APPENDIX A

COVID-19 Finance Impact Summary

1. BACKGROUND

1.1. Bristol City Council like many councils set a balanced budget in February 2020 not only for 2020/21 but over a 5 year medium term. For 2020/21 full Council agreed the following:

- The General Fund net budget of £395.7m
- The ring-fenced Housing Revenue Account (HRA) of £122.4m gross expenditure budget
- The ring-fenced Dedicated Schools Grant (DSG) budget, including amounts recouped by the Education and Skills Funding Agency for Academies is £374.2m
- The ring-fenced Public Health budget is £37.5m
- 5 year capital programme totalling £612.0m for General fund and £354.0m for HRA

1.2. The approved budgets were underpinned by £1.0bn gross revenue (i.e. non collection fund income, representing 72% of gross expenditure), which is critical for the Council to deliver essential services to residents, with an emphasis on protecting the most vulnerable in the city and a £290m of capital programme (£23m capital financing cost) to deliver key infrastructure improvements for the region.

1.3. We are now facing a set of fresh financial challenges as a result of COVID-19 global pandemic that could not have been foreseen when we set our budgets in February 2020. All local authorities are now under enormous pressure in managing the public services that people are increasingly relying upon. The support we provide to the vulnerable in our communities, and the information we provide which keeps local people safe and informed.

2. ECONOMIC & SOCIAL CONTEXT

2.1. In response to the pandemic, the government has described its policy response to COVID-19 in four parts: contain, delay, research, and mitigate. On 20 March 2020, the government had instructed people to stay at home except for very limited purposes and to non-essential shops and businesses to close (referred to as "restrictive measures") in the effort to contain the spread. These stringent social distancing measures was slightly eased from 10 May 2020 onwards when the government set out a conditional plan in England and a 3-phase recovery strategy to reopen the Economy, businesses and movement.

2.2. In addition to the anticipated health impact COVID-19 is having a significant economic impact. It is now widely accepted that the shock will lead to a global recession, as nearly the entire world contracts it is expected that the unemployment rate for developed markets as a whole will rise over at least two quarters.

2.3. An ONS survey of businesses carried out between 6 April and 19 April showed a quarter of businesses had temporarily closed and a further 40% are experiencing lower turnover in response to the pandemic and restrictive measures. Fewer than 5% of firms are reporting higher turnover than normal.

2.4. Some economists estimate that the UK-wide economic activity may be roughly 30% lower while the social distancing measures are in place, they had drawn three scenarios for the path of GDP in 2020 depending on whether the impact of restrictive measures lasts for three, six or twelve months. This sets out GDP growth to be expected to fall by between 10% and 24% in 2020, (17% six months) with a return to positive GDP growth in 2021.

2.5. A range of government measures intended to safeguard jobs, guarantee wages and support the self-employed were introduced which have reduced but not fully mitigated the impact. These include government backed business loan schemes, the Coronavirus Job Retention Scheme (JRS) which went live on 20 April, had seen 6 million workers furloughed up to mid-April, 61% of business that are continuing to trade have applied to the JRS and over 82% of businesses that have temporarily closed or paused trading.

2.6. As businesses close to help preventing the transmission of COVID-19, financial concerns and job losses are one of the early impacts. This in turn, affects many people, typically the least well-paid and those self-employed or working in informal environments in the gig economy or in part-time work with zero-hours contracts.

2.7. Before the pandemic, unemployment rate in Bristol was around 3.9% (10,100 people) lowest amongst UK core cities, some estimates on 21% unemployment would mean in excess 50,000 job losses in Bristol. Recent data released by the DWP also suggests that there had been a 48% increase in Universal Credit claimants in Bristol between the periods of mid-March to mid-April.

2.8. COVID -19 is also disproportionally impacting on disadvantaged social groups and exposing the inherent health and social inequalities in society. People that face the greatest deprivation are experiencing a higher risk of exposure and existing poor health puts them at risk of more severe outcomes if they contract the virus.

2.9. In view of the points above COVID-19 is also having a significant impact on almost everything that local government delivers.

3. COUNCIL IMPACT

3.1. In a short space of time how the Council delivers its services has changed beyond recognition. The Council have moved 5,400 of our 6,400+ workforce (83%) to working from home and revised our workforce principles with Trade Unions to support deployment into alternative roles and increase volunteer capacity.

