

Impact of Covid-19 on the Council

Executive Portfolio Holder:	Cllr Peter Seib, Finance & Legal Services Cllr Tony Lock Protecting Core Services
Strategic Director:	Kirsty Larkins, Director-Strategy and Commissioning
Lead Officers:	Jo Nacey, Section 151 Officer Kirsty Larkins, Director- Strategy and Commissioning
Contact Details:	Jo.nacey@southsomerset.gov.uk or 01935 462243 Kirsty.larkins@southsomerset.gov.uk or 01935 462744

Purpose of the Report

To give Members an overview of the initial impact Covid-19 has had on the Council including finances, demand, and organisational performance across the Council. The report sets out some of the potential implications for the council, its services and what it aims to deliver. This includes the potential need to scale back or cease important community initiatives such as our town regeneration programmes, as well as the potential need to cut service levels and / or stop other discretionary services, as well as ensure the organisation works in a different way to minimise overheads.

Forward Plan

This report did not appear on the District Executive Forward Plan as Covid 19 was an unforeseen pandemic across the Country.

Public Interest

The report sets out the impact Covid-19 has had on Council finances, service performance and the demand for services we provide.

Recommendations

That District Executive:-

1. note the impact on Covid-19 on Council Services and Finances.
2. agree to an update every two months, over the coming year or until no longer required.
3. agree to the approach to dealing with the financial and service impacts of the Covid-19 crisis as set out in paragraphs 48 to 55 in the report.
4. agree to the revision of the Financial Strategy, Budget and Council Plan, the drafts to be brought back to District Executive in August.
5. agree to a draft Recovery Plan being brought to District Executive in July.

Background



South Somerset District Council

1. Lockdown measures were introduced by Government on 23rd March 2020, and as a result the way in which we functioned as a Council radically changed. Several services, such as the Octagon and Westlands, had to close with immediate effect, and all staff were required to work from home wherever possible, something we had introduced a week prior to the lockdown announcement.
2. Our aim throughout the crisis has been to ensure we are there to support our communities and businesses. The demand for services and the need to set up new services in response to Covid-19 has meant a significant change across the Council, with staff being re-tasked to critical areas of work.
3. The Council finances are also severely impacted, with loss of income and increased expenditure despite grants from the Government.
4. The measures developed in light of Covid-19 will provide assurance on progress of recovery and help inform decision moving forward.

New services and changes to existing services

5. We have had to develop new services and processes in response to the outbreak and the needs of the community.
6. One of the first pieces of work we completed was issuing Council Tax hardship grants to 5539 households with the total value of the award being £820K. Whilst awaiting changes to software systems, staff manually changed direct debits so that households would feel the benefit of this immediately, rather than having to wait over a month.
7. The Community Wellbeing Hub has been set up at Westlands and has now delivered over 700 food parcels to shielded, vulnerable and those facing financial hardship. We have also provided hot meals and breakfast bags to the homeless. As a result of some of the challenges with the national voucher scheme, the Hub has also taken on providing meals to children entitled to free school meals in South Somerset.
8. As regards homelessness, we agreed with government to aim to get all rough sleepers off the street within a week. With additional Government funding we have secured extra accommodation meaning we have been able to remove all rough sleepers from our streets, apart from five who are refusing to come into accommodation but are engaging with support. We are now supporting around 180 people in temporary accommodation and are working with the government on the long term solutions for the families and individuals.
9. We have extended our Customer Connect offer and from the 3rd April 2020 we opened our coronavirus helpline which operates from 0800 until 1800, 7 days a week. We are also part of the single number Somerset Coronavirus Support Helpline number which went live on 9 April 2020. As well as receiving calls, our Customer Connect Team are making welfare calls out to the most vulnerable in our community who haven't already engaged with services to ensure they are aware of the support that is available to them. Where we have been unable to



South Somerset District Council

make contact via phone our Localities Team have carried out home visits (socially distanced).

