

SCRUTINY BOARD

Agenda Item: 11

Ward: All

Portfolio: Finance

FROM: Cllr Barry O'Leary –
Portfolio Holder for
Enterprise and Finance

Date: 25 January 2021

SUBJECT: COVID-19 Funding and Expenditure Update

	Seen by:	Name	Date
Report Sign off	Chief Executive/ Deputy Chief Executive(s)	Stuart Brown	11/01/21
	Legal	Lesley Dolan	14/01/21
	Finance	Richard Bates	09/01/21
	Group Manager	Richard Bates	09/01/21
	Portfolio Holder	Cllr O'Leary	14/01/21
	Ward Member(s)	All	N/A
	Summary:	<p>In relation to COVID-19, Mendip District Council has currently received grant funding of £45 million, an increase of £8m since the report in August 2020. Additionally, the Council has granted business rates relief to nurseries and retail of a further £20m which is being fully reimbursed by Government in instalments.</p> <p>The grant funding has been used to provide business grants in line with government policy, support working age Council Taxpayers in receipt of Council Tax Support and for the general additional costs incurred by the Council related to COVID-19.</p> <p>Under the sales, fees and charges scheme, 75% of income losses over and above the first 5% of each budget (apart from commercial) are being reimbursed by the Government.</p> <p>The funding received will not cover all the costs incurred by the Council. The current estimate is that under the current Government schemes, the Council will face a shortfall of between £1.2 million and £2.6 million. This consists of our share of income losses, 100% of commercial income losses and reductions in business rates received via the pooling arrangements.</p> <p>Any losses borne by the Council will need to be met from in-year savings in the revenue budget or from the Council's usable reserves which stood at £12.7m at the start of this financial year.</p>	

Recommendation:	Members are asked to consider and comment upon the latest projections in relation to the funding provided by Government towards the cost of the COVID-19 and the financial impact on Mendip District Council.
Direct and/or indirect impact on service delivery to our customers and communities:	<p>The business grant funding and business rates reliefs provided have been used to benefit the businesses within the area covered by Mendip District Council, in line with Government requirements. These will have helped to lessen the financial impact on local businesses which will then have a better chance of being able to continue to trade.</p> <p>The Council Tax hardship fund has been used to reduce the Council Tax liability for working age residents receiving Council Tax Support. This has helped the most economically vulnerable and the surplus funds from this source are about to be used to provide further support.</p>
Contribution to Corporate Priorities:	<p>Use of the business funding received should help towards the Corporate Priority to “protect and enhance our towns and rural communities”.</p> <p>Application of the Council Tax hardship fund will have benefited the most economically vulnerable residents, in line with the Corporate Priority to “make Mendip a fairer place”.</p>
Legal Implications:	There may be legal implications for recovering any incorrectly paid or fraudulently claimed business grants.
Financial Implications:	<p>The financial implications for Mendip District Council will be felt for a number of years.</p> <p>In the current financial year, the Council will face pressures in four main areas.</p> <p>Firstly, any income losses, for example from car parking and market rents, are only partly recompensed by Government. The estimated cost to the Council is between £750,000 and £900,000.</p> <p>Secondly, any commercial income losses will be borne entirely by the Council. At present, there are no actual losses, but based on latest information a worst-case estimate would be a loss of up to £600,000.</p> <p>Thirdly, losses in Business Rates income will reduce the budgeted gain from the pooling arrangements in place across Somerset. This could cost in the region of £600k to £1m.</p> <p>Lastly, any general costs incurred by the Council related to COVID-19 may exceed the funding provided by Government. The latest estimate is that expenditure is roughly in line with grant but the impact of the third lockdown on this is currently unknown.</p>

