ISLINGTON

Resources Department
Newington Barrow Way, London, N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Ward(s)**
Policy and Performance Scrutiny Committee	9 September 2021	All

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: COVID-19 Impact Review – Council's Financial Position

1 Synopsis

1.1 The purpose of this paper is to explore the effect that the pandemic has had on the council's financial position in line with the Scrutiny Initiation Document approved by the Policy and Performance Scrutiny Committee on the 29th July 2021.

1.2 The report explores the key factors around the council's finances in relation to the impact of the COVID-19 pandemic, specifically around:

- Increased pressure due to demand from residents (e.g. housing/social care)

- Reduced fees and Charges – e.g. parking and leisure
- Structural changes to the tax raising capability of the Council
- Increased levels of uncollected debt
- Fiscal and monetary policy as a result of the national debt burden
- The extent to which these pressures come to bear on the Council budget remains uncertain and will depend on the way in which the pandemic impacts on LBI residents

2 Recommendations

2.1 To note the content contained within this report and consider any further questions in relation to a full understanding of the financial impact of the pandemic on the Council.

3 Introduction

3.1 Outwith wartime, COVID-19 has caused the largest shock to the global economy on record, with severe restrictions put in place across huge swathes of economic and social activities. Rather than a one-off event that the council's budget is recovering from, it is expected that COVID-19 will continue to have a significant and currently unquantifiable impact on the council's medium-term budget. This impact will be over and above the amount covered by the government's COVID support package to local authorities announced to date. For example, the COVID support package provides no funding for business rates income losses in 2021/22 and only provided support for sales, fees and charges income losses up until June 2021. Therefore, it is essential that the council has sufficient annual contingency budget and reserves to boost financial resilience and protect residents.

3.2 The COVID-19 crisis has had a massive impact on the council's work, and how it supports and delivers its services to residents and local people. While supporting residents hardest hit by the pandemic, the council remains determined to make Islington a fairer place for all, so that:

- Everyone has a decent, genuinely affordable place to call home;
- Everyone feels safe and does their bit to keep others safe too;
- We build and support a thriving local economy that works for everyone, offering jobs and opportunities for local people; and
- Everyone can enjoy a cleaner, greener, healthier future.

3.3 We are dealing with the fallout of COVID-19 at the end of a decade that has also seen central Government cut our core funding cut by 70% (£275m). Despite promises from central government to fund the coronavirus response, the council was left with a funding shortfall in a year where it was also forced to make savings of £25million. This total of savings in 2021/22 included £14million of new savings, due to real-terms cuts by government to the council's funding.

3.4 Whilst in 2021/22 there are encouraging signs of financial recovery for the economy there still remains significant pressures and even greater long term risks. It is anticipated that the in year position can achieve a balanced outturn however the medium term financial position for the Local Government sector

looks extremely challenging as a result of record national debt levels and an increase in the needs of our residents.

4 COVID-19 impact on 2020/21

4.1 The council's revenue outturn, as considered by the Policy and Performance Scrutiny Committee on the 29th July 2021 sets out a COVID-19 related overspend of £36.5m on the General Fund.

4.2 After allowing for Government support to offset this variance, the council was able to achieve a balanced position for the General Fund in year. Government funding did not allow a balanced position on the HRA nor the Collection Fund.

4.3 When taken in totality, the estimated unfunded loss of COVID-19 to the council is around £5.3m. This is slightly better than the £8m estimated throughout the year however it is still significantly short of the original expectation set by Robert Jenrick that Local Government would be fully compensated by the Government.

Table 1 – Extract from Provisional Outturn Report, PPS 29 July 21

	CV-19 Related	**Non CV-19 Related**	**Month 12 Total**
	£m	**£m**	**£m**
GENERAL FUND			
Chief Executive's	0.328	0.037	0.365
Environment and Regeneration	24.277	(6.037)	18.240
Housing	0.017	(0.017)	0.000
People	7.686	(2.127)	5.559
Public Health	0.399	(0.399)	0.000
Resources Directorate	5.271	(3.996)	1.275
DIRECTORATE	**37.978**	**(12.539)**	**25.439**
Corporate Items	(1.487)	11.408	9.921
TOTAL GENERAL FUND	**36.491**	**(1.131)**	**35.360**
COVID-19 Grant Tranches 2-4			(18.359)
SFC Compensation			(17.001)
NET GENERAL FUND			**0.000**
HOUSING REVENUE ACCOUNT			