10. We have administered business rates discounts ensuring that those businesses entitled to these received the benefit as soon as possible. 1764 businesses in our area have benefitted from these with a total value of £25 million. In addition, we have administered government grants to businesses. Our aim was to get this money to businesses entitled as quickly as possible but this required businesses to provide us with information prescribed by the government. Whilst grants took a bit longer to administer at first, we got to the point where, provided we have been supplied with the information, grants are being paid out within 48 hours. To ensure that businesses benefit from the grants available we have ensured each potentially entitled businesses has had a letter, an email and up to three phone calls to try to make them aware. In addition, we have publicised the grants through social media and all Members have been engaged in finding businesses within their wards to encourage applications. We have issued paid grants to more than 2700 businesses with a total value of over £32 million being paid.
11. We are currently preparing for the roll out of the discretionary grants to businesses. Part of the challenge with these has been the amount made available is not that large and so we are trying to focus these on where they are needed most in the district whilst also ensuring the sums involved are sufficient to have a beneficial impact for businesses.
12. In order to meet the new needs and increased demand in some areas, almost a quarter of our staff have been redeployed to services and roles that are not part of their normal duties. In doing this, staff have shown enormous flexibility as well as adaptability to learn new skills and tasks. They have all shown total commitment to the Council and our communities and a focus on meeting our objective of being there to support our communities and businesses. We are extremely grateful for their efforts as we have asked a lot of them over the past few weeks. The table below gives a summary of the redeployments.

Housing	<ul style="list-style-type: none">• Staff redeployed: 5• % increased staff: 71%
Hub	<ul style="list-style-type: none">• Staff redeployed: 29• % increased staff: n/a%
Crem	<ul style="list-style-type: none">• Staff redeployed: 2• % increased staff: 50%*
Revenues	<ul style="list-style-type: none">• Staff redeployed: 11• % increased staff: 100%
Benefits	<ul style="list-style-type: none">• Staff redeployed: 10• % increased staff: 65%
Connect	<ul style="list-style-type: none">• Staff redeployed: 32• % increased staff: 140%
Planning	<ul style="list-style-type: none">• Staff redeployed: 2• % increased staff: 13%

13. Our efforts to support our communities and businesses have meant engaging in partnership and coordination at various levels. This includes:

- With central government
- at a regional level including Heart of the South West LEP and South West Councils
- working through the Avon and Somerset Local Resilience Forum – the body which we are “primary responders” on which is charged with responding to emergencies and major incidents
- with Somerset councils and other agencies such as the CCG
- at a local level, with town and parish councils together with community and voluntary organisations

Performance

14. Appendix A sets out the demand for existing services and their performance since Covid-19. You can see from the information that we have seen significant increases in some areas of work, whilst other areas due to the changes in the law and the guidance on social distancing have ceased for the time being. Where services have ceased it has had a significant impact on our income, even taking into account the grants we have received from central Government, details of which are given below
15. One of the most rapid increases in demand is within the Benefits service. Claims for Council Tax Support and income changes have increased by 500%, and due to a time lag in receiving Universal Credit updates we are likely to see this figure increase. We will need to ensure this area of work is resourced to keep up with demand and ensure those most in need are receiving the correct financial support.
16. There will also need to be considerable ongoing work with the rough sleepers we have accommodate to ensure they do not return to the streets, initial funding from Government was limited to help with the initial crisis. We will need to work with partners to look for more innovate ways to resolve the complex issues.
17. As a result, and as part of our recovery planning, we will need to consider the distribution of resources across the council so that we are able to meet the increase in demand for some services which is anticipated to be required for some time, as well as resourcing the community and economic recovery.
18. Appendix B sets out the standard quarterly performance statistics.

