

Introduction

This annex provides an update on the potential financial implications of the covid-19 pandemic and highlights the risks to the Council's financial resilience, should further Government support not be provided. It also provides details of the funding the Council has received to support communities and businesses at this time.

Prior to the global Coronavirus pandemic, the Council was in good financial health, with reserves above the recommended minimum level and had recently set a robust, fully funded budget for 2020/21.

There were pressures being experienced in both Adults and Children's that required additional budget growth, alongside the delivery of mitigating savings. Work is ongoing to complete the year end accounts and whilst the outturn position has not yet been finalised, it is anticipated that overall the 2019/20 outturn will be within the approved budget.

This early, high level view of the potential financial implications for the council will need to be updated on a regular basis. It is, however, clear that the government support received to date will not cover the additional costs and loss of income. Therefore if additional government support is not forthcoming action will be required in order to maintain a balanced budget.

Income

The Council is already seeing a significant loss of income, this includes a 96% drop in car parking income. A number of other measures were introduced in early April to offer financial assistance to businesses and residents, including:

- Deferral of the first quarter of commercial rents due
- Not increasing fees, charges and housing rents as planned from April 1st
- Introduction of a licensing fee and building regulations fee holiday

These measures will have different financial implications for individual residents and businesses and, as we progress through the current pandemic, there will need to be a balance between the viability of the payment of fees, charges and rent alongside the ongoing financial position of the council. It is estimated that the loss of income to the Council is approximately £950k per month, whilst the current restrictions are in place.

However, even if the current restrictions are lifted and the lockdown period ends, it will take some time for services to recover to previous levels. We

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don't, at this time, know how lifestyles and preferences will change and whether some form of restrictions could continue for a longer period.

It is too early to reliably estimate the impact on income from Council Tax and Business Rates. The Council has increased the financial support available to residents experiencing hardship through the York Financial Assistance Scheme (YFAS) by a £1m increase in funding available through the use of the YFAS reserve and contingency. Many Councils are modelling a potential loss of 10% of council tax income for the year, which could be as much as £9m for York. 1% of council tax is approximately £860k, so even a small reduction in the collection rate would require further savings to be identified.

The impact on businesses could be more noticeable, and it is difficult to say how many of the businesses that are currently closed will reopen once restrictions are lifted. As outlined above, even once the restrictions are lifted it will take some time for normal trading activity to resume. Under the business rates retention scheme there is a safety net in place which would mean that once income dropped to a certain level, the Government would step in to fund the shortfall. However, the Council is a member of the North & West Yorkshire Business Rates Pool where all income is pooled and instead of paying a levy to Government we pay this to the Pool. It is unclear, at this stage, whether all Councils in the Pool would need to drop to safety net level before Government funding was provided. Under normal circumstances, if one Council in the pool suffered a loss of income this would be funded by the Pool.

Expenditure

The total additional costs incurred by the Council are also difficult to estimate at this early stage. Some costs have been seen in social care as a result of discharging more people from hospital into care settings to free up hospital beds and ensuring continued care and support for children and young people. There have been increased costs of temporary accommodation for people who are homeless and for rough sleepers. We have also continued to pay transport and other providers, whether service has been provided or not, in line with Government guidance. Additional costs have been seen within waste services to employ more drivers and other staff to ensure essential front line services can continue. We have also spent more on ICT equipment to ensure effective working from home.

Significant financial pressures are also being seen in schools and nurseries. The Government had previously announced that these should close for all children except those of critical workers and vulnerable children however we have seen relatively few parents choosing to send their children to school or nursery. Overall, the nursery sector relies heavily on fees paid by parents

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and whilst the Council has continued to pay early years funding, including making payment for the summer term in advance, many nurseries have not been able to remain open. It is crucial that enough places are maintained to meet need as and when the city returns to normal so the council will need to consider whether it can provide additional financial support to sustain these providers.

