

IMPACT OF COVID-19 ON THE FINANCIAL POSITION OF THE COUNCIL

CABINET MEETING DATE:

22TH APRIL 2020

CLASSIFICATION:

OPEN

WARD(S) AFFECTED:

All wards

CABINET MEMBER

Mayor

KEY DECISION

Yes

REASON

Spending or Savings

This report is urgent because decisions are required without the normal notice of a Key Decision being taken and therefore this item will not appear on the current published executive Key Decisions notice.

GROUP DIRECTOR

Ian Williams: Finance and Corporate Resources

1.0 MAYOR'S INTRODUCTION

- 1.1 This report sets out how the Council and my administration is responding to the COVID-19 crisis and the financial impact of the coronavirus pandemic on the Council, but I know that the real impact of this crisis is on the families who have lost loved ones in awful circumstances over the past few weeks. Our thoughts are with them, and all of our residents who have contracted this virus or are helping to care for those who have.
- 1.2 Although we can't physically come together right now, I'm proud of how Hackney has responded as one community – whether the heroic NHS staff putting themselves at risk to help others, care homes staff and those that deliver social care in people's homes, the frontline staff in the Council and other organisations who are delivering crucial services for vulnerable residents, or the volunteers looking after their neighbours. This Hackney spirit is what will get us through this together.
- 1.3 We will continue to do all we can to support our communities, keep key Council services running and ensure that those who need our help get it. As well as public health and emergency support, we've already committed millions of pounds of additional funding to respond to the coronavirus crisis and to ensure support is available as quickly as possible to residents and businesses – often in advance of receiving any money or guidance from the Government.
- 1.4 Section 11 highlights the additional investments that may be required in frontline services to help respond to the coronavirus crisis in Hackney. An additional £7m is earmarked for Adult Social Care this year to support our most vulnerable residents, protect our staff, and help with workforce pressures as a result of sickness or isolation. Almost £4m will be invested into Education and Children's Social Care, and £1.6m into housing homeless individuals and families this year - which includes the work to house those who were formally sleeping rough.
- 1.5 Our hard-working staff are also filling gaps in Government provision, including topping up and delivering approx 1,500 emergency food parcels to self-isolating individuals and families a week, as well as supporting colleagues in the NHS and local care homes. We stepped in to support the local economy with a £100m package of measures which included: a three-month rent free period for our voluntary and charity organisations renting Council buildings, a three-month no-quibbles rent deferral for all 300 other commercial tenants, the suspension of all commercial waste payments for businesses that have been forced to close, and the suspension of any fees and charges due from street market traders unable to trade.
- 1.6 In this report we go further, creating a £100k hardship fund to help migrant and refugee families with 'no recourse to public funds' who have otherwise been ignored by the Government throughout this crisis; and have expanded the scope of the current council tax discretionary hardship fund to provide support to more applicants. An additional £500,000 will also be invested into the Council's Discretionary Crisis Support Scheme, which residents can apply to for urgent financial support with emergency needs. A further £120,000 has been invested to support Discretionary Housing Payments for those needing

support to pay rent. A total of over £5.2m of Council and Government investment in supporting the most vulnerable and the financially hardest hit households in Hackney.

1.7 On support for businesses, an additional £46.3m of retail business rates relief has been granted to 2,280 retail, hospitality and leisure ratepayers. The Government has confirmed that the EU has agreed to suspend State Aid rules in relation to these reliefs. We have also identified £745k of relief to be awarded under the new Nursery relief scheme. Where we have identified recipients of the relief who pay their rates bill by direct debit, the direct debit has been cancelled so that a payment is not taken before the reliefs are applied.

1.8 The team has also identified the ratepayers that it believes will be entitled to the grants. ICT have devised a secure method for ratepayers to be able to supply the information required for a payment to be made. The majority of ratepayers do not pay business rates by direct debit and so bank details are not held. The registration process is designed to collect the details so that payment can be made by BACS rather than by cheque. Ratepayers have been contacted to make them aware of the online form the Council has published to collect the information required. As at 20 April grant payments totaling £30.2m have been made to 1,972 business ratepayers

- 1.9 We have worked in cooperation with our communities through mutual aid groups and local charities. 1200 Hackney residents have signed-up to our volunteering hub which is helping direct the energy of the borough's residents to the services, local charities and communities that need it most. Having leafletted for a mutual aid group, I know the difference these grassroots efforts make in terms of connecting people and providing tangible support for those who may otherwise feel very isolated and alone.
- 1.10 We're doing that because it's the right thing to do – helping families in need and businesses struggling to survive because of the effects of the pandemic – but also because ministers have repeatedly promised that our work would be fully funded. At the start of the crisis we were told by the Secretary of State to “spend what you need”, and that the Government would support us. But what councils already need is larger than the recently announced two £1.6bn packages for local government highlighted in point 6.1, let alone where our budgets will be once this crisis is over. We have seen not just additional financial pressures caused by the investment in supporting the emergency response, but also sharp drops in income from business rates, parking, commercial income and events as well as those unable to pay their council tax or rent.
- 1.11 But we are also still facing the prospect of a Spending Review following the Fair Funding Review into the local government funding formula, which could add to our financial pressures. Some estimates, such as the Pixel Financial Management report on behalf of the County Councils Network, suggests the Fair Funding Review could almost double our already £19m existing budget gap, as a result of this Government's austerity policies, to over £36m. We need the Government to make sure there will be no major changes to our funding during this crucial time – our frontline services and vulnerable residents need stability, not shake-ups – and we will keep standing up for them to see this happen.

- 1.12 This report sets out in detail the funding pressures that the Council faces as a result of the coronavirus pandemic, which add to the pressures created by a decade of cuts to our services. We will continue to make the case to the Government that ministers keep their promise and not place the financial burden of responding to this crisis on local authorities and their residents.
- 1.13 This has meant collating case-studies to send to the Government of local businesses that are falling through the net of government support – the businesses just over thresholds and the self-employed, who were at first told to rely on Universal Credit. We are also fighting for our businesses who have been badly let-down by insurance companies. We stood-up for our local voluntary and charitable sector, arguing for greater government intervention to protect the sector that is supporting our local communities during this crisis and pledged through London Funders to support the sector in modifying our approach to grants. At an early stage we lobbied for more support for our residents in the private sector with a ban on evictions and a rent holiday, and we have called for a lift in Local Housing Allowance and the removal of restrictions on Discretionary Housing Payments – both vital steps that are needed to support our residents on lower or no incomes. And on the impact on the education sector, local charities, Hackney’s vibrant creative sector, migrants and refugees, and residents with protected characteristics, we will be submitting evidence to several Parliamentary inquiries.
- 1.14 This report is also important to show that good governance, democratic accountability and transparency continue in Hackney even during this crisis. We have sought to ensure that scrutiny, audit and other meetings can continue and that through this paper and future updates to Cabinet major policy and financial decisions continue to be taken in public.
- 1.15 My administration will continue to ensure the Council is doing everything it can to support local people, keep our frontline services running, and protect our staff. We will fight on their behalf, and maintain the #HackneySpirit that I have been so proud to see over the last few weeks.

2.0 GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES INTRODUCTION

- 2.1 This report is being brought under the Council’s Special Urgency provision as set out in Part 4.2 rule 17 of the Council Constitution. The reason for urgency is due to the current pandemic and urgent decisions are required to facilitate expenditure which is outside of the normal budgetary framework and such a decision cannot wait until the next Cabinet meeting scheduled for May 2020.

The ongoing global pandemic of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which causes coronavirus disease 2019 (COVID-19), spread to the United Kingdom in January 2020. Transmission within the UK was confirmed in February, leading to an epidemic with a rapid increase in cases in March. As of 9am on 16 April 2020, a total of 328,000 people have been tested, of whom 103,000 were confirmed positive. As of 5pm on 15 April 2020, 13,700 patients in the UK who tested positive for coronavirus (COVID-19) have died.

We know that the tragic impact of this virus is greater - as testing and recorded deaths have been largely limited to hospital settings to date.