	<p>The total financial impact in 2020-21 is therefore estimated between £1.2m and £2.6m. This could change if the Government provide further financial support.</p> <p>In future years, there will be an impact on Council Tax collection, Business rates collection and levels of income received, with reduced economic activity. An allocation of general COVID grant has been made by the government for 2021-22 (£563k) and the income loss scheme extended to the end of quarter 1 of 2021-22. These will help alleviate some of the pressure.</p>
Climate Change Risks and Opportunities:	No immediate climate change implications arising from this report
Impact on Service Plans:	COVID-19 work will have impacted on all services, so service plan priorities may have slipped as a result.
Crime and Disorder Implications:	No implications arising from this report
Equalities Implications:	The Council Tax Hardship fund is targeted at residents in receipt of Localised Council Tax Support. The remaining funds will be allocated shortly to further reduce the Council Tax liability for the most economically vulnerable.
Risk Assessment and Adverse Impact on Corporate Actions:	<p>The Council continues to face a financially difficult future and the Strategic Risk Register includes a specific risk: -</p> <p>SR36 “Long term financial planning - Failure to deliver a balanced budget and sustainable long-term financial plan will put at risk future public service delivery to the residents of the Mendip District. While this would affect all residents, it will have the biggest impact on the vulnerable.”</p> <p>Any residual costs relating to COVID-19, which are not covered by Government grants, will need to be met from the Council’s reserves. This will reduce the amount available to cushion the Council from the budgetary challenges already anticipated over the next few years, which will be made more difficult through the likely longer-term impacts of service income, council tax and business rates.</p> <p>Any reductions in reserves, will reduce the sums available to meet corporate plan priorities.</p> <p>Robust monitoring procedures enable officers to highlight major financial risks on a timely basis that can be incorporated in future reports, and COVID-19 pressures are now being monitored alongside the rest of the Council’s budget.</p>

INTRODUCTION

1. This report provides Members with an update on the funding / business rates reliefs received from government departments in relation to COVID-19 and the expenditure associated with each funding stream.
2. The report also details the likely impact on Mendip District Council from any loss of income or costs in excess of the grant funding received.
3. The detailed implication for future years is being considered as part of the updated Medium-Term Financial Strategy which will be presented to Cabinet and Full Council in February.

FUNDING RECEIVED AND BUSINESS RATE RELIEFS GRANTED

4. To date, funding of £45m has been received in COVID-19 related grant funding.
5. The main elements of this have been in the first national lockdown with grants from the Department for Business, Energy & Industrial Strategy (BEIS) to support businesses. These comprised £33,050,000 for payment of the Small Business and Retail, Hospitality and Leisure Grants, and £1,652,500 for the Local Authority Discretionary Grant Fund.
6. The Ministry of Housing, Communities & Local Government (MHCLG) have also provided £742,410 for the Council Tax Hardship Fund, £1,382,740 towards general COVID-19 related costs incurred by the Council, and £268,814 towards the additional administration costs incurred by the Council.
7. Additionally, business rate reliefs of £20,054,067 have been provided to nurseries and the retail sector, through expanded relief.
8. More recently additional Business grants have been received in relation to the second lockdown and for wet-led pubs. Additional sums will also be received for payment to businesses from the move into Tier 3 on 26 December and the third national lockdown from 5 January 2021.

SMALL BUSINESS / RETAIL, HOSPITALITY AND LEISURE GRANTS

9. Under the Small Business Grant Fund (SBGF) all businesses in England on 11 March 2020 who were in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system were eligible for a payment of £10,000. These grants were subject to additional eligibility criteria.
10. The final number of payments made was 1,913, totalling £19,130,000.
11. Under the Retail, Hospitality and Leisure Grant (RHLG), businesses in England that would have been in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) on 11 March 2020 with a rateable value of up to and including £15,000 were entitled to receive a grant of £10,000. Eligible businesses in these sectors with a property with a rateable value of over £15,000 and less than £51,000 were entitled to receive a grant of £25,000. These grants were subject to additional eligibility criteria.