A number of other measures have also been implemented, including making payments in advance and paying on planned rather than actual care to try and support our providers.

The table below sets out our very early, high level estimates of the likely costs to the end of the current lockdown, should restrictions be lifted. Note that these are only initial estimates as there are too many unknown variables to do an accurate forecast.

Service Area	2020/21 £m
Adult Social Care – additional demand supporting local care providers, additional staffing and equipment, including PPE	6.8
Children’s Services - additional placements forecast, additional staffing, support to carers and providers	4.1
Homelessness - Additional costs for homeless accommodation	0.3
Communities - changes to delivery models to support communities remotely, support to providers	0.4
Waste - additional staffing costs and loss of income	0.6
Emergency Hardship Fund for small and micro businesses	1.1
Enhanced YFAS for resident support	1
Council Tax (assuming 10% reduction)	8.9
Business Rates (assuming 20% reduction)	7.7
Loss of income (including parking)	2.8
Non achievement of approved savings	0.75
Other, including staffing, ICT equipment, cleaning costs	0.5
Total	34.95
Less:	
Government support grant	4.7
YFAS reserve	0.4
Contingency	0.5
Share of further Government funding	5.7
Potential funding gap	23.65

Table 1 - High level estimate of financial impact of Coronavirus

Capital

In addition to the revenue pressures outlined, the Council also has a significant capital programme with total forecast spend of £560m over the next 5 years, including some key major projects such as York Central and Castle Gateway. Whilst the programme is fully funded through a combination of Government Grants, borrowing and other funding it is clear that a fundamental review of all schemes will be needed to assess any new risks as a result of the pandemic. This will include considering the overall purpose of the scheme and whether they are still financially viable given the risk to the overall economy. This is particularly crucial for those schemes that assumed the generation of capital receipts to fund expenditure.

Approved growth and savings

In February, the Council set its budget for the year ahead and agreed a number of growth and savings proposals that would deliver a balanced budget. Again, these will all need to be reviewed to consider where there is a risk to the delivery of these proposals. Whilst the Council has been fully occupied in responding to the pandemic no progress will have been made to implement the proposals. Some of the proposals may be able to continue and still deliver the required level of saving but it is expected that a number will now not be deliverable in this financial year. Therefore, over the coming weeks a review will be completed to assess all proposals and a revised 2020/21 budget will need to be reviewed and agreed over the summer.

Summary

In total, all the issues identified above could cost as much as £35m in the current financial year. To date, we have received £4.7m of support grant, with a further £5.7m recently announced and due to be received in May. Using the high level estimates and assumptions outlined in this paper, at this stage it is considered that the additional costs and loss of income could therefore result in a budget gap of some £24m.

The Council does have reserves, and these are being reviewed to identify where they can be released to support the current pressures. However, even with this review and the general reserve of £7.4m, it is likely that there will still be a funding gap that would result in the need to identify further savings to be delivered.

At this stage we are not experiencing cash flow issues however this could become an area of concern as the year progresses and may require additional controls to be introduced on any discretionary expenditure and

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could mean that the Council would have to concentrate on providing statutory services only.

As the Council's Section 151 Officer, the Head of Corporate Finance and Commercial Procurement has a statutory responsibility for ensuring that the Council makes arrangements for the proper administration of its financial affairs. Section 114 of the Local Government Finance Act 1988 requires a report to all Council members to be made by the s151 officer, in consultation with the Monitoring Officer, if there is or is likely to be an unbalanced budget. However, the circumstances of a developing situation, such as this one, should be distinguished from the imminent or actual situation and therefore despite there being a potentially unbalanced budget an s114 notice is not being considered at this time. Such a notice is only given in the most serious circumstances and the process is governed under legislation. Given that every Council in the country is likely to be in the same position, the Government has announced its intention to review the issuing of s114 notices but the scale of financial challenge means that all s151 Officers across the country will be considering their responsibilities and what action they need to take, if any.