- 2.2 This has already had a significant detrimental impact on the economy and public finances, and is presenting businesses, public organisations and individuals with significant challenges
- 2.3 COVID-19 affects many of the functions the Council undertakes – in the community, social care, public health, education and supporting vulnerable people.
- 2.4 On the evening of 23 March, Prime Minister Boris Johnson announced in a television broadcast that measures to mitigate the virus were to be tightened further in order to protect the NHS, with wide-ranging restrictions made on freedom of movement, enforceable in law, for a planned 'lockdown' period intended to last for at least three weeks. The government directed people to stay at home throughout this period except for essential purchases, essential work travel (if remote work is not possible), medical needs, one exercise per-day (alone or with members of their household) and providing care for others. Many other non-essential activities, including all public gatherings and social events, except for funerals, are also prohibited, with many categories of retail businesses ordered to be closed.
- 2.5 Clearly the epidemic and the 'lockdown' have significant implications for the Council's services and considerable financial implications. This report looks at the Government's response to this in terms of emergency measures and financial support for local authorities, our response, funding issues, governance and accountability.
- 2.6 It must be noted that Government funding listed in this report is intended to cover the epidemic only and funding is of a one-off nature. It follows that to protect the Council's financial position going forward, we must ensure that that no expenditure commitments are given that are of an ongoing nature and will require a subsequent increase in cash limits. All spending must be funded by the grant government has made available and if there is any shortfall, by one-off council monies only, not by an ongoing funding commitment. This applies to all services.
- 2.7 On the issue of Government funding, I do have some concerns about its adequacy. This is discussed in section 6.3 to 6.6 below.
- 2.8 To enhance governance and accountability and to facilitate control of COVID-19 spending particularly in the context of the available grant, the finance teams will carry

out a comprehensive expenditure tracking exercise which will identify and record all COVID-19 related spend. An analysis of the relevant spend will be produced for senior officers on a fortnightly basis and reported to Cabinet each month in the Overall Financial Position Report.

- 2.9 The purpose of this paper is to present an update on Financial, Commercial and Governance considerations' to ensure that we have in place the appropriate Governance arrangements at this time and clarity on delegations, reporting and monitoring arrangements. This will ensure that we have an appropriate audit trail of key decisions and records in place given the situation we now face. It should be noted that the recommendations that relate to the allocation of the Emergency Hardship Fund (3.1 and 3.2) only cover the time period of the immediate emergency. Moreover, we have limited control over much of the expenditure we will make such as responding to the increased demand for adult social care, the need to provide additional support to social care providers and responding to the extra demand and higher business-as-usual costs of providing children's social care. The Government has in fact set out its expectations of where we will spend the funding (6.1b below) and an initial assessment by officers of where the grant will be spent is also included at 6.1a. Moreover, if the Government funding is sufficient to cover additional costs and reduced income then it makes sense to simply allocate out the funding in line with the actual additional spending and reduced income.
- 2.10 Following the recommendations, the report presents an overview of the Council's financial position before COVID-19 took hold and addresses other non-coronavirus funding related issues.
- 2.11 Finally, I would like to place on record my thanks, admiration and genuine appreciation for how Council staff, our public sector partners, partners in the community and voluntary sector, and the citizens of Hackney have stepped up to the challenge posed by COVID-19. I am sure that the spirit, creativity and endeavour shown will continue to be present as we enter the next phase of the battle against COVID-19 and I know that sense of community and commitment will keep us together as we mitigate the impact of this terrible virus on our borough.

3.0 RECOMMENDATIONS

- 3.1 Cabinet to delegate to the Chief Executive and the Group Director of Finance and Corporate Resources the authority to allocate COVID-19 Grant Funding to the Council service areas as required in consultation with the Mayor and Deputy Mayor (Finance).**

- 3.2 Cabinet to note the extension of the Council’s current Discretionary Council Tax Hardship scheme in response to the COVID epidemic as discussed in section 7**
- 3.3 Cabinet to delegate authority to the Chief Executive and Group Director of Finance and Corporate Resources, in consultation with the Mayor, Deputy Mayor (Finance) and Cabinet Member for Community Safety, policy, and the voluntary sector, to repurpose unallocated Community Grant funding and to make awards to support local Voluntary and Community Sector organisations in their response to COVID-19 and to support the work of Mutual Aid groups through partnerships with local VCS, as discussed in section 8.**
- 3.4 Cabinet to note the potential financial implications of Covid-19 as set out in Section 11.**
- 3.5 Cabinet to agree that any further urgent decisions required during this specific period will be reported in summary at the next ordinary meeting of Cabinet in accordance with the governance and legislative framework of the Local Authority.**

Recommendation 3.1 will ensure the timely and controlled funding of the services we are providing in respect of COVID-19, it is recommended that:

Until the funding allocations noted in 3.1 are made, the COVID-19 funding will be held corporately.

An update on the use of and state of any delegations contained in this report will be kept under review and considered in a report to the next Cabinet meeting anticipated on 18 May 2020.

4.0 REASONS FOR DECISION

- 4.1 To facilitate efficient financial management and control of the Council's finances with special regard to the impact of the Covid-19 Pandemic.**

5.0 FINANCIAL POSITION BEFORE THE CORONAVIRUS EPIDEMIC WAS CONFIRMED

- 5.1 Our medium-term financial position, as set out in the Medium-Term Financial Plan which formed part of the 2020/21 Budget presentation, is shown below.**

MEDIUM TERM FINANCIAL POSITION 2019/20 TO 2023/24

ESTIMATED RESOURCES	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Core Funding					
Revenue Support Grant	0.000	35.361	0.000	0.000	0.000

Top-Up Grant	83.421	72.526	71.221	66.221	66.221
Business Rates	75.309	44.040	76.106	80.557	85.120
Total Core Funding	158.730	151.927	147.327	146.778	151.341
Council Tax Income	82.299	87.746	92.923	98.362	104.089
Public Health Grant	32.320	33.240	32.440	31.640	30.840
One off S31 grants	15.087	8.618	3.874	3.874	3.874
One-off Council tax & Collection Fund surplus (p/year)	2.543	3.118	0.000	0.000	0.000
New Homes Bonus	8.395	7.551	2.000	2.000	2.000
Better care Fund/Improved Better Care Fund	20.453	20.453	19.300	19.300	19.300
Other Funding	0.225	0.225	0.225	0.225	0.225
TOTAL RESOURCES	320.052	312.878	298.089	302.179	311.669
ESTIMATED SPENDING	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Cash Limits after Savings & Growth	271.522	267.878	268.523	270.926	273.626
Capital Charges, Depreciation & Superannuation	17.608	18.108	19.608	19.608	19.608
RCCO, Levies & Pay Award	12.200	16.580	22.530	28.980	35.430
Corporate Items including one-off S31 Grant	18.722	10.312	0.571	1.371	2.171
TOTAL SPENDING	320.052	312.878	311.232	320.885	330.835
BUDGET GAP	0.000	0.000	13.143	18.706	19.167

5.2 So, even before the impact of coronavirus on our funding position is considered, we were looking at a budget gap of £19m over the planning period.

5.3 Turning to other funding matters, the Government is intending to publish a Spending Review in July and implement a new system of local government funding in 2021/22 following on from the Fair Funding Review. The longer the epidemic lasts, the less likely it is that either of these will be introduced and in particular, the Spending Review. I would expect that all work has halted on the review following the lockdown and any prolonged extension of the lockdown will make it practically very difficult for the Review to be produced. Moreover, it is difficult to see the Government committing to a 4 or 5 year public spending horizon with departmental spending allocations, before it has a very firm estimate of the likely impact of coronavirus on the public purse. This may be many months away depending on the duration of the epidemic and how long it takes the economy to pick up.

5.4 This could mean that as in 2020/21, the previous year's funding arrangements and allocations are rolled forward. However, it's debatable whether any rollover will be as generous as that in 2020/21, given the significant increase in the current level of public spending resulting from coronavirus and the impact on government revenues of the inevitable economic downturn

5.5 In general, the coronavirus disease and the Government's funding response will introduce even more uncertainty into the 2021/22 external funding arrangements which is likely to spill over into future years. This obviously has implications for the certainty of our financial position going forward.

6.0 EMERGENCY FUNDING MEASURES ANNOUNCED BY THE GOVERNMENT IN THE MARCH BUDGET AND SUBSEQUENT ANNOUNCEMENTS

6.1 The Government's March Budget announced several measures and support packages to be put in place to support the COVID-19 response, they are:

- a) The Government announced an Emergency Fund of £1.6bn to help local authorities address funding pressures across all the services they deliver arising out of COVID-19. The Government expected that this grant would cover all costs incurred in the first phase of the response, but would keep this under review. Hackney's share of this Fund was £10.092m. The grant is not ring fenced but the Government has indicated where it expects us to spend the grant funding but it does list activities that it believes the funding should enable us to carry out - these are listed in 6.1b below.