12. The final number of payments made were 300 grants of £10,000 and 346 grants of £25,000 have been paid, totalling £11,650,000.
13. Overall, the total paid on these grants was £30,780,000 from an allocation of £33,050,000. The remaining £2,270,000 which was not claimed has recently been repaid to BEIS.
14. A national audit process is now taking place to check on the eligibility of payments made and the reconciliation of payments.
15. New Burdens funding was also received of £170,000 for administering these new grants.

LOCAL AUTHORITY DISCRETIONARY GRANTS

16. This additional fund of £1,652,500 was aimed at small and micro businesses who were not eligible for the Small Business Grant Fund or the Retail, Leisure and Hospitality Fund.
17. Local authorities were able to design their own schemes, using some local discretion. The scheme for Mendip was open from 26 May 2020 to 9 June 2020.
18. Local authorities were able to issue grants of either £25,000, £10,000 or any amount under £10,000. The value of the payment made to a business was at the discretion of the local authority, taking into account such factors as fixed costs, turnover and staffing.
19. 262 payments were made from this grant, totalling £1,647,000. The unspent balance of £5,500 has subsequently been returned to BEIS and is also subject to the audit process outlined in paragraph 14 above.

BUSINESS RATES RELIEFS – NURSERIES / EXPANDED RETAIL

20. As an extraordinary response to the coronavirus, the Government announced a business rates Nursery Discount on 18 March 2020. The discount to the retail hospitality and leisure sector was also extended to 100% on 23 March 2020.
21. The total estimate of additional reliefs for the Mendip area is £20.1m. These are being paid in 12 instalments of Section 31 grant from MHCLG.
22. To date, £12.9m has been received. The actual sum due will be finalised at year end and a reconciliation payment made from / to MHCLG.
23. The cost of the reliefs is therefore zero to Mendip DC and the other precepting bodies.

COUNCIL TAX HARDSHIP FUND

24. The Government announced a £500m hardship fund at the Budget on 11 March 2020. Of this, Mendip District Council received £742,410.

25. The Government's expectation is that all working-age Localised Council Tax Support (LCTS) claimants in 2020-21 (who are entitled to working-age LCTS in respect of any part of the 2020-21 council tax liability) will receive a further discount of £150.

26. To date, around £630,000 of reductions have been applied to existing claimants.

27. Additional payments will be made shortly to increase the £150 to around £180/£185 discount. The intention is to pass all this hardship funding to Mendip residents by the year-end.

GENERAL FUNDING

28. To date, four tranches of general funding for COVID-19 costs have been announced by MHCLG.

29. The national allocations have been made on differing criteria, and the sums received by Mendip DC have been £51,187, £1,152,065, £179,488 and £270,215. The total received is therefore £1,652,955.

30. From this, the Council have had to meet a number of cost pressures. The main one has been for Somerset Waste Partnership of £480k. This covered delayed savings on the roll-out of the Recycle More programme and additional costs due to increased waste volumes during the lockdown period.

31. Additionally, costs have been incurred supporting foodbanks, homelessness, rough sleepers (from July 2020 onwards), crematoria, support to Town Councils and bank charges. The Council has also needed to fund additional PPE and changes to office accommodation to support shielding and social distancing.

32. Costs paid to date total around £900,000 but this will increase between now and the year end. The fourth tranche of funding should now mean that the Council's costs will be covered by the general grant received from MHCLG. Any excess funding can be used towards the income losses detailed later in this paper.

NEW BURDENS FUNDING

33. The New Burdens doctrine is in place nationally to ensure that council taxpayers do not bear excessive increases in costs from government-imposed changes.

34. The additional administration associated with each of the funding streams above have been recognised by Government as falling within the New Burdens regime.

35. To date, Mendip has received £170,000 towards the extra administration of the Small Business and Retail, Hospitality and Leisure grants, £76,500 for the Discretionary Grant Scheme, £10,614 for the Council Tax Hardship Fund and £11,700 for the Business Rates Reliefs. Total received to date is therefore £268,814.