In-year (Surplus)/Deficit	**2.112**	**11.344**	**13.456**

5 Collection Fund

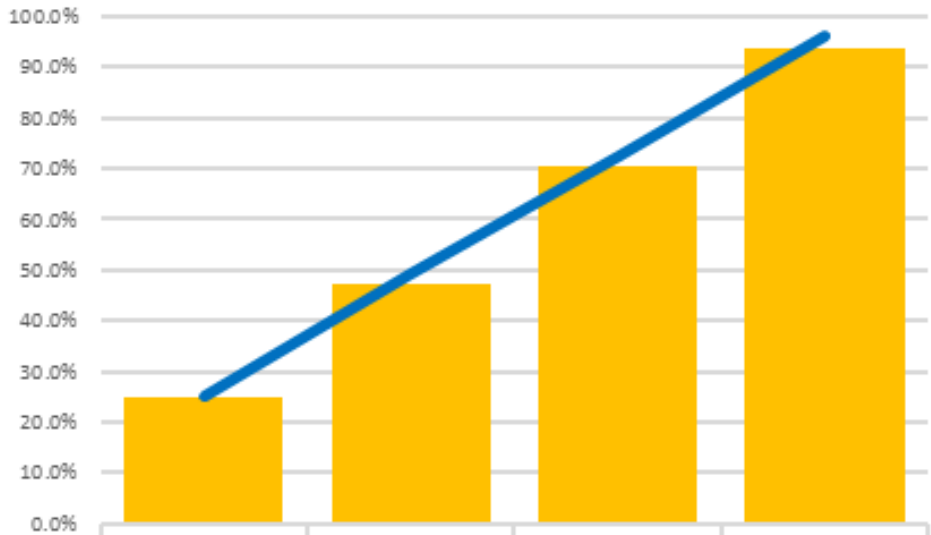
Council Tax

5.1 At the start of 2020/21 the expected collection rate was set at 96.3%. This underpinned the budget and was based on the historical level of collection experienced within the borough. By the end of Quarter 1 (2020/21), performance was down by around 0.4%. By the end of the year this had slipped to 2.6% behind.

5.2 This performance was in line with the other London Boroughs. Residents through lost jobs or reduced income have struggled to keep up with payments, resulting in the target shortfall. Under normal circumstances, the Revenues Service uses the Courts to support pursuit and enforcement of debts. However, courts closed for most of the year and reopened for Council Tax in February 2021, which was too late to have a material impact on our collection rates.

5.3 The graph below shows performance in each of the 4 quarters of the 2020/21 financial year against the targeted collection rate. For every 1% of collection rate the council receives around £1m therefore the overall lost to the Council *before* Government support was just below £3m. This is in addition to the losses set out in Table 1.

Figure 1 - Council Tax Collection Performance (Annual Performance Report)

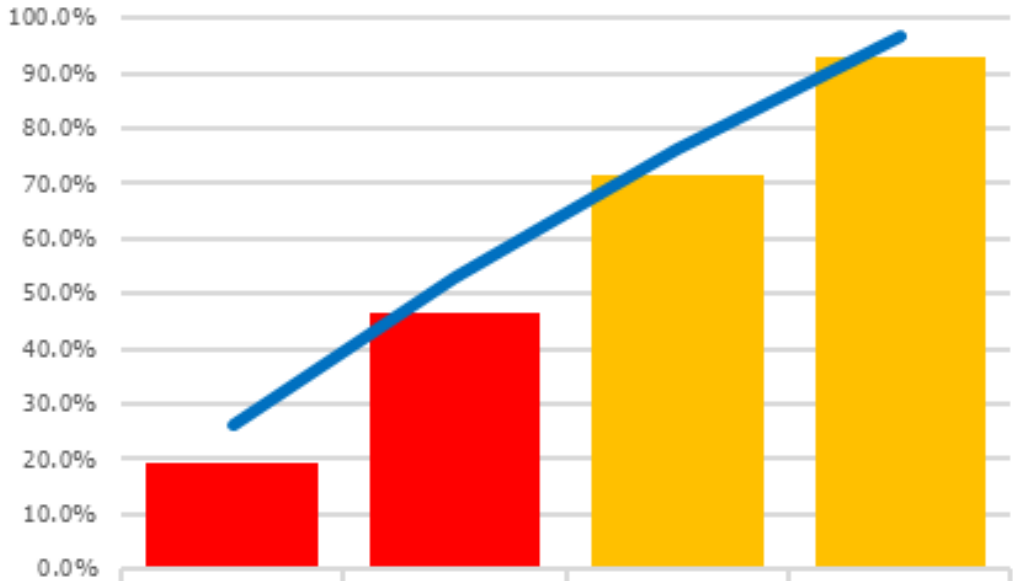


	Q1	Q2	Q3	Q4
Performance	24.9%	47.4%	70.4%	93.7%
Target	25.3%	49.1%	72.5%	96.3%

Business Rates

5.4 In relation to Business Rates, our 2020/21 collection rate was 3.7% less when compared with (pre-Covid19) targets. Closures, reduced demand and/or reduced capacity has meant businesses have struggled to keep up with payments, resulting in the target shortfall. Under normal circumstances, the Revenues Service uses the Courts to support pursuit and enforcement of debts. However, Courts closed for business rates for the entire year.