Initial work undertaken with the Mayor and Deputy Mayor (Finance) suggests that from the Emergency Fund grant: £3.5m will be spent on Adult Social Care, £1m on Children's Services, £1m on Education, £2m on Environmental and Regulatory Services, £1m on housing (including homelessness) and £1m on F&CR (including R&B) but at this stage these are indicative estimates that will be firmed up in due course.

As part of its ongoing review noted above and under significant pressure from local government representative bodies and individual councils, on 18th April the Government announced a further pot of funding for local government, the total of which again is £1.6bn. It should be noted that since the Emergency Fund allocations were announced, there has been widespread criticism from shire districts and some counties on the grounds that their allocations were grossly insufficient. In view of this, we believe that our share of the 18th April allocation will be less than that we received from the Emergency Fund. Until the actual allocations are published, we have therefore assumed an allocation of £7m. This will be updated when the allocations are published.

- b) It also announced a £500m hardship fund to deliver relief to council taxpayers in local areas. The funding is for the 2020-21 financial year and Hackney's allocation is £4.6m. The expectation is that the majority of the hardship fund will be used to provide council tax relief, alongside existing local council tax support schemes. Under the hardship fund arrangements, relief will be provided to all working age CTRS claimants in 2020/21, who will qualify for a reduction of up to £150 in their Council Tax regardless of whether they have been impacted by COVID-19 or had any loss in income. This means that their outstanding liability after any CTRS reductions will decrease by £150. Councils

will be required to automatically assess who is eligible for support and automatically rebill those Council taxpayers. No one will have to make an application or show good cause – it must just be awarded. The reductions are to be administered using the discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992, outside of any existing Council Tax Reduction Scheme. The underlying Council Tax Reduction Schemes will remain unchanged. The scheme is considered in more detail below.

The Government believes that the primary impact of the virus on our services include: -

- (i) Increased demand for adult social care and the need to provide additional support to social care providers.** This is likely to be the primary spending area.
 - (ii) Extra demand and higher business-as-usual costs of providing children’s social care,** including as a result of school closures and the need for increased accommodation to address the need for isolation, including for unaccompanied asylum-seeking children.
 - (iii) The need to provide additional support for the homeless and rough sleepers,** including where self-isolation is needed. This is on top of the £3.2m emergency fund announced on 17 March (Hackney’s allocation was approx £10,000) to help rough sleepers, or those at risk of rough sleeping, to self-isolate.
 - (iv) The provision of support to those at higher risk of severe illness from COVID-19,** who will soon be asked to self-isolate in their homes for the duration of the pandemic. We have a critical role in supporting those within the most clinically high-risk cohort who also have no reliable social network (i.e. who are both at high risk clinically and socially).
- c) To support businesses affected by COVID-19, the Budget increased the existing Business Rates retail discount to 50% in 2020/21 and this was subsequently increased further to 100% for 2020/21. It was also announced that the retail relief scheme would be expanded to the leisure and hospitality sectors. The scope for businesses covered by this provision was subsequently expanded to include Estate agents, lettings agencies and bingo halls.
- d) Further support for business was given in the Budget with the increase in the Business Rates discount for pubs (with a RV below £100,000) from £1,000 to £5,000 for one year from 1 April 2020. A discount for nursery schools was also introduced. Nurseries will now be eligible for a business rates holiday for one year and receive 100% relief, although there remain issues where business rates are paid by sub-tenants as part of their rent

- e) It was announced that £3,000 grants for businesses claiming Small Business Rate Relief (SBRR) or Rural Rate Relief (RV below £15k) would be made available. This was extended to £10,000 on 17th March and at the same time, a £25,000 cash grant will be made available to businesses in retail, leisure and hospitality with a RV greater than £15k and less than £51k, and a £10,000 cash grant made available to businesses in retail, leisure and hospitality with a RV up to £15k (but not already receiving a grant under the SBRR scheme).
- f) On March 17th, the Government announced a twelve-month business rates 'holiday' for all shops, pubs, theatres, music venues, restaurants and any other hospitality or leisure business regardless of RV. Qualifying properties will pay no business rates in 2020/21. The separate pub relief will now be deleted as pubs will qualify for relief under the enhanced retail relief, which will mean that they will also pay no business rates

6.2 Local Government will be compensated for the above business initiatives by S31 grant, with billing costs subject to new burdens funding.

6.3 Information on the potential funding shortfall faced by local government was provided by LGC on 17th April. According to LGC, Local government is facing a multi-billion pound shortfall as a result of the COVID-19 outbreak. Analysis of information from more than 50 councils on how the outbreak is impacting their financial position suggests the £3.2bn funding so far promised by ministers will only cover half of the estimated financial impact of the crisis for councils with social care responsibilities. It could be though, that further funding allocations are made over time, although this will have to be considerable as overall the councils in LGC's sample reported a projected shortfall which if repeated across the whole sector, would mean the sector was looking at a shortfall of more than £9bn for the year.

6.5 The information provided to LGC was based on a return sent to the Ministry of Housing, Communities & Local Government by councils on Wednesday night (this is the survey referred to in Section 10 below). It asked councils to report the financial impact from anticipated additional expenditure as a result of the crisis, including the cost of any savings that are no longer believed to be realisable. In addition, it asked councils to project how much income they would lose during the year from reduced receipts from council tax, business rates, commercial income and fees and charges.

6.6 In LGC's sample, the largest shortfalls were reported by city councils. As the largest unitary council in England it was unsurprising that Birmingham City Council was forecasting the largest shortfall, at £222.5m. Manchester returned £133m and Leeds £107m.

7.0 THE COUNCIL'S DISCRETIONARY COUNCIL TAX HARDSHIP FUND AND FUNDING ALLOCATION FROM GOVERNMENT

- 7.1 As part of its emergency response to COVID-19, the Government announced it would provide local authorities in England with £500m of new grant funding to support economically vulnerable people and households in their local area. Hackney will receive £4.6 million from this grant pot.
- 7.2 This funding came with the expectation that the majority of this £4.6 million hardship funding will be used to provide additional council tax relief, alongside existing local council tax support schemes.
- 7.3 The Government has encouraged all Councils to use their discretion to provide all recipients of working age local council tax support during the financial year 2020-21 with an additional reduction in their annual council tax bill worth £150. Where a taxpayer's liability for 2020-21 is, following the application of discounts and council tax support, less than £150, then their liability would be reduced to nil. Councils are encouraged to do this using their discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992.
- 7.4 While Hackney has an existing discretionary policy for considering applications under section 13A for the relief and reduction of Council Tax - it was not drafted to cover the situation where all working age Council Tax Reduction Scheme (CTRS) applications would receive an automatic award regardless of hardship. Such an action is outside the scope of the existing policy.
- 7.5 The policy has therefore had to be amended to introduce a new category to recognise the unique circumstances caused by COVID-19 - and enable the Council to automatically award this relief to all working age CTRS claimants.
- 7.6 This has been discounted as the figure of £150 is the sum that has been recommended by the government, and Hackney is acting in line with Government guidance. Where families are still in hardship with their Council Tax after the award of the £150 relief there are other mechanisms to help, including our Council Tax Discretionary Hardship Scheme which is being expanded to meet additional demand. In addition, the Council has also taken further steps to help families who are struggling, including stopping any Council Tax debt collection or enforcement action at this time.
- 7.7 The enhanced policy now allows us to cover any shortfall between claimants' CTRS and their full Council Tax liability. We will now be able to consider a wide range of individuals not getting full CTRS due to non-dependent deductions, or those who may be struggling in low paid work, and those large families who reside in larger properties. So, it will allow a larger percentage of claims to be paid. Entitlement to CTRS is still required and claimants will still have to show financial hardship. We have also made it very clear that it is budget dependent so we don't commit ourselves to claims we can't pay. We won't pay from the fund if someone has significant savings, except if they need it to maintain their accommodation. So if they did have £6,000 in the bank, but

had lost all their income, and were able to show they needed those savings to maintain their mortgage or rent for the next 3 months - that would be allowable.

7.8 We have also noted in the scheme that those who are going to lose out because they are going onto Universal Credit (UC) (as we now assess CTRS claims using the maximum UC amounts, not the Housing Benefit amounts) can qualify, as there will be some large families, who lose out if they move onto UC under our CTRS scheme and we can cover that. We have already had some enquiries from the Orthodox Jewish community, because with the schools and businesses closed they are being hit hard, and because where people live in band F, G and H properties the shortfalls tend to be significantly above the £150 that they will get - so we can cover the difference from here.

