3	2.1	91%	reclassification from other
Other income losses	0.7	4.7	-4.0	-85%	lower loss on debt & reclassification
HRA income losses	1.2	2.0	-0.8	-40%	lower arrears & voids
<i>non Collection Fund losses</i>	<i>15.3</i>	<i>13.5</i>	<i>1.8</i>	<i>13%</i>	
<b>Total</b>	<b>26.8</b>	<b>29.0</b>	<b>-2.2</b>	<b>-8%</b>	

The key income streams noted include

- Sales, Fees & Charges includes parking, utilities, TfL, planning & development income
- Commercial income includes commercial waste, rents, parks, passenger services etc..
- Other income includes collection of adult social care fees and enforcement fees

### Monitoring

- 8.6. The work on the monitoring of Covid spend and income alongside management decisions in respect of service changes will firm up these assumptions as each month more detailed reporting becomes available. This needs to include the monitoring of demand and activity levels by the services as well as the financial implications.
- 8.7. A significant uncertainty lies with the potential loss of Council Tax and Business Rates income. Not least as reminders and enforcement action are currently being stayed during the lockdown phase to avoid raising additional financial pressures on those already potentially facing financial hardship and loss of their livelihoods and/or homes. Until the recovery phase is well underway and the impact on the local economy and employment are known it is very hard to assess the full implications for these tax receipts.

- 8.8. To inform the impact on Council Tax collection, officers are monitoring collection rates, changes of payment terms, and levels of change of circumstances and benefit applications. For April a fall of 0.9% was evidenced in collection compared to the previous year. This aligns with the 5% modelling above over six months. In addition 482 direct debits were cancelled and 200 revised payment plans were agreed. In terms of benefit activity, through April the number of claims received per week is rising at approximately 50 per week, from around 200 at the start of the month to over 360 by the end. This is over 1,000 people coming onto Benefits in April.
- 8.9. Similar levels of monitoring are undertaken for Business Rates collection but the reports are currently distorted from paying out the government grants. The data for April is being reviewed to separate these two elements out going forward.

### **Benchmarking**

- 8.10. Working with colleagues across London with the support of London Councils, Boroughs are modelling and comparing their assumptions and returns in completing the MHCLG and their own monitoring. From the April return Lewisham's experience broadly mirrored that experienced by many other Boroughs, although not as expected those who are tariff rather than top-up authorities for business rates.
- 8.11. Learning from the April returns MHCLG requested more detail and was more prescriptive in the assumptions to be used. London Councils (in consultation with the LGA and individual authorities) have also developed some assumptions for Boroughs to use as a reference point. These set out a range by expenditure and income service area with optimistic, realistic, and pessimistic assumptions. Overall Lewisham was aligned to the realistic view but there are some differences when drilling down into individual areas. The work to understand and test these differences based on local experience and circumstances continues as more monitoring data becomes available.

## **9. OTHER CONSIDERATIONS**

### **Monitoring and planning**

- 9.1. It is also worth noting that the approach to monitoring and assumptions being made for Lewisham, while owned locally, are not being taken in isolation. There are extensive networks and information exchange happening at the national, regional and local levels.
- 9.2. The MHCLG and LGA are reviewing the national implications and pressures on local government. Regionally, through London Councils, Mayors / Leaders and Finance leads are meeting regularly and sharing insights and learning. At the same time, through the London resilience response, the Chief Executives of all London Boroughs and the Greater London Authority (GLA) are meeting and have a dedicated finance strand to their work. Similarly Treasurers (s151 officers for the Boroughs) are meeting weekly sub-regionally and every two weeks for all of London to do the same. These officer meetings, supported by London Councils, are supplemented by regular discussions with central government, the LGA and others (e.g. other professional networks such as those for adults and children).
- 9.3. In addition locally the Council, through Member and Officer interactions, is engaging and consulting with its partners to assess the changes they are experiencing. In particular, the Council is in regular discussions with the Health sector, Voluntary and Business

communities, other anchor institutions, and in regular dialogue with the unions on staff wellbeing and employment matters. These discussions will feed into the recovery planning.