Impact on our financial position

19. Covid-19 has had a significant impact on the Council finances. District councils in particular are increasingly reliant on income generated through fees, charges and investments. SSDC derives 53% of what it spends on services from income that it generates and clearly this has been impacted significantly. In addition, in responding to the crisis we have taken on additional costs to support our communities and businesses.
20. At this stage it is still very difficult to project the full impact on our 2020/21 budget and beyond which was approved by Full Council in February 2020, due to the many uncertainties about the timescale of the lifting of Covid-19 restrictions; the ongoing impact on our businesses; the ongoing needs of our residents and; the continued uncertainty surrounding the level of Central Government support and funding.

MHCLG monthly financial return

21. We completed our second monthly return to MHCLG (Ministry of Housing, Communities and Local Government) as of 15 May 2020. We are mindful that Full Year projections must be caveated due to uncertainty and some of the



South Somerset District Council

assumptions we have had to make, nevertheless, we need to progress work on minimizing the potential impacts.

22. A summary of the potential costs that we have reported are provided at **Appendix C**. Members are asked to note that this is a live document. We have highlighted to MHCLG we have yet to quantify the full costs of the Hub activities and these will be added to next month's report.

Central Government Covid-19 funding to date

23. We have received 3 tranches of money from MHCLG so far. We have no indication as yet whether there will be further tranches.

Ring-fenced monies – Council Tax Support

24. Tranche 1) – Hardship Fund – Received £1,155,628 – The bulk of this was spent on Council Tax reductions for those in receipt of CTS. Residual funds are being used to provide food boxes for those households facing hardship) and support further CTS applications. These monies have been paid directly against our council tax payers' accounts and as such have not helped to mitigate our Covid-19 costs. We have also not received any financial support for administering these payments.

Un-ring-fenced monies – General – New Burdens

25. Tranche 2) – Covid Response (New Burdens) We were allocated £64,586 out of the £1.6bn fund announced, the majority of which went to the Upper Tier and Unitary councils with district councils across the country only receiving £10 million of the £1.6bn. This money was used to fund services for the homeless.
26. Tranche 3) – Covid Response 2 (New Burdens) –We were allocated £1,672,767. However, set against the MHCLG April return totaling £10.943m and our most recent return of £10.374m, this is only a short term easing of the pressure, equating to just over 1 month of additional cost and lost income.

Other measures

27. In response to potential cash flow problems that many councils were facing due to increased expenditure and decreased income, the Government has allowed councils to defer their Business Rates payment to Central Government for the next three months. This is a delay rather than a payment "holiday", but it has meant that we have not yet had to borrow as anticipated. This equates to £2.3m per month for 3 months that we are not paying to Government which supports our cash flow in the short term. To be clear, the expectation of government is that this will need to be paid by the council to them at some point in the future.
28. We have, to date, continued to pay across the precept payments to the other preceptors, SCC, Police, Fire and parishes, as required by law. We are in continuous discussions with County in relation to cashflow and we may need to discuss delaying payments should cashflow pressures demand it. We are also



South Somerset District Council

mindful of the financial pressures under which the County Council are also operating, including their cashflow.

Risks and Forecasts

29. We will be required to complete monthly returns with updated figures. Further pressures are emerging, e.g. those associated with the Waste Partnership, delays to the waste “roll out” and additional costs in relation to the partnership. Somerset County Council is currently working on these, so as a partner we can incorporate them into our next costs return to MHCLG.

We will need to revisit the estimates with the following in mind:

30. How is **business rates and council tax collection** performing in relation to our usual assumptions. Is 10% default realistic? NB. Any non-receipt of Business Rates or Council Tax although affecting our cashflow, will not hit our bottom line until the following year 2021/22. It will be important to quantify this to inform Budget Setting. It could be a material figure adding millions to the budget gap.
31. **Car parking** income will be determined by the lifting of restrictions and the public’s appetite to return to a new “normality”. The first stage of making this forecast realistic is the publication of a timetable for lifting restrictions from Central Government.
32. We have made some prudent assumptions regarding our **arts and events income** but as the weeks go by the possibility of large gatherings being allowed in this calendar year becomes increasingly unlikely. This may have a material effect on our forecasts and the viability of the businesses themselves.
33. **Planning Applications** are a difficult area to forecast during normal years with a large application making a significant change to the outturn position. In these uncertain times we have made some prudent forecasts but with any demand led service, the figures will be transient. We are aware that many developers are making redundant large sections of their forward development schemes and this together with a general reduction in income levels amongst residents and the overall economic uncertainty means we should plan for a significant reduction in all types of planning applications for the rest of this year and in to next year.
34. **Commercial Investment** income is at the forefront because of the scale of the sums involved. The commercial team continues to work hard with lessees to maintain our income streams but we have agreed to defer some payments and make other pragmatic concessions with a view to supporting those businesses continuing which is important to the national economy, but also important to the longer term security of our income. Currently the income generation is still performing well and the collection percentages are high, but this is a “watching brief” and will be informed by the review of the Commercial Strategy. We anticipate that there will be a material impact in the second quarter. This will need to be mitigated by the use of our Commercial Investment Risk Reserve – this reserve having been established to reduce the risk of reductions in commercial income and so shield the council’s revenue budget from economic shocks.

35. **Public Works Loan Board (PWLB) – Consultation.** Members will be aware that there has been a request from MHCLG for councils to participate in a consultation on the use of the PWLB borrowing with a particular focus on the use of this source of borrowing for commercial yield purposes, this means out of district investments where the prime objective is yield rather than regeneration/development. Due to the current Covid-19 pressures the deadline for the consultation has been extended to 31 July 2020.

This is an important consultation for us as it marks another sign of Central Government's intention to discourage commercial investments outside of councils' own areas. It is important to highlight for Members that we do not currently have any borrowing with PWLB as we have other, cheaper and more flexible options, such as borrowing from other local authorities. Nevertheless, it is an important option, especially as we may seek to secure our borrowing on longer terms.

36. **Treasury income** has been an area where we have improved our performance over the past few years and as a result, is now a significant source of income, representing some 11 per cent of our net revenue budget. Through the crisis this has seen a significant reduction and our Pooled Funds are likely to suffer a 30% reduction in income. This is alongside a significant reduction in the value of each investment, albeit these are often long-term investments and so values need to be judged over the term not at one particular point. We are mindful however that this is a long term strategy and therefore any "knee jerk" reaction to a fall in value would be inappropriate and would simply crystallise that loss.
37. **Summary of Financial impact.** The table below shows a summary of our predicted cost and income impact for the full year. Further detail is given in Appendix C.

Affected area	£k
Core funding – Business Rates	600
Core funding – Council Tax	804
Fees and Charges	4,426
Commercial Income	1,890
Treasury Income	364
Housing and Homelessness	990
Other	1,300
Total Estimated Impact	10,374

NB. These are current assumptions and will be affected by how quickly lock down measures are lifted; how services are affected by this and; how long we will need to support people impacted by the crisis.

What does this all mean?

38. The impact of Covid on both our short term forecasts and our long term aspirations will be significant. We are currently working to understand the impact on our MTFP,



South Somerset District Council

Financial Strategy, Commercial Strategy and the ambitions set out in our Council Plan. We have a history of holding prudent reserves to enable the council to continue with its aspirations for service provision; supporting our most vulnerable; supporting businesses at the same time as driving regeneration and our commercial property agenda. Worryingly, the existence of these reserves may mean that we are not seen by the government as a council in need of financial support to the same extent as many others, particularly those in the upper tier with Social Care pressures.

At the start of the crisis, the message from government was that councils should “do whatever it takes” to support communities and that the government would support them financially for additional cost and loss of income. Clearly the national finances are under strain and the message has changed to one that indicates there may be no more support for councils financially, outside of what the government has asked councils directly to do.