7.9 Turning to the financial implications, as of 2nd of March 2020 the London Borough of Hackney had 21,282 working age households in receipt of CTRS who would qualify. The Council estimates that most of our existing caseload will be entitled to the full £150 at an approximate cost of £3.1 million. However, as individuals lose income as the Coronavirus pandemic continues there is likely to be a significant increase in new claims for a Council Tax Reduction. There is no way to accurately estimate how many new claimants will apply for Council Tax Reduction in 2020/21 during the next few months, and how much extra demand the Council will face, but increased extra demand is likely to be significant. As of 26th of March almost half a million new people had already registered for Universal Credit since the crisis developed, many of which will feed through into additional claims for CTRS and would be entitled to the additional relief. We do not know how many of these claims are in Hackney.

7.10 It follows that there is a risk that the scheme could cost in excess of the £4.6 million allocated from Central Government, meaning that any shortfall will have to be met from other Council budgets or one-off funding. Once the impact of the enhanced scheme comes through, we will review the scheme for 2021/22.

7.11 The enhanced scheme is attached at **Appendix 2**.

8.0 USE OF UNALLOCATED GRANT FUNDING 2020/21

8.1 The budget for the Council's grant programme for 2020/21 was allocated via a report that went to Cabinet in January 2020. As part of that report authority was granted by the Cabinet for officers to allocate funding in year for Community Chest and Small Grants. The first round of Small Grants has already been allocated and approved by Cabinet in February. However the second round of these grants plus the complete budget for Community Chest grant has yet to be allocated for year 2020/21. Two year Main Grants have been allocated from April 2020 (taken from the 2020/21 and 2021/22 budgets). In line with previous years a planned underspend of £291k has been held in reserves in order to increase the available budget for a one year Main Grants

programme in 2021/22. This means that there is £374k of unallocated funds in 2020/21 which could be repurposed to supporting the VCS in meeting the challenges of the COVID 19 crisis.

- 8.2 In recognition of the challenge facing civil society resulting from COVID-19, [new grants streams](#) have been established to offer a lifeline to the sector from National and London funders. Last week (8th April), the Government announced [support measures](#) totalling £750m for frontline charities responding to Covid 19. The focus of their direct support is quite narrow - hospices, Citizens Advice and domestic abuse charities. About £350m will be routed through the National Lottery with a focus on supporting community responses to food, medicine and financial advice. While these measures are welcome, it falls far short of the estimated financial impact of the Covid 19 crisis for VCS organisations, with National Council of Voluntary Organisations estimating that nationally charities stand to lose around £4 billion over 12 weeks alone. The package is also limited to grant funded aimed at the immediate Covid-19 crisis response and fails to take into account the need for broader support to help stabilise the sector or for the funding of broader activities and organisations that will be critical to recovery, such as youth based organisations.
- 8.3 Whilst we will want to ensure that Hackney's local VCS are beneficiaries of this funding we also need to recognise the gaps that remain in support for the sector as well as our own priorities for responding to the crisis now and in the longer term. Our approach is outlined below.

Repurposing the grants programme - the approach.

Short term - Immediate support for Covid-19

- Deliver a small grants round at accelerated pace to support place based and grassroots responses to Covid-19. The indicative budget for this is £50k.
- Invest in the Hackney Giving Grants Programme, managed by Hackney CVS, using this investment as a match funding target to trigger donations from individuals and corporate donors. The indicative budget is £30k.

Medium Term - Sustain

The planned underspend of £291,000 that is currently held in reserves provides a medium term opportunity to provide funding in this financial year that can help mitigate the impact of the crisis both for organisations and the community as well as provide a funding bridge until the grants review has been completed and a new grants scheme put in place.

9.0 IMPACT ON SERVICES

- 9.1 As noted above, the pandemic will create increased demand for adult social care and the need to provide additional support to social care providers and extra demand for children's social care. There will also be a need to provide additional support for the homeless and rough sleepers, including where self-isolation is needed and to provide support to those at higher risk of severe illness from COVID-19, who are being asked to self-isolate in their homes for the duration of the pandemic. We have a critical role in supporting those within the most clinically high-risk cohort who also have no reliable social network (i.e. who are both at high risk clinically and socially).
- 9.2 There is also a need to meet significant pressures across other services, as a result of reduced income, rising costs or increased demand. These include;
- Waste
 - Property Rental Income
 - Reduced Council tax and business rates income
 - Reduced income from parking and fees and charges
 - Unavoidable contract extensions
 - Potential loss of 2020/21 savings
 - Capital programme (refiling and grants loss) and
 - Market delivery impediments forcing up costs.
- 9.3 There is an immediate and significant impact for procurement. The Government has recently issued two procurement policies (PPN 01/20 and PPN 02/20). One relates to procurement of goods, services and works and the other referred to payment of suppliers during COVID-19.
- 9.4 Both policies have far reaching implications for the Council, particularly the latter which stipulates that contracting authorities should continue to pay suppliers even if they are not delivering services during COVID-19.

- 9.5 Procurement Policy Note (PPN) 01/20 mainly brings together information on how the Council can continue to procure goods, works and services during COVID-19 and when we may do so without the need to go through a competition process with more than one supplier particularly in extreme cases of emergency and urgency where a competitive process is not possible.
- 9.6 Procurement Policy Note 02/20:Supplier Relief during COVID-19 has greater and extensive implications for service areas across the Council and it places greater demands on the Council, including a requirement to continue to pay our suppliers during COVID-19 even where they have not delivered services to the Council. The Policy implementation is immediate and is expected to be in effect until at least the end of June 2020.
- 9.8 While managing the significant pressure on services caused by the national response to the COVID-19 pandemic, Council officers have also demonstrated impressive creativity and agility in the delivery of their services. This offers possibilities for ways that the Council might approach its longer term response to the extended impact. Examples include:
- Impressive cross-functional working, such as the arrangements for emergency accommodation needed for accelerated discharge from hospital and moving rough sleepers off the street into safe space.
 - Effective partnership working with statutory and voluntary sector partners to deliver a coherent borough-wide response. This includes work between adults' social care and health, and also partnership between Council teams and Police to keep parks and other public spaces open while ensuring that residents observe social distancing requirements.
 - Integration of customer contact and rapid move to working from home, sustaining a consistent level of service for residents, tenants and leaseholders.
 - Moving c 3000 of the Council's staff to home-based working. This included significant changes in the delivery of support and guidance to staff, building on the Council's developments in this regard over previous years.
 - Rapid creation of entirely new services, such as the arrangements to ensure that vulnerable people unable to leave their home are provided with food (outlined in more detail below).
 - Redeployment of staff to areas of work that are very different to their usual roles so that critical services can be delivered.
 - Effective governance and strategic leadership, working in a truly cross-functional way to direct the Council's response.

10.0 THE COUNCIL'S RESPONSE

- 10.1 Across the Council, our services are formulating plans and strategies to deal with the increased demand for our services arising from COVID-19, which will necessitate reshaping in certain areas and re-targeting of resources in others.
- 10.2 On the Council's website we have put up a coronavirus information section which contains regular updates and invites residents to subscribe to newsletter updates.

There is also a section on advice and support covering:

- Benefits
 - Support for Business
 - Community support
 - Coronavirus help and support
 - Contact details for other organisations providing online support
 - Council service updates
 - Key worker exemptions (i.e. parking)
 - Advice on scams
 - Schools updates
- 10.3 On the Hardship Fund, we have amended our Discretionary Policy under Section 13A which will allow us to make the council tax reductions and are working with our software suppliers on the upgrades needed to the core software to process these and to rebill claimants.
- 10.4 On support for businesses, the team is identifying all the cases that are likely to qualify for the new and enhanced rate reliefs announced by the Government. The software company has provided amendments to the system and an additional £46.3m of retail relief has been granted to 2280 retail, hospitality and leisure ratepayers. The Government has confirmed that the EU has agreed to suspend State Aid rules in relation to these reliefs. We have also identified £745k of relief to be awarded under the new Nursery relief scheme.
- 10.5 Where we have identified recipients of the relief who pay their rates bill by direct debit, the direct debit has been cancelled so that a payment is not taken before the reliefs are applied.
- 10.6 The team has also identified the ratepayers that it believes will be entitled to the grants. ICT have devised a secure method for ratepayers to be able to supply the information required for a payment to be made. The majority of ratepayers do not pay business rates by direct debit and so bank details are not held. The registration process is designed to collect the details so that payment can be made by BACS rather than by cheque. Ratepayers have been contacted to make them aware of the online form the Council has published to collect the information required. As at 20 April grant payments totaling £30.2m have been made to 1,972 ratepayers, i.e.