3.2. The initial focus has been on the immediate frontline response; ensuring the vulnerable are looked after, keeping essential services running and coordinating an unprecedented volunteer effort. In Bristol, working in partnership with the NHS, police, voluntary sector, communities, and city partners we have;

- Worked closely with health partners to facilitate rapid, safe hospital discharge and measures to support the care market.
- Secured beds for hundreds of homeless citizens.
- Administered a range of welfare schemes including delivering emergency food parcels,
- Set up four emergency foodbanks.
- Established a hub of support for vulnerable people including a new ‘We Are Bristol’ telephone helpline.
- Administered business grants, reliefs and financial hardship schemes to support some business and citizens most severely impacted.

3.3. The Council as an entity in its own right is not immune to the rapidly intensifying economic effects of COVID-19 and are experiencing significant financial challenges due to both the response to the pandemic and the effects of the measures taken to deal with it.

3.4. The loss of income due to the restrictive measures implemented by government is no different in cause than those effecting private businesses. The scale of the Council’s income loss results from its; level of ownership of city assets (commercial rents), primary responsibilities for key regional services (Coroners and mortuaries), retained in house a high volume of direct regulatory services (e.g. environmental health, land charges, building control) and operational services (e.g. pest control, secure cash collection, museums and waste and recycling). The income we receive is critical in providing the platform for the Council to deliver essential services to residents, with an emphasis on protecting the vulnerable. Many of the Council's income streams will experience an adverse impact not only during this period of restricted activity but also beyond.

4. FNANCIAL IMPACT ASSESSMENT

4.1. Against the backdrop above it remains very difficult to scientifically predict the extent of the impact COVID-19 will have on the Council. The Council has considered a range of plausible financial scenarios which are based on varying assumptions of prolongation and severity. The realistic case assumes that economic inactivity, direct impact on public services and negative shocks will be experienced over two-quarters and a gradual recovery over third and fourth quarter of 2020/21. It recognised that for some of the income or expenditure streams the impact will go beyond a single financial year and further work is underway to extend the model over a medium term.

4.2. We have subsequently worked collaboratively with a number of other authorities in the West of England region and Core Cities to test and challenge thinking and model the COVID-19 impact only focusing on the following:

- Additional expenditure in responding and delays in the delivery of planned savings
- Collection fund and loss of core council funding such as Council Tax and Business Rates
- Reduction in income from Sales Fees and Charges such as Parking
- Reduction in Income from more commercial activities such as property rental income

4.3. The initial model with forecast undertaken in March provided indicative adverse cash impact of £109.3m (£29.4m response and £79.9m income losses) as a result of COVID. The model is intended to be maintained and refreshed to reflect actual data as it becomes available and the forecast impact on 2020/21 from both budgetary and cash perspectives following period 1 refresh is estimated to be **£112.7m (expenditure increase £34.5m and income losses £78.3m)** and outlined in the table below:

Financial Year	Budgetary Impact 2020-21 £m	 2021-22 £m	Cash Impact 2020-21 £m
General Fund			
Various Expenditure Incl. COVID 19 Impact on some savings	**-33.516**		**-33.516**
Income Loss			
Regulatory Income: Council Tax & Business Rate (Impact Cash flow in 202/21 and Budget 2021/22)		-32.954	-32.954
Fees Charges and Service Income	-36.686		-36.686
Commercial (property, dividend and loan interest)	-5.274		-5.274
Total Income loss	**-41.961**	**-32.954**	**-74.915**
General Fund Total	**-75.477**	**-32.954**	**-108.432**
HRA			
Expenditure	-0.941		-0.941
Income Loss residential and commercial rent (6 months)	-3.348		-3.348
HRA Total	**-4.289**		**-4.289**
Council Total	**-79.766**	**-32.954**	**-112.721**
Government Funding			
Covid-19 Emergency Funding - First Tranche*	13.044		13.044
Covid-19 Emergency Funding - Second Tranche	12.906		12.906
Total Government Funding to Date**	**25.950**		**25.950**
Residual Shortfall	**-53.816**	**-32.954**	**-86.771**

**Note that £0.5m has been deducted in financial year 2019/20 and recognised against additional emergency response expenditure and loss of income during the last week of March after the restrictive measure was introduced.*

*** Other funding not included: Hardship fund Grant £5.0m- Grant excluded as the majority of these are passported to residence in need directly; and £4.0 Care Grant passported to care home*

4.4. The residual shortfall in cash terms currently stands at £87.8m (net of £25.9m funding received from the government). Due to the scale of the potential financial impact on the Council it will be necessary to review the overall budgeted income and expenditure to obtain a more in-depth understanding of current revenue and capital plans and commitments for each financial year.