36. The additional administrative burden has fallen partly on the Council and partly on CAPITA, who provide the revenues and benefits service for the Council. CAPITA

who are submitting claims for their additional administration of each scheme which we have asked them to help administer. To date, this totals around £100k.

37. The costs for the Council have mainly been around staff time and have been partly in additional overtime payments and partly through re-prioritisation of staff resources.

38. Any excess funding from New Burdens will be retained by the council, in recompense for the additional work done on these schemes and can help offset lost income as detailed below.

LOST INCOME SCHEME

39. In July, the Government announced a further scheme to partly cover Councils' lost income during the pandemic. Councils have to bear losses equal to the first 5% of each income budget and 25% of any further losses in excess of 5%. The Government will reimburse local authorities for the difference, which equates to 71.25% of the overall loss.

40. There are a number of exceptions to this. Firstly, commercial and investment income losses are excluded. Secondly, any income lost due to local decisions made outside of government policy are excluded. Precept income for council tax and business rates were originally excluded but this has recently been changed (see paragraphs 57-66).

41. The main areas of income loss for Mendip which are eligible for the scheme are car parking, leisure, market rents, planning, land charges, licensing and waste. The current estimate is that the total loss could be around £2.54m, with £1.67m of this recoverable from MHCLG.

<u>Lost Income</u>	<u>Budget</u>	<u>Loss</u>	<u>First 5%</u>	<u>25% of 95%</u>	<u>Claimable</u>	<u>Loss</u>
Car Parking	-3,185,000	1,818,000	159,250	414,688	1,244,063	573,938
Markets	-318,000	318,000	15,900	75,525	226,575	91,425
Leisure	-210,000	210,000	10,500	49,875	149,625	60,375
Planning & land charges	-1,215,000	48,000	60,750	0	-12,750	60,750
Waste	-630,000	95,000	31,500	15,875	47,625	47,375
Licensing	-315,000	0	15,750	0	-15,750	15,750
Central	-104,850	50,000	5,243	11,189	33,568	16,432
TOTAL	-5,977,850	2,539,000	298,893	567,152	1,672,956	866,044

42. To date, 2 claims have been made from MHCLG. The first was for £830,317 and the second for £332,687, so total claimed to date is £1,163,004.

43. The first claim included sums for Planning and Licencing, which were both showing significant deficits at that time. These have however subsequently picked up and are now back in line with budget.

Commercial Income

44. Commercial income has become an important source of revenue to many Councils, including Mendip. The budgeted income for 2020-21 is just over £3m.

The majority of tenants in the Council's commercial properties appear to be financially sound and several are currently in periods where the rental income was guaranteed as part of the purchase price. Total payments received to date is around £1.6m, with around £700k overdue.

45. Two tenants have been significantly behind with their rents. One is not paying rents on a national basis and has paid no rent so far this year. The total exposure for this tenant is £330k. The second tenant did not pay for 2 quarters but has now agreed to start paying and to repay the arrears over the next 12 months. A view will need to be taken at year end on how much of this will be recoverable and the level of risk for 2021-22.

Investment Income

46. Investment income (interest) on cash balances / lending is significantly down compared to budget as a result of the interest rate reductions made by the Bank of England during the pandemic. The latest estimate is a shortfall of around £50k in the current year.

TEST AND TRACE SUPPORT PAYMENTS

47. From 28 September 2020, a further scheme was introduced to compensate people on low incomes who are unable to work while self-isolating. Payments of £500 were made available who had been legally required to self-isolate. A small amount of discretionary funding was also provided to help those who require corresponding financial support to the Test and Trace Support Payment to self-isolate, but do not meet all of the eligibility criteria.

48. An allocation of £94,369 has been received by the Council for Test and Trace. This includes £42,500 to fund the £500 payments, £26,324 for administration and £25,545 for discretionary payments.

49. To date, payments have been made totalling £16,500. However, we are now seeing an increase in claims in the new year, so this will increase.