Figure 2 - Business Rates Collection Performance (Annual Performance Report)



	Q1	Q2	Q3	Q4
Performance	19.3%	46.7%	71.6%	93.0%
Target	26.2%	52.8%	76.1%	96.7%

5.5 The following graphic shows the difference between 'expected' cash (based on total taxable properties and historical payment trends) and actual receipts in relation to Business Rates. This produces a 'Cash Loss' number for each month. Whilst this illustration cannot be used for budgeting purposes given the complex nature of the funding system, it does demonstrate a significant change in performance month to month as restrictions are lifted and Government reliefs end.

Figure 3 - Business Rates 'Cash Gain/Loss' in £m per month

5.6 In response to the pandemic, the Revenues service assigned significant resources to paying out grant monies. In 2020/21, the Service assessed & paid over 16,000 Covid-19 business support grants, providing critical financial support to local businesses worth in excess of £104 million. This represented a significant change in function for the team which usually focusses on collection of income.

5.7 Given that COVID-19 led to significant council tax income and business rates income losses in 2020/21 and the pandemic is still ongoing, Collection Fund performance remains a concern. Whilst it is too early in the year and recovery from the pandemic to fully assess the budget outlook in this area, collection levels currently appear to be reassuring compared to the prudent assumptions made at 2021/22 budget setting. This resilience in collection is to some extent underpinned by the government's extension of Business Rates Reliefs to June and the Furlough Scheme in its tapering form prior to it ending at the end of September 2021. As such, a breakeven position on council tax and business rates is currently forecast.

5.8 Looking further ahead, a close watch is required nationally on the structural make up of the country's economy. Critics of the Business Rates regime will cite the feverish growth in online business throughout the pandemic as becomes more inequitable with the traditional property value based tax. Without reform, any structural change will have a direct impact on Local Authority financing.

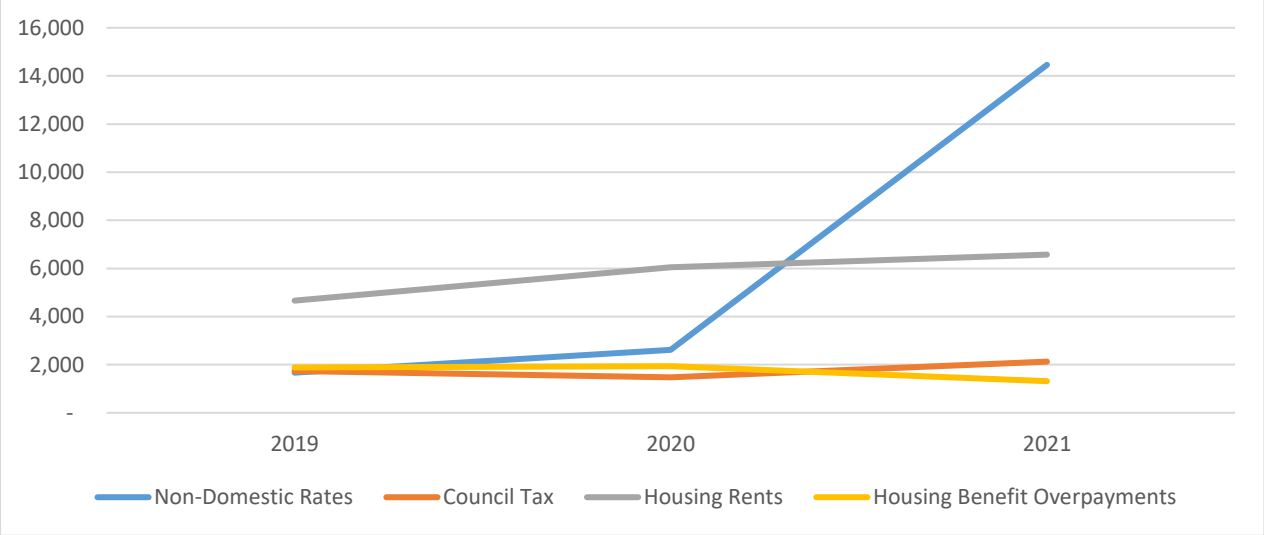
6 Debtors

6.1 The total debtors owed to the council rose from around £93.2m to £129.5m at the end of the 2020/21 financial year. Much of this increase relates to other public sector bodies (£23m of £36m) however the vast majority of the remainder related to Business Rates (£11.8m against a total payable of more than £225m). The graphic below shows the key strands of debtors in relation to key activities with

our residents and a comparison to the amount owed by Businesses through the Collection Fund.

6.2 As can be seen, there has been a small rise in Council Tax debt, an overall reduction in Housing Benefit overpayment however a sustained rise in Housing Rent debts. This increase in Housing Rents debt is a continuation of a trend however, and the increase was shallower in the pandemic year, possibly as a result of the temporary increase to Universal Credit introduced during the pandemic.

Figure 4 - Debtors levels in £000



7 2021/22 – The Current Position

7.1 The Month 3 Financial position is considered within this section of the report including details of some key elements of lost income and increased needs of residents.