4.5. To understand the national picture and the financial impact of COVID-19 on the local authorities, the MHCLG also issues 2 financial returns to date. The first MHCLG return was completed in April and the Second was submitted on 15 May. However to ensure consistency with every local authority completing the return, MHCLG determined a common set of assumptions and methodology to be applied in all scenarios intended for accounting purposes only, it stipulated a 4 months period to end of July 2020, and thereafter assuming the situation reverts entirely back to a position we anticipated prior to COVID-19 in all areas of expenditure and income. Whilst we have completed and submitted our return accordingly resulting in £27.7m expenditure response and £64.1m income loss. ***We do not believe this to be a realistic scenario and thus the figures no longer align with the figures in the table above upon which the Council is monitoring the budgetary impact.***

5. EMERGENCY RESPONSE EXPENDITURE

5.1. It is estimated that the COVID-19 related emergency expenditure would be in the region of £33.5m in 2020/21. This include costs such as additional workforce pressures, service and contract pressures, additional demand in social care, cost in providing accommodation to the homeless and rough sleepers, creating capacity in cemeteries and crematoriums, increase waste collection and disposal cost, and additional spend such as PPE. April had seen £10.8m of expenditure incurred or offset against these emergency costs (more details will be reported in period 2 report).

5.2. In forecasting the £33.5m it is largely assumed 100% of these additional costs in Q1, 50% in Q2, 25% in Q3, and no further emergency expenditure in Q4. Also note that estimate only contain minimum costs associated to new burden (largely administering the new grant / PPE processes) and does not as yet include new burden

5.3. cost for BAU under "new normal" standard of services. These additional risks will be discussed in later sections.

5.4. COVID 19 is also having an impact on the planned saving programme in 2020/21. Within the estimate above some c £4.3m in year savings that will not be delivered as a result of COVID-19 due to delays and market conditions are incorporated.

6. REGULATORY INCOME LOSS

6.1. Council tax (CT) including preceptor's income:

6.1.1. Like many councils we set our Council Tax budget for 2020/21 with a 3.99% increase (1.99% for general requirements plus 2% specifically for adult social care). The Council's budgeted income from Council Tax is £226.1m and represents 57% of the net budget requirement (£395.7m).

6.1.2. For Bristol reductions in Council Tax income is the largest single income loss. In April the Council had seen and in-month reduction on CT collection c£2.6m and this shortfall is forecasted to reach circa. £22.4m by March 2021.

6.1.3. In arriving at this estimate, we focus on the following 3 material elements and model the impact of those changes on the original forecast: take up of Council Tax reduction scheme (CTRS) for working age adults, reduction in collection rate and delays in housing growth.

6.1.4. Bristol is one of a small number of authorities with a fully funded CTR scheme. As mentioned before that DWP's recent figures suggest that there had been a 48% increase in Universal Credit claimants in Bristol between the periods of mid-March to mid-April, many of whom have also applied for the local CTR scheme; this translates to new case load in April averaging 430 per week.

6.2. Business rates (BR):

6.2.1. The Council's BR income is £136.7m in 2020/21 represents 35% of the net budget requirement (£395.7m). Assuming all tax-breaks for businesses are funded by Central Government we currently estimate a reduction c8% (£10.6m) of business rate income as a result of unavoidable business insolvencies and reduction on debt collection rate within the Bristol area. In spite of government measures in place April had seen a loss of BR income c£1.2m (excluding Reliefs).

6.2.2. Note that under the business rates retention scheme, the Government currently operates and levy and the safety net system where BR income is guaranteed at the safety net level for local authorities. However Bristol's safety net entitlements is calculated to be £116.2m for 2020/21, this would meant that the safety net mechanism will not be triggered before income losses reach £20.5m.