COMPLIANCE AND ENFORCEMENT GRANT

50. On 22 September 2020, £30 million was allocated nationally to all district and unitary authorities in England to support with compliance and enforcement activity. The aim of this funding was to provide marshals, wardens, stewards etc, to engage, explain and encourage best practice and national COVID-19 secure guidance.

51. From this, Mendip DC has received an allocation of £56,051.

52. This is being used for employment of additional wardens for compliance activity, particularly around markets and retail.

LOCAL RESTRICTIONS SUPPORT GRANT / ADDITIONAL RESTRICTIONS GRANT

53. With the announcement of the second national lockdown on 31 October, additional business grants were made available. These were Local Restrictions Support

Grant, payable to businesses forced to close of £2,373,714 and Additional Restrictions Grant (ARG) of £2,311,740 for discretionary payments. The ARG covers the remainder of this financial year and also the whole of 2021-22, so a cautious approach has been necessary in allocating these funds.

54. The move to Tier 3 also triggered additional business grants from the 2 December. These were £441,628 for businesses which remained open but were severely impacted and a further £24,939 for closed businesses.
55. In addition, a further scheme was introduced to support wet-led pubs over the Christmas period, and a sum of £89,600 has been received for this scheme, which is initially 80% of the estimated cost.
56. The move to a third national lockdown from 5th January 2021 has now triggered even more business grants. Details of these grants is still emerging.

COUNCIL TAX INCOME

57. Losses of Council Tax income have also been incurred during the pandemic. These losses occur through increased numbers of households eligible for Localised Council Tax Support and reductions in the collection rate, through non-payment.
58. At present, the loss for 2020-21 is estimated at up to £3 million. Of this, 14.2% relates to Mendip which would equate to £426k. Normally, this would form a collection fund deficit, and would be repayable the following year. MHCLG have changed the regulations such that the deficit would now be repayable in equal instalments over the following 3 years.
59. In the Spending Review issued on 25 November, the chancellor announced that unrecoverable losses of Council Tax income would be compensated in a similar way to Sales, Fees and Charges. This would mean 75% of the losses being reimbursed by government.
60. The impact of this will reduce losses, but the sums will only be determined at year end when a view is taken on what 2020-21 council-tax income is irrecoverable.

BUSINESS (NON-DOMESTIC) RATES INCOME

61. Losses of Business Rates (NDR) income compared to the budgeted amount, have partly been covered through the additional reliefs granted to nurseries and retail, hospitality and leisure sectors (see paragraphs 20-23).
62. Outside of this, other losses have also been incurred through businesses ceasing trading, downsizing and through reduced collection rates.
63. Due to the business rates pooling arrangements in place across Somerset, these reductions will reduce the historic growth within the pool. This will therefore become an issue for the Council within 2020-21. The current estimate is that this could reduce the pooling gain for Mendip in the current year, a potential loss of £600k or more.

64. The current level of unpaid / deferred business rates for 2020-21 is around £2.9m. Of this, some will be repaid over the coming months, so should reduce. Of this, 40% relates to Mendip which would equate to £1.16m. Normally, this would form a collection fund deficit, and would be repayable the following year. MHCLG have changed the regulations such that the deficit would now be repayable in equal instalments over the following 3 years.
65. As with Council Tax income, the Spending Review confirmed that irrecoverable business rates income would also be compensated, with 75% of the losses being reimbursed by government.
66. The impact of this will reduce losses, but the sums will only be determined at year end when a view is taken on what 2020-21 business rates income is irrecoverable.