Month 3 Financial Position

7.2 The budget forecasts remain very uncertain at this early stage in the financial year and recovery from the COVID-19 pandemic. The financial position for Month 3 is fully explained within the Budget Monitoring report also contained within this agenda. The total COVID-19 related budget variance on the General Fund is £20.5m and is almost entirely offset by the COVID-19 specific funding mechanisms. A residual COVID-19 related overspend is presently forecast of £0.885m. As mentioned previously, this will be monitored closely and updated as more information is known about the scale and pace of economic recovery.

GENERAL FUND	COVID-19 £m	Non COVID-19 £m	Total £m
Chief Executive's Directorate	0.000	0.000	0.000
Community Wealth Building	0.800	0.000	0.800
Environment	7.566	(3.979)	3.587
Fairer Together	0.252	0.000	0.252
Homes and Neighbourhoods	0.876	(0.876)	0.000
People – Children's	2.946	2.763	5.709
People – Adult Social Services	3.273	1.876	5.149
Public Health	0.488	(0.488)	0.000
Resources	2.105	0.000	2.105
Total Directorates	**18.306**	**(0.704)**	**17.602**
Corporate Items	2.229	2.900	5.129
Total General Fund	**20.535**	**2.196**	**22.731**
COVID-19 Tranche 5 Grant and COMF	(11.714)	-	(11.714)
SFC Q1 Compensation (Estimate)	(2.436)	-	(2.436)
COVID-19 Contingency Budget	(5.500)	-	(5.500)
Assumed Call on Contingency Budget	-	(2.900)	(2.900)
Net General Fund Over/(Under)Spend	**0.885**	**(0.704)**	**0.181**

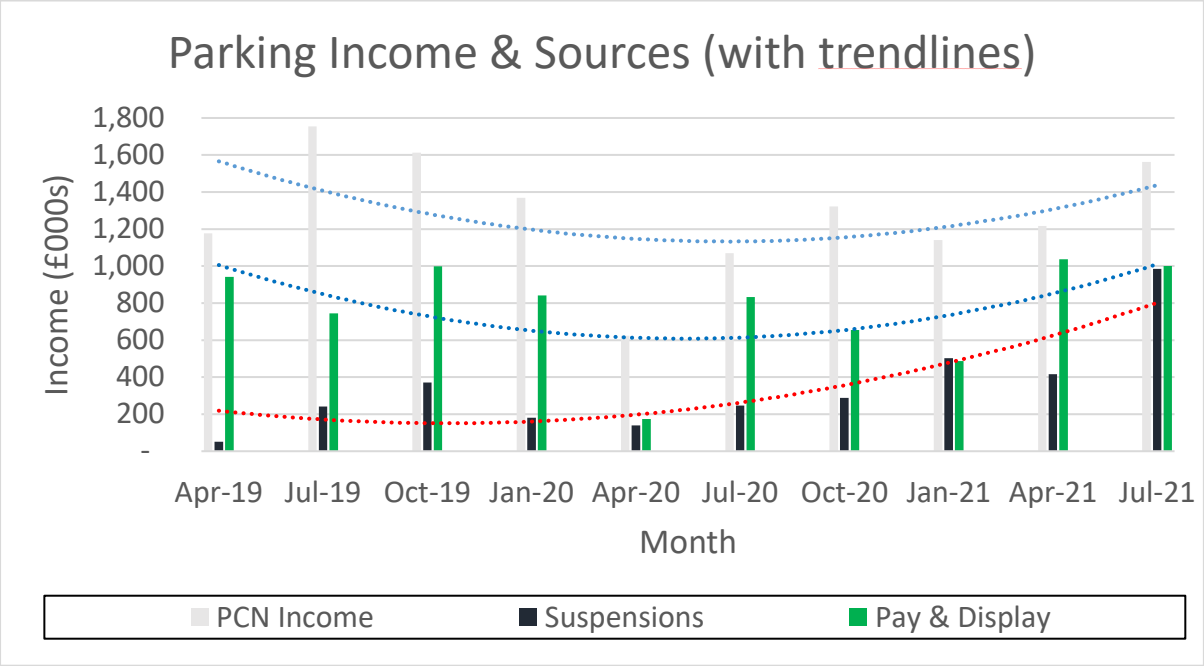
Reduced income

7.3 A large proportion of the council's budget is funded by income through fees and charges. Nearly all of this income is driven by activity which has been directly impacted by the pandemic. Throughout 2020/21 the changing nature of national restrictions made forecasting income extremely difficult. So far during 2021/22 income has fared slightly better however remains subdued below pre-pandemic levels overall. This section of the report sets out the position in relation to key income sources and discusses the changes in underlying activity to provide context to the financial variances being forecast.

Parking Income

7.4 The graphic below displays the income received through the year prior to the pandemic, shows a dip throughout the worst of the restrictions and then a clear increase as restrictions lift and economic and social activity returns. This reassuring increase in income levels is welcome however must be monitored closely to understand the likely year end position against the budgeted level.