Scheme 1 (Small Business Rate Relief Cases RV upto £15k), 1,155 businesses paid with a total payment of £11.55m

Scheme 2a (Retail Relief Cases RV upto £15k), 118 businesses paid with a total payment of £1.18m

Scheme 2b (Retail Relief Cases RV over £15k upto £51k), 699 businesses paid with a total payment of £17.475m

Staff are continuing to make considerable efforts to chase up businesses who we think are eligible for the grant and have not yet claimed and are following up with businesses that have claimed but are not showing as retail establishments on the rating register.

- 10.7 We are very concerned about the risks for different groups arising from the way COVID-19 will impact on our everyday lives and the knock-on economic and social impacts. There is the extremely vulnerable ‘shielded’ group, who are being asked to stay at home for 12 weeks as well as a wider group of residents who are self isolating for health reasons, including older people. One of our biggest concerns is that those in poverty will become more vulnerable including those who are laid off, made redundant or lose business. We know things are going to get worse over a long period of time, so we want to ensure that our response is sustainable and future proofed as the situation evolves. We have been building a picture of the types of residents who might be vulnerable and their likely support needs so we can get the right humanitarian assistance support to them, working with the many voluntary and community sector groups, faith groups and mutual aid groups in the borough.
- 10.8 Teams from across the Council’s services have been working around the clock to make sure that vulnerable people who are housebound and unable to get food through other means are supported. This includes filling gaps in the provision that the Government is making for people who are ‘shielding’ from COVID-19. The effort that’s gone into this has been a hugely impressive example of ‘one council’ working, involving dozens of people from a wide range of services, including the BECC / Civil Protection, Adults Social Care, Children’s & Families Services, Customer Services, Facilities Management, Housing, ICT, Public Realm and Strategy, Policy & Economic Development.

In a matter of only a few weeks we have:

- Established ways for residents to ask for help online and by phone if they are shielding/socially isolating and potentially cut off from help and started delivering 350 parcels a day from a dedicated warehouse to those who contact us and need urgent help with food. We have also set up arrangements to assess needs and guide people towards other support they might need (including social care support). This support is also available for those who are ‘shielded’ but whose needs are not met through the government provision (for example because of dietary requirements).

- Set up a volunteering hub and are deploying volunteers to provide additional urgent support with food, help with prescriptions and social support (including over the Easter weekend). Through Volunteer Centre Hackney, a key partner in the Volunteering Hub, we are working with Mutual Aid groups so that we can support and connect with this grassroots activity and help them build partnerships with local community organisations.
- Made arrangements for delivery of hot food to people who are unable to cook their own food or have been placed in emergency accommodation.
- Accelerated work to set up the Hackney [food justice alliance](#) which brings together key organisations working to tackle food poverty so that their work is better coordinated and supported.
- Built connections with Hackney's faith communities to make sure that we are able to support their needs and worked with the Orthodox Jewish community to establish culturally specific support.
- Launched a '[Find support services](#)' map that makes it easy to find organisations that are open but providing an online or phone alternative to their usual activities in response to Coronavirus (COVID-19).
- Flexed our [Employment and Skills service](#) to advise people who have been laid off or made redundant.
- Developed our understanding of the impact on communities, by developing a cumulative impact assessment which can inform our emergency response and inform our plans around recovery.

10.9 An exercise has been completed to understand exposure to our existing capital contract commitments and understand other issues that might impinge on delivery of capital schemes. We are seeing a mixed picture in terms of contractors' approach to the Coronavirus. Some (e.g. Countryside) have taken the decision to close their sites, whilst many others remain open and working while UK Government guidance allows this.

10.10 On procurement, Procurement Officers are well aware of the provisions of (PPN) 01/20 noted above and as set out in the public contract regulations, and are able to apply them wherever necessary using the Single Tender Action (STA) provisions in the Council's Contract Standing Orders.

10.11 With regards to PPN 02/20, the Council needs to act now to support its suppliers that may be at risk so they are better able to cope with the current crisis and to resume normal service delivery and fulfil their contractual obligations when the outbreak is over. Hackney has already implemented immediate payment terms across its supply chain and will pay all suppliers as quickly as possible to maintain cash flow and protect jobs. The Council will also consider making advance payments to suppliers if necessary. This will be on a case by case basis and in line with the with Treasury consent which is granted for payments in advance of need (capped at 25% of the value of the contract and applies until the end of June 2020) where the Accounting Officer is satisfied that a value for money case is made by virtue of securing continuity of supply of critical services in the medium and long term. Hackney's aim is to work with its suppliers and, if appropriate, provide relief against their current contractual terms (for example relief on KPIs and service credits) to maintain business and service continuity rather than accept claims for other forms of contractual relief, such as force majeure.

10.12 To facilitate the successful implementation of this policy across the Council, Directors and Heads of Service, working with their Procurement Category Leads and Heads of Finance, have been asked to:

- (a) Urgently review their contract portfolio and inform suppliers who they believe are at risk that they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended) until at least the end of June 2020
- (b) Confirm with their at-risk suppliers that they will continue to pay until at least the end of June, to ensure business and service continuity.
- (c) Put in place the most appropriate payment measures to support supplier cash flow; this might include a range of approaches such as forward ordering, payment in advance/prepayment interim payments and payment on order (not receipt).
- (d) To qualify, suppliers should agree to act on an open book basis and make cost data available to us during this period. They should continue to pay employees and flow down of funding to their subcontractors.
- (e) Ensure invoices submitted by suppliers are paid immediately on receipt (reconciliation can take place in slower time) in order to maintain cash flow in the supply chain and protect jobs.

10.13 Officers are asked to take a pragmatic approach with discussions and any temporary changes agreed will be recorded taking advice as appropriate from Finance,

Procurement and Legal officers. The contract should return to its original terms as soon as the impact of the COVID-19 outbreak on the relevant contract is over.

10.14 As part of the implementation of this policy, contracted suppliers will be required to ensure that business continuity is maintained wherever possible and that business continuity plans are robust and are enacted, agree to act on an open book basis, work collaboratively with the Council to ensure there is transparency and strictly adhere to the Council's invoicing protocols.

10.15 From a governance perspective, all decisions made in respect of the changes to contractual and payment arrangements and supplier relief payments will be recorded at Directorate level with the support of the Heads of Finance and their teams. The recorded information should include the rationale for making the changes and relief payments.

10.16 To assist Council officers to carry out these new responsibilities, Procurement has designed a letter template which will be sent to all suppliers. It sets out what we are offering and what their responsibilities are.

11.0 POTENTIAL COSTS OF COVID-19

11.1 Below is a summary of the potential costs associated with COVID-19

Exceptional costs of dealing with COVID-19

- Service costs:
 - setting up and coordination of support hubs for vulnerable people asked to undergo sheltering
 - mortuary/crematorium costs (with a separate question of whether councils will need to forego associated income)
 - support for schools opening out of term, although schools are encouraged to access funding for exceptional costs associated with COVID-19 as published on the DfE website on 7th April 2020
 - community safety measures
 - rebilling business rates payers as and when new support is provided
- Own staffing (sickness and absence cover, redeployment, overtime, additional shift allowances where 24/7 working is in place, and building capacity in e.g. communications).
- ICT and facilities (infrastructure for widespread home working, setting up new call centres, costs associated with closure and reopening of sites).

Increased service demand, both in the short term and long term

- Social care
 - additional care home beds
 - additional costs in adult social care due to underwriting the cost of missed home care visits
 - additional costs due to staffing shortages which inflate the staffing bill of providers
 - market forces can drive up costs in general due to increased demand
 - protective equipment
 - of the situation is 'Early days' in children's services but needs monitoring as the situation evolves

(Costs associated with hospital discharge and delayed admissions from 19th March 2020 to an, as yet, unspecified date, are to be met from additional NHS funding and the local CCG are pooling funds received for this purpose with the Council to enable us to draw down for these on a monthly basis.)

- Waste (potential higher waste disposal and collection costs, staff shortage impact on service also possible).
- Home to school transport (maintained to retain sector viability and support key workers, especially during what would be school holidays).
- Homelessness (including support for those who need to self-isolate and a potential longer-term increase in homelessness).
- Additional funding NRPF (£100k has been allocated out of the hardship fund)
- Housing benefit (the announcement of the increased LHA rate will lead to more HB payments, which has a cash flow impact).