SUMMARY OF FINANCIAL IMPACT

67. The net cost to Mendip District Council in 2020-21 will consist of several elements. These are; the Council's share of service income losses, any commercial income losses and loss of business rates pooling income.
68. At present, these are estimated to total between £1.6m and £2.6m.
69. Any general COVID grant funding and the New Burdens funding covering council activity can be applied to reduce this loss. This could bring the figures down to a best-case figure of around £1.2m.
70. Clearly, what will happen over the remainder of the financial year is unclear, so this position could change. It will be closely monitored and reported to members at regular intervals.
71. Any net costs remaining at the year-end will need to be met from the Council's revenue budget, so will have to be funded from savings elsewhere, or will form an overspend at year-end which will need to be funded from reserves.

IMPACT ON 2021-22

72. The longer-term impacts are being incorporated into the revised Medium Term Financial Plan. These include the lost service income and the on-going impact on both council tax and business rates receipts, and potential impact on commercial income.
73. The Sales, Fees and Charges re-imburement scheme has been extended until the 30 June 2021, so losses in quarter 1 will now be partly reimbursed. The government has stated that it will keep this under review.
74. An additional grant of £156k has been included in the provisional local government finance settlement to cover loss of council tax income due to increased Localised Council Tax Support payments in 2021-22.
75. Additional general COVID grant has been allocated for 2021-22 of £563,171. This will help cover additional costs and our share of lost income next year.

76. The key outstanding question is relation to business rates for 2021-22 is whether the additional reliefs granted in the current year will continue. These replaced over half of the business rates income in the current year. Major retailers, such as the supermarkets, have repaid their reliefs in recent months, so it may be that a similar scheme, more focused on the smaller retailers will be agreed. Announcements on this are due to be made later this month and will be critical in determining the future of many of our small retailers.

77. The commercial income has held up remarkably well, with many of our tenants largely unaffected by the pandemic. The risks around this income will however be considered carefully in setting next year's budget.

RECOMMENDATIONS

Members are asked to consider and comment upon the latest projections in relation to the funding provided by Government towards the cost of the COVID-19 and the financial impact on Mendip District Council.

Contact Officer: Richard Bates, Interim Section 151 Officer
Ext No: 07597 375305
e-mail: richard.bates@mendip.gov.uk

Background Papers

Gov.uk - Coronavirus (COVID-19): emergency funding for local government
COVID-19 Funding and Expenditure – Scrutiny Board 19.08.2020

Appendices

1) Summary of Grants / Reliefs and Potential Impact on Mendip District Council

Appendix 1: Summary of Reliefs / Grants and Potential Impact

09/01/2021

Scheme	Relief / Grant £	Residual Cost to MDC	
		Best case £	Worst case £
RELIEFS			
Business Rates Relief - Nurseries	-138,756	0	0
Business Rates Relief - Expanded Retail	-19,915,311	0	0
TOTAL	-20,054,067	0	0
GRANTS			
Small Business Grant Fund / Retail, Hospitality and Leisure	-33,050,000	0	0
Local Authority Discretionary Grant Fund	-1,652,500	0	0
Council Tax - Hardship Fund	-742,410	0	0
MHCLG General Funding Tranche 1-3	-1,652,955	-300,000	100,000
Lost Income - Eligible for shared scheme	-1,800,456	750,000	900,000
Lost Income - Commercial and Investment	0	250,000	600,000
Council Tax Losses	<i>tbc</i>	<i>Spread over next 3 years</i>	
Business Rates Losses outside of grant schemes	<i>tbc</i>	<i>Spread over next 3 years</i>	
Business Rates Pooling Losses	0	600,000	1,000,000
Test and Trace	-94,369	0	0
Compliance and Enforcement	-56,051	0	0
LSRG (2nd lockdown)	-2,373,714	0	0
ARG (2nd lockdown)	-2,311,740	0	0
LRSO Open 2 December+	-441,628	0	0
LRSO Closed 2 December+	-24,939	0	0
Christmas Wet Led Pubs	-89,600	0	0
LRSO (3rd Lockdown) – awaiting confirmation	?	0	0
New Burdens Funding for extra administration of grants	-268,814	-100,000	0
TOTAL	-44,559,176	1,200,000	2,600,000