In addition, it is apparent that the government is contemplating asking councils to utilise reserves to meet the ongoing cost of services. We have some reserves that are to cover risk and “a rainy day” and it may be appropriate to utilise some of these to offset some of the costs of the crisis. The Council has built up some other reserves to deal with economic and community challenges in our area. These are referred to as earmarked reserves.

39. If we were required to use earmarked reserves this would lead to the reduction or cessation of programmes those funds are meant for such as:
 1. Developing our economy and improve productivity and skills
 2. Regenerating our town centres and high streets which have been suffering from the changes in shopping habits – a process accelerated by the Coronavirus. This includes our programmes in Chard, Yeovil and Wincanton.
 3. Accelerate housing delivery to meet government targets and deliver affordable housing – we have a housing crisis and this is being exacerbated by the current health crisis.
 4. Deal with the Climate Emergency and decarbonise the Council and the local economy.
 5. Support struggling families, reduce deprivation and reduce the number of children in poverty – currently 25% of our children grow up in poverty and Somerset has one of the lowest rates of social mobility in the country.
40. All these programmes are now potentially under threat of needing to be scaled back or stopped. However, instead of stopping them, what we would wish to be doing is working with government and local partners to accelerate the delivery of them as they all have a role to play in the recovery of our communities and the economic recovery. Depending on what stance the government takes on council finances, this may not be possible.
41. We will need to understand what call there may be on our reserves and whether we can continue at the same pace to deliver our non-core business. Further, we may now be in a position where we also need to significantly reduce our ongoing running costs in the face of what is likely to be a long-term reduction to our income and a sustained increase in demand for some services.



42. Our focus now is on analysing the data and sensitivity analysis so that we can re-draft our Financial Strategy alongside our MTFP. We continue to hope that we may see a further tranche of monies from government in keeping with the original pledge to ensure that our additional costs are funded so that we do not have to consider reimagining our core service delivery, but this is becoming increasingly unlikely.

Are we contemplating issuing a S114 Report?

43. It has been reported in the media that some councils are on the brink financially and are contemplating Section 114 reports. The Local Government Act 1988 in relation to S114 Reports says that the CFO “shall make a report... if it appears that the expenditure of the authority incurred in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.
44. For us as a district it is not the case that we are close to a S114 report. We have made an estimate of our total year impact as c£10m. As at the end of December 2019 we had £3.8m of General Reserves; £22.6m of Revenue Reserves and £14.6m of Capital Reserves (which can only be spent on capital). As at 15 May we had £14.7m of convertible cash (this excludes the business grants money). This will be reviewed on an ongoing basis as the costs and income losses crystallise.
45. This does not mean we won't have to make significant changes to our plans which include regeneration projects and also our future service provision and there will be difficult choices to make within this. Without the funds that were promised at the outset from Central Government there will be a significant impact on our ability to support our residents and to maintain service delivery at the current levels.
46. We are now in the invidious position of potentially being penalised for holding reserves which we have built up by being forward thinking; innovative and prudent. We have underwritten our commercial income risk and are mindful that the Government is unlikely to “make good” our lost commercial income, so this is not an immediate pressure for us. What is more of a pressing issue is that our Financial Strategy is predicated on increasing service income to meet the increasing demands; that commercial investments will help offset the decade or more of Central Government funding cuts and; increasing the Treasury investment returns, which have now been hit because of the current Market and the need to use our own cash to fund the additional costs.
47. We have coped with the uncertainty of the Fair Funding Review and the Business Rates Reset and have set aside funds to help mitigate the anticipated impact of these on our finances. The latest delay in these work streams has given rise to further uncertainty and meant that financial planning is now even more difficult. We do not work on a year by year basis and it would be foolish to do so. The current crisis adds to the uncertainty but long before this the lack of clarity from Central Government on our funding streams of Business Rates; Revenue Support Grant and New Homes Bonus have been a huge obstacle to robust Financial Planning.