Impact on local taxation income

- A fall in the council tax collection rate could have the most significant impact and would be a funding and cash flow risk.
- A reduction in anticipated growth in both the council tax and business rates taxbases.
- Currently unclear if the hardship fund will be sufficient to compensate for loss of council tax so the loss of taxbase could have a major impact.
- Big cashflow impact if councils are asked to provide the council tax 'holiday' of two months at the start of the year instead of the end of the year.

- There is a risk of businesses defaulting on their business rates bills. The additional support to businesses will help off-set this to an extent, but councils are expecting a higher level of default combined with businesses that simply stop trading to impact this. The levels could be less significant than council tax, but it could be an issue if the magnitude spikes.

Loss of income, including rental and commercial income

- Impact on fees and charges from a number of Council services, including parking, leisure centres, transport fees, planning fees, adult social care fees, children's centres etc.
- General impact on return on investments, but anecdotally this seems to be connected more to where councils have invested in struggling local areas for regeneration rather than more commercial investments.
- A need to grant rental holidays for areas like Enterprise Centres, nurseries, pre-schools.
- Councils have heard from small businesses saying loan support being provided by the government is not sufficient. They are often looking for rent waivers rather than holidays. Some businesses without a rateable value are also not eligible to receive the BEIS grant.
- Potential loss of HRA rents.

Impact on savings and capital programmes

- The Council's 2020/21 savings plan is at significant risk as focus has been diverted from delivery of savings to managing the crisis. The medium term is also impacted as many savings initiatives take place over a medium term, so steps not taken today will have a medium-term impact.
- There might be issues related to funding from developers, staff availability and the delays to projects also adding to costs.

Other

- Delay in sales at Nile Street will impact on cash flow and increase void costs. At Tiger Way delay in completions are also leading to increased void costs. There is also a potential impact on values on the former.
- Deferral of highways maintenance: reduced expenditure due to shortage of labour and materials - but leading to higher long-term costs and increased insurance claims.

- Delivery of major contracts (including highways): Valid claims (compensation events) under the Force Majeure clauses in live construction contracts. Compensation events may be inevitable, and the financial consequences could escalate as productivity declines. There may be circumstances where contracts need to be terminated if contractors cannot comply with their obligations.
- Postponed income from sale of assets creates cash flow impacts and has an impact on the delivery of the capital programme.

Treasury management and cash flow issues

- Reduced capacity for internal borrowing.
- Loss of income on cash balances due to changes in the market and prioritisation of short-term holdings to maximise liquidity.
- Risk of long-term increase to employer pension contributions during the economic downturn.
- The changes to payment to suppliers to move to more immediate and advance payments has a cash flow impact.

11.2 Officers are assessing the financial impact of the crisis as the Council takes a range of decisions to stop and delay certain work and to increase expenditure in other areas in order to support local residents and businesses through the crisis. An initial assessment was made which builds upon recent updates and this set out provisional and broad-brush estimates of the financial implications on Council services over the first 3 months of 2020/21 as a result of COVID-19. This was discussed at HMT but has since been superseded by a later analysis carried out for MHCLG.

11.3 The Government requires up-to-date data on how existing funding is being used by local government and any changes in income and expenditure. Looking ahead, it would also like to understand emerging pressures. To do this, MHCLG sent us a data collection form to complete which we returned on Wednesday 15th April. It will then ask for updates on a monthly basis. The return, attached at **Appendix 1** contains indicative estimates of the proportions of the Emergency Fund Grant that will be spent on each relevant service; and how much additional spending and reduced income we are likely to incur in respect of coronavirus for March 2020, April 2020 and the full year. The proportions are based on estimates of what we will spend on each service.

11.4 In order to estimate the full year impact on spending, we took the estimated additional spend estimates for the first three months of the year (which was the core of our initial analysis) and multiplied by two. So effectively we assumed that the total estimated

additional spend we calculated for the first quarter is a reasonable estimate of the additional spend we will incur in the second, third and fourth quarters. We followed a similar process for income.

11.5 A summary of the financial pressures on the General Fund is shown below for March, April, first three months and full year. Expenditure is shown in the first table and income in the second (both include the impact of delayed savings). This is followed by an analysis for the HRA.

COVID-19 Additional Expenditure Pressures - General Fund

SERVICE AREA	Additional Pressures £m			
	March	April	1st 3 Months 2020-21	Full Year 2020-21
1. Adult Social Care – additional demand	0.045	0.317	0.952	1.904
2. Adult Social Care – supporting the market	0.000	0.633	1.900	3.800
3. Adult Social Care – workforce pressures	0.000	0.145	0.436	0.872
4. Adult Social Care – Other (including PPE)	0.100	0.077	0.233	0.465
5. Childrens' Social Care – workforce pressures	0.000	0.212	0.636	1.272
6. Childrens' Social Care – Other	0.000	0.114	0.340	0.680
7. Childrens' Services - SEND	0.000	0.004	0.012	0.024
8. Education excluding SEND	0.000	0.324	0.971	1.942
9. Highways & Transport	0.000	0.000	0.000	0.000
10. Public Health	0.000	0.000	0.188	0.375
11. Housing including Homelessness	0.120	0.410	0.825	1.650
12. Cultural Services	0.128	0.287	0.800	1.600
13. Environmental and regulatory services (including excess death management)	0.300	0.667	2.000	4.000
16. Planning & Development	0.000	0.000	0.000	0.000
17. Finance & Corporate Services	0.050	0.500	1.000	2.000
18. Other Services	0.000	0.368	0.964	1.927
ESTIMATED TOTAL SPENDING PRESSURE	0.743	4.058	11.256	22.511

COVID-19 Reduced Income - General Fund

SERVICE AREA	Reduced	Income	£m	
	March	April	1st 3 Months 2020-21	Full Year 2020-21
1. Retained Business Rates (includes BDP)	2.600	1.300	4.500	9.000
2. Council Tax (includes BDP)	2.800	2.000	4.000	8.000
3. Sales, Fees & Charges	0.821	1.564	6.742	13.483
4. Commercial Income	0.282	0.543	1.207	2.413
5. Other	0.000	1.034	2.188	4.375
ESTIMATED TOTAL REDUCTION IN INCOME	6.503	6.441	18.636	37.271

11.6 The analysis shows that the total financial pressure (expenditure and income) on the General Fund in the first three months of 2020-21 is £30m.

11.7 On the HRA the largest potential pressure is rental income. On the basis of collection experience since the beginning of the crisis and during the lockdown and, after discussion with housing staff, we have estimated the loss of rental income at £3.5m for the first 3 months and a full year loss of £7m. This loss of income may be wholly or partly recovered as tenants start to pay down their arrears when the crisis ends and the economy starts to recover; however at this stage the extent to which the income is recovered and the length of time take to collect is not known and so we are treating it as a loss of income for the current year.

	Pressures £m	
	1st 3 Months 2020-21	Full Year 2020-21
HRA Additional Expenditure	1.5	3
HRA Reduced Income	4.5	9
ESTIMATED TOTAL FINANCIAL PRESSURE	6.0	12.0

There will also be income pressures for service charges and spending pressures for DLO repairs, capital scheme delays, estate cleaning and discretionary housing payments.

11.8 So the overall financial pressure (GF and HRA) for the first three months is £36m and for the full year, £72m.

- 11.9 In terms of the General Fund, as noted above, we have received £10m Emergency Fund Grant and will receive a share of the further £1.6bn allocation announced on April 18th (which we have assumed to be c. £7m in the absence of the actual allocation) to set against these pressures and we have £15m of unallocated General Fund balances that we are legally required to maintain and I have to personally and professionally sign off. So, it is clear that if these estimated pressures are in the right ballpark then a significant funding gap will start to emerge towards the end of the first three months and additional funding will be required from Government in addition to the Emergency Fund and 18th April allocation, to plug this gap.
- 11.10 The actual level of additional spending and income loss will of course depend primarily on the length of time emergency COVID-19 measures remain in place and the extent to which society recovers and gets back to normal in the coming months. Also, policy decisions will impact on income such as the extent to which fees, charge and rent are waived or delayed will impact on the overall income loss. Officers will continue to assess the expected spending increases and income losses as new information becomes available and report this back through the OFP.
- 11.11 In respect of the HRA, no support has yet been identified by the Government and the projected level of reserves is £10.2m. The Group Director of Finance and Corporate Resources is currently in the process of reviewing all earmarked reserves, planned investments and other opportunities to identify the potential to free up resources but the organisation's financial resilience was already under significant stress and it is unlikely that significant resources can be freed up.
- 11.12 Turning to key determinants of the General Fund financial pressures, aside from significant income losses from council tax and business rates, other income sources where we expect the most significant reductions are:

Parking Income

We have already experienced a significant reduction in parking income and this will continue during the lockdown period. As well as a risk to income, it also represents a risk to the Council's General Fund cash-flow position. It is estimated that while the current conditions remain in place, we will see an estimated reduction of £4.5m over the first 3 months of 2020/21 in parking income.