### **Forward Look**

- 9.4. There are a number of areas, some of which are listed below in no particular order, where there remains uncertainty that could impact the Council's planning and therefore the financial assumptions. They include:
  - 9.4.1. Grants – the Council receive and share a number of smaller grants which if the activity stops or cannot be delivered the service must adjust its cost base quickly or it will incur an overspend. An example of this is the funding from Transport for London for infrastructure and highways projects for the year given their own financial constraints.
  - 9.4.2. Contracts – the Council, following the guidance from government, is paying on demand and in some cases in advance of contract payments being due with agreement to open book accounting to reconcile the payments for work at a later date. There may be some providers who withdraw from the market leaving the Council unable to recover the services due. There is also the risk of significant above inflationary pressures for the cost of goods and services as the economy recovers but is still not a full capacity.
  - 9.4.3. Pooling – the Council is currently a member for 2020/21 of the London business rate pool which no longer has the 'no detriment' guarantee from government. Depending on the impact on business rates income across London the Council will likely not receive a benefit from the pool this year and may in the worst case have to pay in.
  - 9.4.4. Property – the outcome of the recovery phase in the short and longer term for development, asset valuations, and future commercial and residential occupancy and rents is currently unknown. The Council has a balance sheet with over £2.5bn of assets which will be affected by these uncertainties as the viability of sustaining the Council's asset base impacts future financial plans.
  - 9.4.5. Service demand – changes have been made as part of the Covid response in respect of a range of services but particularly social care, housing, education, and community support with Council providing more support during the pandemic. We are expecting further increase in demand in these, and other areas, as lockdown begins to ease. The Council will have to assess what to continue and what to stop and what changes it might need to make elsewhere to align budgets and spending plans if we are to stay within our available resources. For example; how to pull back on the additional support provided to social care providers to sustain the market through this challenging period.
  - 9.4.6. Employment – depending on how the economy recovers from lockdown the employment levels locally will be impacted with a potential knock-on for benefit and support costs and the role of the Council to prioritise economic development more than in previous years.
  - 9.4.7. Income streams – in particular from expected business and new homes growth previously forecast in medium term financial plans will likely need to be adjusted and the Council's appetite for ventures to extend income generating activities reviewed.

- 9.4.8. Public Sector partners – the GLA (including TfL), Health services (Trust and CCG), local anchor institutions and voluntary sector partners will all be changing their future plans which will likely impact the balance of provision and priorities for the Council's planning. For example; the Council will have to work with Health partners to assess the impact of the cost of care and the changes made to the discharge practices during lockdown.
- 9.5. These wider considerations will be kept under review and updated as part of the service and financial monitoring discussed above.

### **Recovery**

- 9.6. The Council is preparing its recovery response which will be underpinned by the following principles:
- Tackling widening social, economic and health inequalities;
  - Protecting the most vulnerable;
  - Ensuring the Council's continued resilience, stability and sustainability; and
  - Enabling residents to make the most of Lewisham the place.
- 9.7. More specifically for finance, the recovery phase will include:
- 9.7.1. Completing closing and preparing the financial statements and submitting these for audit. These include the Pension Fund accounts alongside the Council accounts and the group accounts to include the Council's subsidiaries, namely; Lewisham Homes and the Catford Regeneration Partnership both limited companies. The revised date for this work to be concluded in the end of November 2020.
- 9.7.2. Resetting the Directorate budgets for the reorganisation and Director changes agreed by Council in February. This will also require the monitoring report to be refreshed with improvements in the alignment to performance data to enhance forecasting accuracy given the pace of change in the Council is increasing and services are taking more risk to 'fail fast', learn, and improve.
- 9.7.3. Review the budget and MTFs for 2020/21 as the impacts of the Covid 19 response is better and more fully understood and changes to how the Council operates going forward are agreed. This work will include the impact for the previously agreed cuts and assessment of growth and pressures to guide the approach to setting future year budgets.
- 9.8. Through recovery it is possible the government support for councils may not fully match the cost of the response and future funding not acknowledge where costs have increased, for example in care settings. If this is the case, the Council is likely to have to make significant changes to the range and scale of services it offers or further put the burden of these costs on local tax payers, who themselves will be managing the financial implications of Covid 19 to their household budgets.

### **Risks and Opportunities**

- 9.9. Many of the detailed examples of these are covered above through the forward look and recovery commentary. As part of the recovery phase the Council's risk registers – corporate and directorate – are to be reviewed to capture the changes being prepared.
- 9.10. The senior leadership team are collectively responsible for making the recovery phase a success. Initial consultation has identified four areas to focus on: People; Partnerships;

Processes; and Performance. The detailed work to expand on these and engage through the staff led change networks is now being prepared.

- 9.11. For finance there are risks and opportunities here too. Clearly the financial impacts now and for future budgets are significant. This requires the Council to be mindful of its financial sustainability to ensure it does not need to consider issuing a section 114 notice. As per the assessment of the position going into Covid and assumed impacts, including the financial support received from government to date, set out in this report the Council is not in this position at this time. This needs to be kept under review and will be commented on through the external audit process and their value for money conclusion, in the regular 20/21 monitoring, and as the MTFS is refreshed and the budget for 21/22 prepared.
- 9.12. Finance will also continue to contribute to the Comprehensive Spending Review (CSR) and Fair Funding Review (FFR) consultations, noting these have been delayed again for a further year to 22/23 as government responds to the Covid 19 pandemic. This will be critical to assessing the future size of the Council's budget and level of cuts that may be required depending on how the government anticipates recovering the public finances from the impact of Covid 19. The positive in this is that the value of public services, in particular the importance of local government social care and universal services to communities, has come to the fore and been recognised through the national response to Covid 19.

## **10. NEXT STEPS**

- 10.1. Given the scope of this report there are clearly a number of strands of work covering a wide range of Council activities, on top of the regular accounting, monitoring, and reporting work for finance. All of these need to be sustained as the Council continues in the Covid 19 delay phase and begins preparations for the recovery phase.
- 10.2. The intention is to refine this report in consultation with Members and Officers and update its contents to ensure the right level of detail is provided for future reports.
- 10.3. As the business of the Council returns to the more usual cycle of meetings, expected from the Autumn, officers will also need to bring forward more detailed finance reports. Including the regular financial monitoring reports across the Council's budgets, updated Medium Term Finance Strategy based on new circumstances, and a refreshed capital programme and treasury strategy.