6.3. It is worth noting that the collection fund shortfalls will impact on the Council's cash position in 2020/21 however the budgetary impact will fall in the following year 2021/22.

7. FEES CHARGES AND SERVICE INCOME

7.1. In response to COVID-19, the Government's policy measures on social distancing had resulted in significant service users' behavioural change, some services such as parking, cultures and leisure income had experienced up to 90% losses in April and losses continue to be significant in May.

7.2. The estimated service fees and charges income loss will be around £36.7m, with anticipated gradual recovery from October onwards. This funding shortfall represents the current estimate for 2020/21 only; however even with potential clinical solutions to COVID-19, the financial impact is expected to extend over the coming years with the adverse impact on the economic cycle.

7.3. Some service income is much reduced compare to the monthly budgeted targets. Below are the top 10 service income areas that had seen significant % income reductions in April.

BCC	% Down
Libraries	-98.7%
Parking Income	-88.3%
Licensing	-86.5%
Garden Waste	-86.0%
Events, Registrars and Markets	-67.0%
Traffic Regulation Order & Permit	-67.0%
Planning income, Land charges	-66.7%
Parks income Concession	-66.0%
Trading with Schools	-50.0%
Museums	-34.0%
BWC Waste Recycling (price 40% down with volume increases)	22.2%

7.4. Majority of these revenue centres sits under Growth & Regeneration (G&R), which makes a large proportion of the Directorate spending envelope. Overall traded income in G&R is down £2.98m or 76% in April and 73% down comparing to April 2019.

8. COMMERCIAL INCOME

8.1. Commercial income includes rent receipts from commercial properties, dividend receivables and interest charges on various loans and investment (excluding the Council's own companies). This is in a high risk category where forecast shortfall (c£5.3m).

8.2. It is also expected that commercial property rental income will also experience up to 25% reduction base on ONS statistics on national business insolvency risk and intelligence from the Council's own property agents who estimates these losses across a national mixed commercial portfolio.

9. RINGFENCED FUNDS

9.1. HRA

9.1.1. Rent in arreas: since the beginning of the government's social distancing measures, the Council had seen a marked increase in the level of rent and service charge arrears, as well as an increase in the number of claimants for Universal Credit. The % rent in arears has been at the rate of 3.4% increase week on week totalling £0.5m in April. It is estimated that this would equates £3.3m over a period of 6 months.

9.1.2. Not included in the figures above is the impact on the Council's new homes delivery programme. The delay in construction, the disruption of the global supply chain and the social distancing measure on site after reopening will all impact on the building speed. It is estimated that a slippage of the programme around £9m for the year is to be expected. As Development of New Homes utilises Right to Buy (RTB) receipts to part fund (30%) their costs. A £9m reduction in development cost would put £2.7m of receipts at risk of having to be repaid to MHCLG If the receipts are not utilised within a certain time-frame.

9.2. DSG had also seen additional emergency expenditure in supporting key-workers and vulnerable children. This include costs incurred in setting up a local Free School Meal voucher scheme to bridge the gap(£0.4m) before the national scheme was in operation, but it is anticipated that these costs will be reimbursed by ESFA in June.

10. CAPITAL FINANCING

10.1. The Council has a large programme of capital investment; the programme is funded from a variety of different sources from Council's own resource such as taking on additional long term borrowing, using receipts from sale of land and property and contributions from developers. As well as external grant funding, predominantly from other Government bodies such as West of England Combined Authority and Department for Education. Projects are at different phases of development within the overall programme and the extent of the impact of Covid-19 will be different to each individual project. Taking on additional borrowing to fund the capital programme increases annual costs to finance the borrowing.

10.2. During 2020/21 there is expected to be significant slippage in the current in-flight projects as construction may have been paused temporarily or timescales extended as a result of social distancing measures that are required for continuing works, which will naturally reduce the borrowing that was planned for 2020/21. Also the Bank of England made an immediate cut in interest rate from 0.75% to 0.1%, so any borrowing that is required is expected to be at a more favourable rate. These two areas combined should lead to an initial reduction in capital financing costs of around £5 million.

10.3. However as noted above the impact on the Council's revenue position means that further reduction in the annual capital financing costs may be required and a review of the programme is underway to consider strategic prioritisation, opportunities, threats and risks.