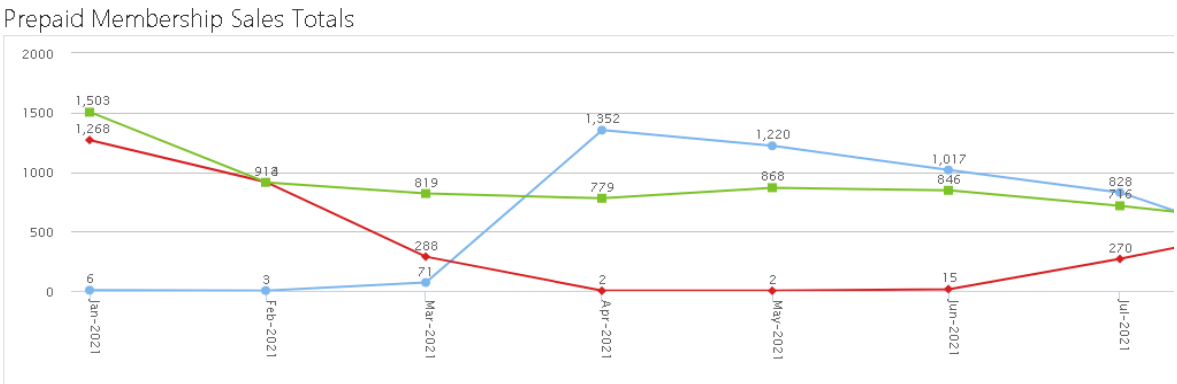
Figure 5 - Monthly Income Analysis (Parking)



Leisure Services

7.5 Leisure services have been one of the most impacted areas of council service as restrictions effectively enforced closure of facilities for a large proportion of 2020/21. Since the gradual lifting of these restrictions, activity levels have been positive, with the number of membership sales in July being higher than pre-pandemic levels. Generally the summer months see a lower level of activity than the winter months so there is still a great deal of uncertainty about how activity and associated income returns. The graph below displays the first half performance of each of the last three financial years. Since April 2021, the 2021 monthly results have been higher than the previous two years.

Figure 6 - Number of prepaid Membership sales per month (first half of the year)



2021
2020
2019

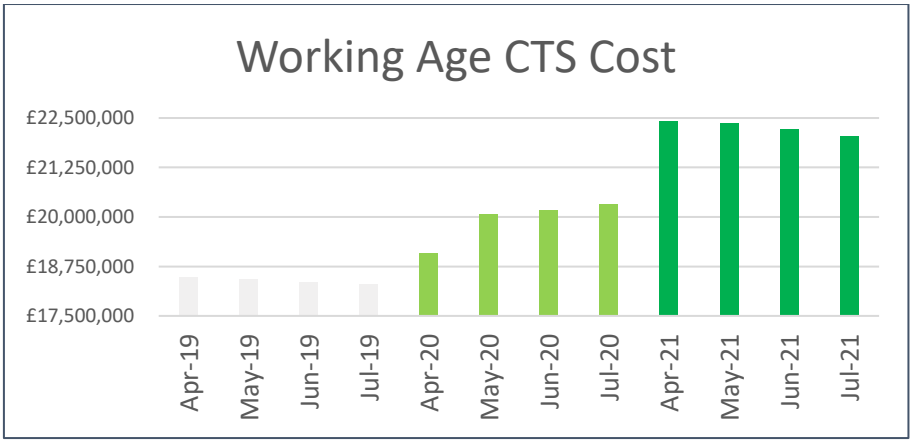
Increased needs of residents

7.6 Whilst the pandemic has reduced the income available to the council to fund vital services, it has also meant that the support residents need has increased. Whilst some of this additional demand for services will dissipate as the pandemic recedes, some longer term 'scaring' will remain. This section outlines some of the impacts on key demand driven services.

Council Tax Support Scheme

7.7 One important way that residents are financially protected by the council is through the Council Tax Support Scheme. This is where reliefs against Council Tax are granted to those who need it. During the pandemic the cost of providing the scheme to working age Adults rose by over 25%. These costs have since, slightly receded but the cost of council tax support in 2021/22 and over the medium term is highly uncertain. Much will depend on future developments in the economy, including the level of unemployment, and government measures to support businesses and individuals. The graphic below shows how the forecast cost of the scheme has moved during the first four months of the last three financial years.

Figure 7 - Forecast annual cost of CTS scheme as at each date



Housing

7.8 Temporary accommodation occupation is at the highest level in recent times, there are currently 930 homeless households in temporary accommodation, 181 more than we had pre-pandemic March 2020 (749). This pressure is partly offset by the Rough Sleeper Initiative Grant.

7.9 Significant financial pressures due to the COVID-19 pandemic continue to be experienced. A 20% increase in homeless applications is expected in the current year. In addition, the Government's projection is a further 20% increase again next year.