Commercial Waste Income

The estimated loss of commercial waste income is £1.4m for the first three months of the year from the closure of business premises, amending contracts and reduced collection.

- 11.13 Turning to spending, we expect the most significant additional cost pressures in adult social care. The Government has provided grant funding to meet these costs (this was part of the £10m Emergency Fund and the 18th April allocation) but there is an ongoing risk that the additional costs will be higher than that part of the grant earmarked for social care which will put further additional financial pressure on the Council's finances. Adult Social Care costs associated with hospital discharge and delayed admissions from 19th March 2020 to an, as yet, unspecified date, are to be met from additional NHS funding and the local CCG are pooling funds received for this purpose with the Council. However, it is difficult to say at this point as to whether funds received by the CCG will be sufficient to reimburse us for the additional costs.
- 11.14 As noted previously, officers will be continuously monitoring the additional expenditure and income loss estimates, and as a result the estimates will become more robust over time.
- 11.15 Another financial consideration relates to delayed 2020/21 savings. We have budgeted to achieve £10.4m of savings in 2020/21. Some of these are secure (eg through the Voluntary Redundancy scheme which has delivered £5m in savings) but there must be expected to be a risk to the delivery of other savings, in particular additional parking income and Property Income. These are built into the estimates listed above.
- 11.16 Finally, it must be noted that some residents and businesses may well experience a longer term impact and this will, in turn, impact on the Council's services. It should be noted that many people in more vulnerable groups (eg those over 70 or with pre-existing health conditions) may be advised to self-isolate / social distance over an extended period (potentially up to 12 - 24 months) and other people will remain very nervous of normal social and economic activity. As with the current period of 'lockdown', the Council's role supporting Hackney will remain crucial. As more information becomes available on the duration and impact of the pandemic and hence potential medium and long term effects, we will reflect this in our financial analysis.

12.0 GOVERNMENT GRANTS TO LOCAL BUSINESSES

- 12.1 We have received £64.6m in grant funding to allocate to qualifying local businesses as one-off grants. The Government has set the allocation and qualification criteria with the local authority being responsible for the administration. The Council has received payment of the full £64.6m. If we pay out more than the allocation we can apply to the Government for a top-up.

13.0 BUSINESS RATES RELIEFS

- 13.1 The government has implemented a range of additional business rates reliefs over and above those already granted and included in our 2020/21 NNDR 1 return, for various groups of businesses, thereby reducing the amount of rates paid to the Council. Support is targeted at small businesses and businesses in the leisure and hospitality sector. Councils will be fully compensated for this loss of income via s31 Grant payments that are expected to be made throughout 2020/21. The exact timing of the payments has not yet been confirmed. We did though receive 100% of the reliefs recorded on the NNDR 1 (£8.8m) on 26th March.

14.0 HOUSING REVENUE ACCOUNT

- 14.1 The government has not yet announced any financial support for Councils' HRAs. The main expected pressure on our HRA will be potential loss of income from social rents, charges and commercial rents.

15.0 CCG FUNDING

- 15.1 The Government has also awarded CCG's £1.3bn funding for the additional costs of discharging and keeping people out of hospital, including social care costs - commissioned by the local authority unless existing local arrangements suggest otherwise. In order to ensure that 'boundary issues' do not cause delays, the Government has stated that it 'would expect the local authority to place an appropriate portion of the funding it chooses to dedicate to adult social care from the £1.6bn funding into a pooled budget with the local CCG, to ensure that there is no risk of debates about which fund should pay'. As referred to above, the CCG are pooling the funds they have received from the £1.3bn in respect of discharge arrangements and we are working with colleagues to ensure they have timely information to enable them to draw down funds and reimburse the Council on a timely basis for costs we incur in this regard. Discussions with finance colleagues in the CCG have not identified a requirement to pool an element of the funding received directly by the Council and at the moment everyone seems to be working cooperatively together, although we could reconsider pooling if this becomes an issue.

16.0 REDUCTION IN EXPENDITURE

- 16.1 It is not clear that we will have sufficient resources to meet the service requirements of the COVID-19 epidemic, although the estimated analysis in Appendix 1 suggests that

the underlying cost/reduced income pressures will exceed our share of the Emergency Fund and April 18th funding. It follows that the Council may need to consider the extent to which it stops expenditure on non-essential work across both the revenue and capital budgets and what resources can be reallocated to fund the Council's response to the COVID-19 crisis. In addition, steps may need to be taken to support the Council's financial stability. Options include delaying some capital projects and new revenue-based initiatives; and looking at the service investments made as part of the 2020/21 budget setting process to see which investments can be paused or cancelled to free up money to fund response to the COVID-19 crisis.

- 16.2 In addition, we will need to develop a governance process to ensure expenditure is signed off by appropriate officers to keep expenditure focused on the COVID-19 response and we must closely monitor our income streams to determine the effect the COVID-19 crisis is having on the Council's income. Both of these activities will feed into an ongoing assessment of the Council's financial position and financial stability. We must also review the cost of all non-essential services to assess what savings could be made if the Council enters into a period of severe financial constraint.
- 16.3 In the longer term we must also recognise that the costs the Government has incurred in respect of the COVID-19 pandemic and the consequences for the economy, in particular the inevitable reduction in tax revenues, will have to be paid for and so the likelihood of a further round of public sector austerity post 2020/21 is a real possibility. This will have implications for our services and the stability of our financial position going forward. This is considered in the next section.

17.0 IMPACT OF COVID-19 IN THE ECONOMY – REPORT BY OBR

- 17.1 The OBR, in a report published on 14th April, noted that in addition to its impact on public health and families' wellbeing, the spread of the coronavirus will substantially raise public sector net borrowing and debt, primarily because of the associated economic disruption. The Government's policy response will also have substantial direct budgetary costs, but the measures are designed specifically to support individuals and businesses through this temporary shock and so they should, according to the OBR, help prevent greater economic and fiscal damage in the long term.
- 17.2 The report presents a scenario rather than a forecast, which is based on the illustrative assumption that people's movements (and thus economic activity) would be heavily restricted for three months and would get back to normal over the subsequent three months. The main conclusions are as follows: -
- (a) Evidence from past pandemics suggests that the economic impact of the coronavirus will arise much less from people falling ill or dying than from the public health restrictions and social distancing required to limit its spread. This will reduce demand for goods and services and the ability of businesses and public sector institutions to supply them. That means lower incomes, less spending and weaker asset prices, all of which reduce tax revenues, while job losses will raise public spending. The Government's policy response

incorporates increased public spending, tax cuts and holidays, and loans and loan guarantees – most of which are designed to support household incomes and to limit business failures and layoffs. The Bank of England has taken further measures that will provide some direct support for demand in the economy, but more importantly should help households, firms and the Government finance themselves, and thereby limit the lasting damage to the economy's supply capacity.

- (b) The net effect of the coronavirus impact and the policy response is likely to be a sharp (but largely temporary) increase in government borrowing that will leave public sector net debt permanently higher as a share of GDP. However, the longer the period of economic disruption lasts, the more likely it is that the economy's future potential output will be 'scarred' (thanks to business failures, cancelled investments and the unemployed becoming disconnected from the labour market). If that happens, less of the rise in the budget deficit will be reversed as economic activity recovers, leaving the Government to confront a larger structural deficit and not just higher debt.
- (c) Its rough judgement was that this would increase public sector borrowing this year by £218 billion relative to its March Budget forecast (to reach £273 billion or around 14 percent of GDP). Once the crisis has passed and all the policy interventions have unwound, borrowing falls back relatively quickly to roughly the Budget forecast, but net debt would remain around £260 billion (10 percent of GDP) higher by 2024-25.
- (d) Public sector net borrowing will increase by £218 billion in 2020-21 relative to OBR's March Budget forecast which would be the largest single-year deficit since the Second World War. The sharp rise in borrowing this year largely reflects the impact of economic disruption on receipts (with smaller effects from policy measures like the business rates holidays) and policy measures that add to public spending (with smaller effects from higher unemployment).
- (e) Unemployment rises by more than 2 million to 10 per cent in the second quarter of this year, but then declines more slowly than GDP recovers.

Impact on unemployment

How the rate is now expected to rise



Source: Office for Budget Responsibility

- (f) **Table 1** below shows the output losses by each sector in the second quarter. As can be seen the whole economy's output reduces by an enormous 35%.