Strategy for dealing with the Impact of the Crisis



48. Set out below is a draft approach and strategy for how we will start to respond to the financial impact of the crisis on the Council.
49. **Lobbying** - The first plank of our response should be to continue to lobby for additional resources from Government. We should do this directly, with the LGA and with our local MPs, highlighting the important role we are playing in supporting communities and businesses by leading and supporting recovery.
50. **Scenario Planning and Service Levels & Overheads Review** - Within each service, we need to consider the scenarios for recovery, the impact of the crisis and what this might mean for service levels and initiatives. We will need to look at shifting resources to areas where demand will likely remain high and therefore look to reduce other areas.
51. **Commercial Strategy Review** - Post-transformation, by far the majority of our “savings” in the Financial Strategy were to come from Commercial Investments. However, the commercial world has changed not just in the short term but permanently in some ways. Whilst there may be some opportunities that arise in the crisis as businesses may need quick access to capital as part of their recovery plan, overall the picture for investment in property is extremely uncertain and will likely remain so for some time. It is hard to conceive of making any investments in commercial office space or retail given the potential long lasting or permanent changes that may occur as a result of the crisis. On the other hand, investments which have previously been regarded as higher risk, may actually become regarded as safer havens within the uncertain economic waters ahead. We need to consider what a “balanced portfolio” looks like in these uncertain times and what other investment opportunities might exist outside of traditional property. If we are going to avoid substantial cuts to services, we need to look at how we can continue to invest and drive income growth. This was the case pre-Covid-19 and is even more important now. This may require an increase in the investment fund to either account for lower available returns in the market as capital seeks out where any return might be available, and / or to deliver increased commercial income to offset the loss of income from fees and charges.
52. **Advancing our Digital Strategy** – whilst the Digital Strategy business case was not built around delivering savings in itself, it was always envisaged that the implementation of the strategy would lead to a programme of actions, initiatives and business cases. The DS will enable us to modernise and improve services and become more efficient, including delivering financial savings. An example of such an opportunity exploited in the Commercial world is the introduction of Artificial Intelligence in to service delivery. It is recommended that we look at how we can rapidly advance the Digital Strategy and that we look to allocate a notional savings target against the strategy for the next three years, within a revised Financial Strategy.
53. **A new plan for the development of the Council** – we are at the stage where the Transformation Programme is coming to an end and most of what we envisaged we would deliver has been achieved. However, we have agreed as a council that transformation, change and development of the council and its



South Somerset District Council

services will not end when we close the programme. We now need to develop a new plan for the development of the Council and its services, that takes account of the impacts of Covid-19 on our organisation, our customers and communities. It will take in aspects such as the digital strategy but also look at updating our operating model, at the skills we need to develop for the future, how we manage demand and how we provide good services in the context of both higher demand and less resources.

54. **A recovery plan** – in response to major incidents, councils are expected to develop recovery plans. This crisis has been wide ranging and deep in terms of its impacts including on our communities, economy and our organisation. At the same time as there being challenging issues to deal with there are opportunities to make improvements in the recovery that benefit our communities. We will develop a recovery plan that will look at both the challenges and the opportunities and will use this to reshape our Council Plan.
55. **Review of Financial Strategy, Budget and Council Plan** – following the work above we will need to do a fundamental review of the three related documents and propose options for revision for initial agreement by Leadership (SLT and DX).

Risk Matrix

This report is for information only – no risk profile. Once further reports have been completed in relation to the Recovery Plan, Medium Term Financial Plan and the Financial Strategy the risks will be updated

Council Plan Implications

As recommended by the report we will need to review the Council plan taking into account the resources available to us and increased demand for services.

Carbon Emissions and Climate Change Implications

There are no carbon emissions or climate change implications, this report is for information only.

Equality and Diversity Implications

There are no equality or diversity implications

Privacy Impact Assessment

There are no privacy impact implications

Background Papers

None