Adult social care

7.10 It was forecast throughout the 2020/21 financial year that the impact of the special discharge arrangements from hospitals was a risk to local authorities once the relatively short term funding by the NHS was ceased. This has indeed proven to be the case where packages of care initially arranged and funded at short notice to support speedy discharge then remained within the social care system. This represents residents in need of support, accessing the social care system earlier than they would have ordinarily and thus increasing social work caseloads and care package costs for councils.

7.11 The table below shows a comparison between the pre-COVID-19 totals for the financial year 2019/20 and the first three months of this financial year. Perhaps the most stark is an increase in the total weekly number of hours of homecare provided. This averaged 17,863 in 2019/20 however had risen by 33% to 23,756 in June 2021.

Key Performance Indicator	**2019/20**	**April 2021**	**May 2021**	**June 2021**
Number of people accessing long term support in the form of nursing care as at month end	256	213	221 (+8)	231 (+10)
Number of people accessing long term support in the form of residential care as at month end	386	345	352 (+7)	358 (+6)
Number of people accessing long term support in the form of homecare at month end	1,251	1,299	1,299 (0)	1,316 (+17)
Direct Payment Clients	572	619	628 (+9)	626 (-2)
Weekly Homecare hours	17,863	24,013	24,166 (+153)	23,756 (-410)
Average weekly hours for home care	15.2	18.3	18.4 (+0.1)	18.0 (-0.4)
Number of new nursing home admissions – all age (cumulative)	75	8	18 (+10)	33 (+15)
Number of new residential home admissions – all age (cumulative)	73	7	18 (+11)	33 (+15)

Financial Resilience

7.12 Towards the ongoing risk to the council's 2021/22 budget there are several mechanisms available to maintain resilience. They consist as follows:

Specific Government Grants towards COVID-19

7.13 Final allocations of COVID-19 tranche 5 grant were announced in time for budget setting (£9.3m for Islington). The government has advised that councils should plan for no further funding, other than this package, to meet COVID-19 costs in 2021/22.

7.14 The government also distributed a £670m Local Council Tax Support (LCTS) grant based on each billing authority's share of the England level working-age local council tax support caseload, adjusted to reflect the average bill per dwelling in the area. Islington's allocation was £3.6m, and was fully used to directly offset the one-off reduction in the council tax base resulting from the tax support scheme in place.

7.15 The local tax guarantee scheme provides compensation for 75% of irrecoverable council tax and business rates losses in the Collection Fund relating to 2020/21. Collection Fund deficits will also be spread over 3 years (2021/22 to 2023/24) instead of fully impacting on the 2021/22 budget as would ordinarily be the case. The local tax guarantee scheme will apply to 2020/21 losses only.

7.16 The sales, fees and charges income loss scheme (whereby local authorities can claim back funding for 75% of income losses from sales, fees and charges, where these losses are greater than 5% of the council's planned income receivable) continued for the first quarter of 2021/22 (until the end of June 2021). It is evident that sales, fees and charges income losses will continue long after June 2021, the impact of which is forecast within the Month 3 financial position.

General Budget Contingency

7.17 The 2021/22 budget included an ongoing corporate contingency budget of £5m per annum, broadly in line with the 2020/21 financial year. The contingency budget is available as a last resort for in-year contingency pressures that cannot be funded from compensating underspends elsewhere and subject to approval in line with the council's Financial Regulations. In 2021/22, it is necessary to fund the Local Government Pay Award from this budget, reducing the resilience available to meet other pressures.

COVID-19 specific Contingency

7.18 In addition to the corporate contingency budget, the council has set aside an additional COVID-19 contingency budget of £5.5m. The current expectation is

that this will be needed in full in 2021/22 for COVID-19 expenditure and income budget pressures not funded by available central government funding. If there is any underspend on COVID-19 contingency at the end of the financial year, it is recommended that this is transferred to earmarked reserve for COVID-19 pressures.

Earmarked Reserves

7.19 The council's reserves are an important part of financial resilience. They represent funds set aside for specific purposes however in a time of financial distress they can be repurposed to support general expenditure. The council's reserves benchmark lower than many other Inner London Borough's however. This is explored further, later in this report.

General Fund Balance

7.20 Islington's current GF balance (£16.7m) equates to just over one week of GF gross expenditure. It is agreed that any underspend on the contingency budget at the end of each financial year is used to increase the GF balance from the current level towards a target level of £40m over the medium to longer term. This £40m target level of GF balance is approximately based on the level of COVID-19 budget shortfall in the previous financial year.

8 Looking ahead

National Picture

8.1 The national economic outlook is highly uncertain. There has been a strong recovery following the development and speedy roll out of the vaccine and the gradual removing of restrictions to most economic and social activities. The economy is still subdued however. Gradually confidence will recover however the scaring left by the unprecedented response will remain for generations to come.