Table 1: Output losses by sector in the second quarter of 2020

Sector	Effect on output relative to baseline
Agriculture	0
Mining, energy and water supply	-20
Manufacturing	-55
Construction	-70
Wholesale, retail and motor trades	-50
Transport and storage	-35
Accommodation and food services	-85
Information and communication	-45
Financial and insurance services	-5
Real estate	-20
Professional, scientific and technical activities	-40
Administrative and support activities	-40
Public administration and defence	-20
Education	-90
Human health and social activities	50
Other services	-60
Whole economy	-35

- (g) The OBR then assumes that GDP regains its pre-virus level by the fourth quarter, with half the second quarter fall unwinding in the third quarter.
- (h) As noted above, the sharp fall in GDP is accompanied by a steep rise in the unemployment rate to 10 per cent in the second quarter, equivalent to an increase in unemployment of 2.1 million (to a total of 3.4 million). As with GDP, the rise in unemployment is likely to be very fast, as the sharp rise in new claims for UC already attests. Indeed, we might expect almost all the rise to happen within the first month. It has then assumed that the subsequent decline in unemployment lags the rebound in GDP, with the initial recovery concentrated in the recall of furloughed workers. Specifically, around a quarter of the rise in unemployment unwinds in each of the subsequent two quarters, with the rest coming through gradually thereafter.

(j) A summary of the key elements of the OBR scenario is shown in **table 2** below

Table 2: Key Economic Variables

	Percentage change on a year earlier, unless otherwise stated					
	Scenario horizon					
	2019	2020	2021	2022	2023	2024
Gross domestic product (GDP)	1.4	-12.8	17.9	1.5	1.3	1.4
GDP levels (2019=100)	100	87.2	102.8	104.3	105.7	107.1
CPI inflation	1.8	1.2	2.3	2.4	2.3	2.2
RPI inflation	2.6	1.8	2.9	3.4	3.2	3
Employment (millions)	32.8	31.8	32.3	33	33.3	33.4
Average earnings	2.8	-7.3	18.3	1.6	2.5	3.1
Unemployment (millions)	1.3	2.5	2.1	1.6	1.4	1.4
Unemployment rate (per cent)	3.8	7.3	6	4.5	4	4.1
Differences from Budget 2020 forecast						
Gross domestic product (GDP)		-13.8	16.1	0	0	0
GDP levels (2019=100)		-13.8	0	0	0	0
CPI inflation		-0.2	0.5	0.4	0.2	0.1
RPI inflation		-0.4	0.1	0.3	0.2	0.1
Employment (millions)		-1.2	-0.8	-0.2	0	0
Average earnings		-10.6	14.7	-1.8	-0.7	0
Unemployment (millions)		1.2	0.8	0.2	0	0
Unemployment rate (per cent)		3.5	2.2	0.6	0	0

- (k) Aside from the alarming impact of the pandemic and the official response on the key economic indicators in the first quarter, the other key element of the scenario is the assumption that GDP and to a lesser extent employment will rapidly recover. This must depend on how quickly the restrictions last and how much underlying damage is done to the economy whilst the restrictions are in place. It is not a given that the recovery will be so quick.
- (l) It is clear that the pandemic and response will require a change in current fiscal policy. Paul Johnson of the IFS has stated that he expects future tax increases and it would not be surprising if there are restrictions on the spending of non-protected Government departments going forward. If this is the case, then a quick look at history clearly shows that Local Government is likely to be in the firing line. It follows that the Council's financial position is even more uncertain going forward.

19. NEXT STEPS

- 19.1 The Council faces a critical financial challenge and one that requires consistent and focused action. The expected financial implications of the COVID-19 crisis included in this report are based on officers' best estimates given information currently available, but they give a strong guide. A number of the estimates will be refined and updated as the crisis progresses and more information becomes available. As set out above, the Council is facing General Fund pressures of at least £30m in the first three months of the crisis. The Council has received £10m in grant funding from the Emergency Fund and will receive a further estimated £7m from a subsequent funding allocation announced on 18th April that can be used to meet these pressures; and has £15m in unallocated reserves. While there may be further government compensation, it is not clear under what terms compensation will be given and it would be prudent to assume that not all our costs will be covered.
- 19.2 Given the challenge, the Council will need to consider the extent to which it stops expenditure on non-essential work across both the revenue and capital budgets and what resources can be reallocated to fund the Council's response to the Covid-19 crisis.
- 19.3 The Group Director of Finance and Corporate Resources is currently examining the following areas in order to generate options to support the Council's financial stability;
 - Reviewing the Council's reserves to develop options for re-appropriating reserve funds to help support the Council's response to COVID-19. This may mean delaying some projects or activities initially expected to be funded from reserves.
 - Looking at the investments made in services as part of the 2020/21 budget setting process to see which investments can be paused or cancelled to free up money to fund response to the COVID-19 crisis.

- Refining and developing a governance process to ensure expenditure is signed off by appropriate officers to keep expenditure focused on the COVID-19 response.
- Closely monitoring the Council's income streams and debt levels to see what effect the COVID-19 crisis is having all the Council's income.
- Looking at the cost of all non-essential services are to assess what costs could be saved in the event it is necessary for the Council to enter into a period of financial 'lockdown'.
- Working with HMT and service Directors to identify aspects of the Council's impressive response to COVID-19 which might help to identify opportunities to change service delivery / ways of working in ways that might mitigate some of the impact on services presented by significant financial threat outlined in this report. This is an opportunity to ensure that the ambition, innovation and imagination shown in the Council's response is not lost but embedded in future operating models.

19.4 The Group Director of Finance and Corporate Resources will also be undertaking further analysis of the structural impact of additional spending and loss of income to distinguish between genuinely short term, one off impacts and the more medium, longer term impacts.

19.5 In addition, the Government's response to the COVID-19 crisis is developing with the potential for more funding announcements and support to local government to meet the financial implications of the crisis. The Group Director of Finance and Corporate Resources will continue to update the Council as these announcements are made and it is the Group Director of Finance and Corporate Resources's intention to bring back a further update to future meetings.

20. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

This report is primarily an update on the Council's financial position and the implications of the COVID-19 crisis. No alternative options are available.

21.0 BACKGROUND

21.1 Policy Context

This report describes the Council's Medium-Term Financial position as at March 2020 and assesses the impact of the COVID-19 pandemic on that position.

21.2 Equality Impact Assessment

Equality impact assessments are carried out at budget setting time and included in the relevant reports to Cabinet. Such details are not repeated in this report.

21.3 Sustainability

As above.

21.4 Consultations

Relevant consultations have been carried out involving, the Mayor, the Deputy Mayor and Member for Finance and Housing Needs, HMT, Heads of Finance and Directors of Finance.

21.5 Risk Assessment

The risks associated with the schemes Council's financial position are detailed in this report.

22. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

22.1 The Group Director, Finance and Corporate Resources' financial considerations are included throughout the report.

23. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

23.1 The London Borough of Hackney is a Category 1 responder under the Civil Contingency Act 2004 and accordingly has duties including to assess risk and to maintain plans for emergencies and to provide advice and assistance in connection with the making of arrangements for the continuance of commercial activities by the public, or the continuance of the activities of bodies other than public or local authorities whose activities are not carried on for profit, in the event of an emergency

23.2 Under section 138 of the Local Government Act 1972, where an emergency or disaster involving destruction of or danger to life or property occurs or is imminent or there is reasonable ground for apprehending such an emergency or disaster, and a principal council are of opinion that it is likely to affect the whole or part of their area of all or some of its inhabitants, the council may

- (a) incur such expenditure as they consider necessary in taking action themselves (either alone or jointly with any other person or body and either in their area or elsewhere in or outside the United Kingdom) which is calculated to avert, alleviate or eradicate in their area or among its inhabitants the effects or potential effects of the event; and
- (b) make grants or loans to other persons or bodies on conditions determined by the council in respect of any such action taken by those persons or bodies.

- 23.3 The Coronavirus Act 2020 provides for a variety of powers for, and obligations placed upon, local authorities during the Coronavirus pandemic, which may have financial implications for the Council.
- 23.4 The adoption of the recommendations in this report will ensure that the Council can continue to fulfil its obligations in responding to the COVID-19 pandemic effectively and efficiently whilst maintaining appropriate levels of financial management and control of the Council's finances generally.

Appendices:

Appendix 1: MHCLG COVID-19 Return

Appendix 2: The Council's Discretionary Council Tax Hardship Policy

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