## **11. LEGAL IMPLICATIONS**

- 11.1. The Council is under a duty to balance its budget and cannot knowingly budget for a deficit. It is imperative that there is diligent monitoring of the Council's spend and steps taken to bring it into balance. The proposals in the body of the report suggest this can be achieved this year by use of reserves.
- 11.2. Section 114 Local Government and Finance Act 1988 places a duty on the Council's Section 151 officer to prepare a report if the Council has taken or is about to take a course of action which if pursued to conclusion would be unlawful and likely to cause a loss or deficiency on the part of the Council. The effect of a s114 notice would be to prevent any further expenditure by the authority save with the approval of the s 151

officer on the basis that it would prevent the financial situation worsening, to improve it or to prevent it recurring. The report sets out that the Council is not yet in that position but that the situation will have to be carefully monitored in future.

- 11.3. The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as amended provide that if a decision is concerned with the Council's budget, borrowing or capital expenditure and is an executive function, the decision cannot be taken by the Executive if it would not be wholly in accordance with the Council's budget or plan/strategy relating to borrowing or capital expenditure. The Acting s151 officer has advised that this situation has not yet arisen but it will need to be borne in mind in relation to any future decisions.
- 11.4. Under Section 17 Crime and disorder Act 1998 the Council has a duty in the exercise of its functions to consider the impact of all their functions and decisions on crime and disorder in their local area.
- 11.5. Section 12 of the Health and Social Care Act inserted a new section 2B into the NHS Act 2006 to give a local authority a new duty to take such steps as it considers appropriate to improve the health of the people in its area. The steps in this report are consistent with that duty.
- 11.6. Under S3 Local Government Act 1999 the Council must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This duty remains even in these exceptional circumstances.

## **12. FINANCIAL IMPLICATIONS**

- 12.1. The whole report deals with the financial considerations arising from the Council's Covid 19 response.
- 12.2. In overview, the Council's financial commitments are currently not wholly inconsistent with the budget as, while there are significant changes at this time, the Council continues to operate its usual services and is receiving government funding for the additional and unplanned impact of Covid 19. A revised budget in the Autumn may be necessary to confirm the position at that time for the remainder of the financial year.
- 12.3. Taking the estimated costs and lost income considerations of the Covid 19 response and additional support from government into account, the Council has sufficient reserves to meet these financial commitments at present. While the impact of the Covid 19 response may reduce the Council's financial resilience to face future shocks, it is the section 151 officer's assessment that the circumstances do not require consideration of a section 114 notice with the Head of Paid Services and Monitoring Officer at this time.

## **13. EQUALITIES IMPLICATIONS**

- 13.1. The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

- 13.2. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
  - advance equality of opportunity between people who share a protected characteristic and those who do not; and
  - foster good relations between people who share a protected characteristic and those who do not.
- 13.3. It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed in the paragraph above.
- 13.4. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for members, bearing in mind the issues of relevance and proportionality. They must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.
- 13.5. The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:
- <https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice#>
- <https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>
- 13.6. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
- [The essential guide to the public sector equality duty](#)
  - [Meeting the equality duty in policy and decision-making](#)
  - [Engagement and the equality duty: A guide for public authorities](#)
  - [Objectives and the equality duty. A guide for public authorities](#)
  - [Equality Information and the Equality Duty: A Guide for Public Authorities](#)
- 13.7. The essential guide provides an overview of the equality duty requirement including the general equality duty, the specific duties and who they apply to. It covers what public

authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance>

#### **14. CLIMATE AND ENVIRONMENT IMPLICATIONS**

- 14.1. There are no specific climate or environment considerations in the report although both of these will be part of the recovery phases.

#### **15. CRIME AND DISORDER**

- 15.1. There are no specific crime and disorder implications at this time.

#### **16. BACKGROUND PAPERS**

- 16.1. The key financial reports preceding this paper include:
- Budget 2020/21 at Full Council on the 26 February 2020
  - Business Support report to M&C on the 13 May 2020
- 16.2. Appendix
- MHCLG May return by Lewisham Services.

Directorate	Expenditure £m	Income £m
<b>Children and Young People</b>		
Children Social Care	0.8	-
Commissioning	1.9	-
Schools - Catering and FM	3.5	-
<b>Community Services</b>		
Adult Social Care	9.1	0.5
Public Health	0.4	-
Crime & Enforcement	0.0	-
Culture and Community	1.9	-
<b>Housing, Regeneration &amp; Environment</b>		
Housing (incl. HRA)	2.9	1.2
Environment Services	1.2	4.6
Regeneration & Property Service	0.2	4.4
Planning	-	0.4
<b>Corporate Services</b>		
Public Services	0.3	4.2
- <i>Business Rates</i>		4.0
- <i>Council Tax</i>		7.5
Other – Finance, HR, IT, Comms.	0.7	-
<b>Total</b>	<b>22.9</b>	<b>26.8</b>