8.2 COVID-19 has delivered the largest peacetime shock to the global economy on record, greater even than the Great Depression or the 2008 Global Financial Crisis. There has been an unprecedented fall in national income, a huge rise in the in-year government deficit and the level of the overall UK national debt (effectively, accumulated deficits) has soared past £2tn. GDP fell by 9.9% in 2020, the largest annual reduction since the Great Frost of 1709 and more than double that of 2009.

8.3 At the end of 2020/21 public sector net debt was £2,138 billion (i.e. £2.1 trillion), or 97% of GDP. This is equivalent to around £32,000 per person in the UK. At the point which the council's budget was set, the Office for Budgetary Responsibility estimated that a fiscal adjustment of £27bn would be required to match day-to-day spending to tax receipts by the end of 2025/26. This means an increase in taxation, a reduction in government spending, or a combination of the two. The size of the estimated fiscal adjustment will vary going forward;

the Institute for Fiscal Studies had anticipated that this fiscal adjustment, prior to SR20, could be as high as £40bn. Any required fiscal tightening in the range of £27bn to £40bn, or higher, will involve some form of significant budgetary constraint for government departments over the medium term; fiscal tightening purely via tax increases is hard to envisage as being politically feasible, nationally.

8.4 The longer-term Comprehensive Spending Review and planned reforms to the local government finance system around business rates retention and the 'Fair Funding Review' (Review of Relative Needs and Resources) have all been delayed until 2021/22.

8.5 The 'Fair Funding Review' presents a particular risk to Islington Council with the potential that government funding could be redistributed away from authorities such as London boroughs (in particular, inner London) towards counties and districts; this is an added layer of risk over and above the local government funding outlook that could see cash flat funding, on average, nationally.

General Fund Reserves and Balances

8.6 A fundamental element of the robustness of the council's annual budget and MTFS is the level of contingency budget, earmarked reserves and GF balance, as determined by the Section 151 Officer.

8.7 The council's reserves however are lower than comparator organisations. Even prior to the COVID-19 crisis, the 2020/21 budget report had noted the need for the council to strengthen its financial resilience for deteriorating budget risks over the medium term. Whilst being well run and maintaining a strong financial discipline, the nature of increasing economic risks means the Council felt the need to increase its General Fund balance.

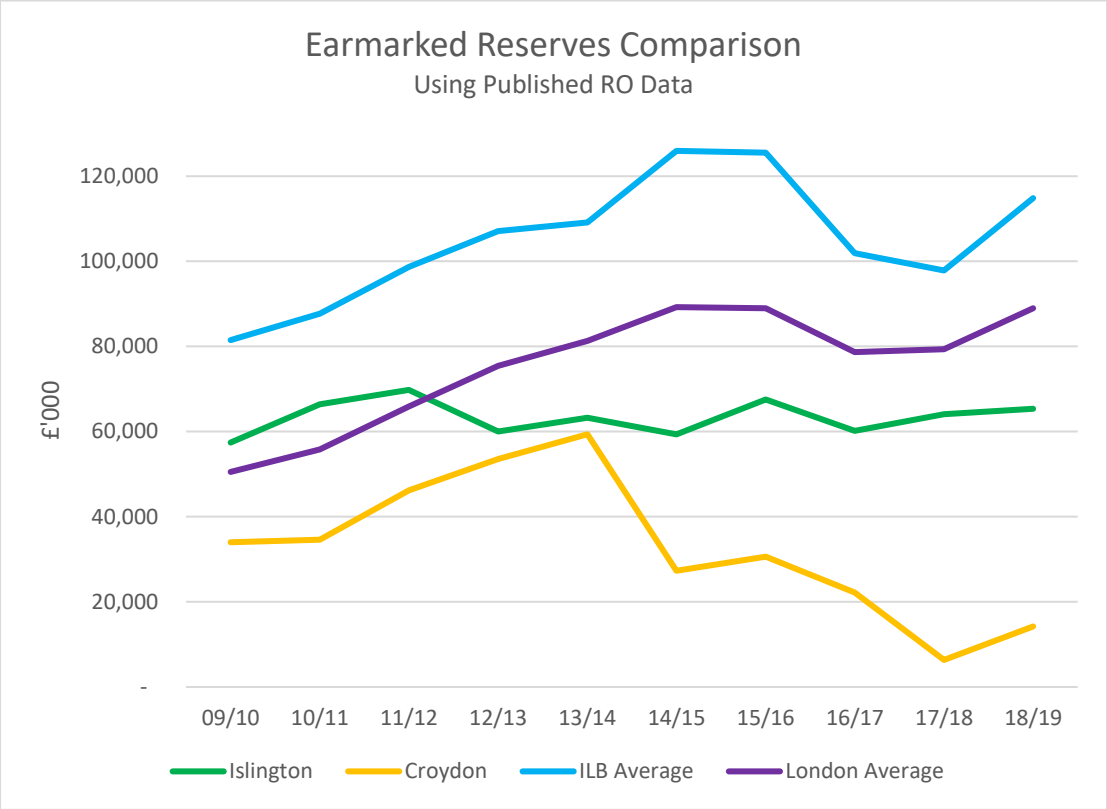
8.8 Similarly, the findings of the External Auditor on the 2019/20 Statement of Accounts noted that the council's non-schools GF reserves are below the average level for London Boroughs and that:

> "It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control."

8.9 The significant expenditure pressures and income shortfalls incurred during the COVID-19 lockdowns have highlighted the underlying level of risk in the council's budget. In particular, the council possesses one of the highest COVID-19 sales, fees and charges income losses in London.

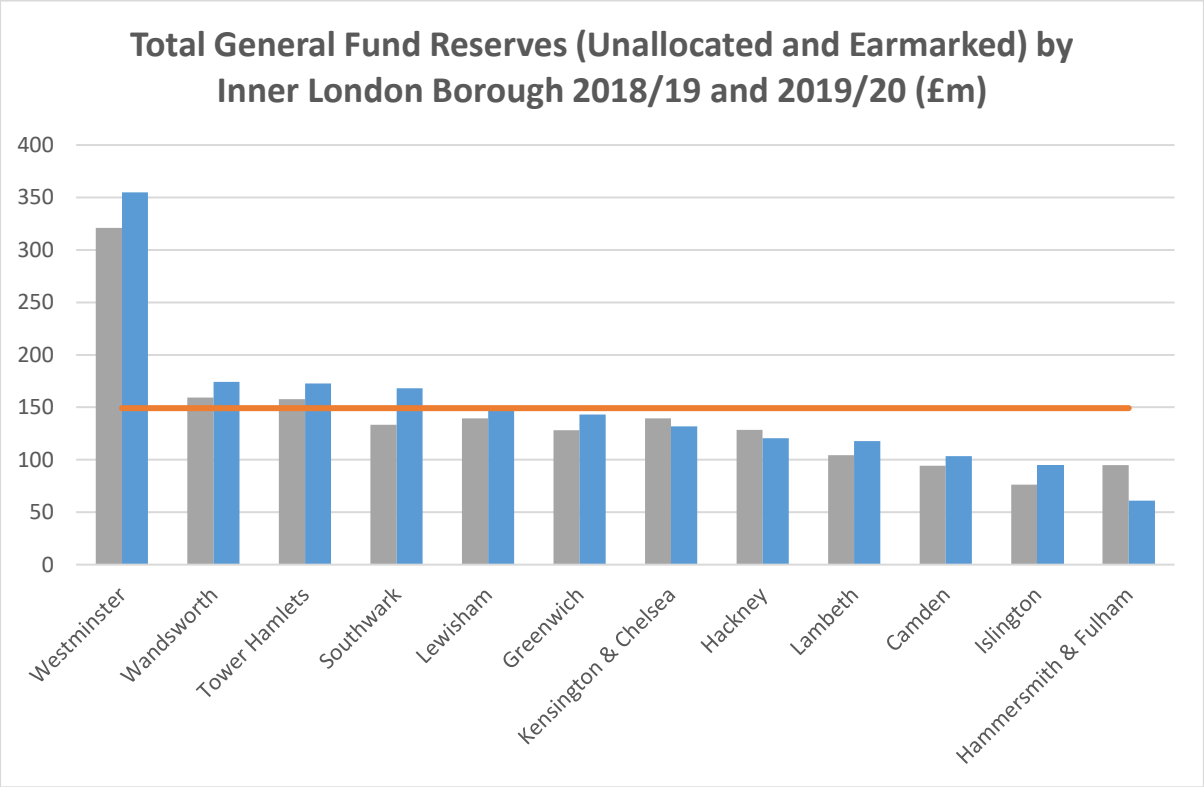
8.10 The graphic below shows a comparison of average Earmarked Reserves levels within London (based on the last full available data set). This shows that whilst Islington has had a steady period of growth in reserves, this is modest in the face of the significant financial challenges facing the sector and is below the average for Inner London Boroughs.

Figure 8 -Reserve movements over time



8.11 The graphic below displays more up to data analysis against Inner London comparators only. Islington's reserves have increased in line with the council's strategy however remains significantly below the average and the second lowest overall. This does not reflect an immediate concern but should be cause for a strengthening of the council's financial strategy in relation to building financial resilience. One thing to note within the analysis is that much of the increase year on year relates to the timing difference of Government support being paid in advance of need and not a sudden, usable increase in funds.

Figure 9 - Analysis of Inner London Borough Reserves



9 Implications

9.1 The implications are detailed in the report.

10 Reasons for Recommendations

10.1 To enable the Policy and Performance Scrutiny Committee to fulfil its obligation to consider matters relating to the financial position of the council.

Appendices

- None

Final report clearance:

Signed by:		

	Corporate Director of Resources (Section 151 Officer)	Date 1st September 2021