11. CASH FLOW AND TREASURY IMPACT

11.1. Covid-19 is having a large impact on the Council's cash flow. As outlined above there is a significant loss of income already being experienced and expected to continue. In addition a number of measures have been implemented to support business and our citizens, for example, acceleration or supplier payments (1 day) or in advance, debt measures introduced, deferred payment terms. There is a reduction in other capital income streams such as developer contributions and capital receipts.

11.2. At the start of the financial year the Council had brought forward liquid cash balances of £56 million and maintaining an appropriate level of liquidity remains a key focus.

11.3. Government has provided some accelerated funding to support local authorities. The announced funding, including two covid-19 emergency funding grants, business rates grants and hardship fund were paid in advance however a large amount of this has already now been spent on response and once fully utilised won't mitigate the on-going loss of income as outlined previously.

11.4. There has been some Government support in accelerating grant payments due throughout the year brought forward and received in April. £4.7million Adult social care grants were accelerated to April from May and June. The Government also announced that billing authorities will not have to make the central share payment of the business rates for the first three months of 2020/21. This provides short term cash-flow support of between £190k - £189m for eligible authorities.

11.5. However approx. 27 authorities (of which Bristol is 1), in devolution deal areas piloting 100% business rate retention, do not make a central share payment. Instead the Council pays a material tariff of £84.5 million to the Government and as such will have no cash flow relief from this mitigating measure. Bristol is still expected to make timely monthly payment of circa. £7million of its annual tariff payments to government in 2020/21.

11.6. The Council collects all Council Tax and Business rates and passes on to preceptors, however the payments to preceptors don't take into account any reduction in collection of income until the following financial year through the collection fund, meaning the Council have to manage the full impact of any shortfall during the year. At this stage the Council is not proposing to seek to renegotiate this position as transfer the cash shortfall to other public sector bodies is not desirable.

11.7. To date no short term borrowing has been required and is being monitored closely by the Council's s151 officer.

11.8. Other measures are also being explored to ensure the sustainability of the Councils' cash flow e.g. liaising with various government bodies and West of England Combined Authority, seeking a range of measures or facilities to have available during the course of the year to reduce or delay a number of levy payments should it be necessary to assist with cash flow pinch points, without incurring penalties.

12. OTHER RISKS AND CONSIDERATIONS

12.1. Without a clinical solution to COVID-19 the economic impact is likely to be long lasting. This would result in new burdens on the Council on a continuous basis when the "new norm" is established. An example of this new burden would be Home to School Transport. Social distancing requirement is likely to be in place for some time, so children would need to go in smaller groups or in separate vehicles which would increase in the number of commissioned journeys. This could potentially double hired vehicles charges. Another example would be cost in providing permanence housing on for the homeless.

12.2. It is important for the government to recognise these potential new burdens on the Council's services and provide sustainable funding support. More analysis would need to take to quantify these new burdens and this will be combined with further work to consider the direct and indirect interventions that could provide some mitigation.

12.3. Minimum Support as a Business

12.3.1. Treating the Council as business, high level analysis indicates that staff equivalent to 814 FTEs has either stopped working or significantly reduced working due to COVID-19. Majority of these colleagues are under the services that has experienced temporary close, reduced activity and loss of income. If we consider making a claim through the CJRS, an estimated £6.9m could be utilised to offset the reduction in sales, fees and charges.

12.3.2. Similarly applying the same principle to the government BR grant and relief schemes available to other businesses, Bristol would be able to claim reliefs and grant for c60 eligible properties, totalling c.£1.8m

13. TIMELINE AND NEXT STEPS

13.1. The funding shortfall represents the current estimate for 2020/21 only; however the financial impact will extend over several years and will require significant, sustainable long-term additional finance, in order to deliver services in an adverse economic cycle where demand for public services will significantly increase. Further work is underway to extend the model over a medium term. It will be necessary for a report to be taken to Cabinet or Council outlining the scale of budget gap and proposal for resetting the revenue and capital plans (some areas may require consultation), for implementation 2020.

13.2. Due to the scale of the financial impact on the Council, it will also be necessary to refresh the budgets and pull together the impact on each financial year setting out our 2019/20 carry forward

COVID 19 pressure, ability to deliver a balanced budget in 2020/21 and 2021/22.

13.3. Reserves are not the answer – they are predominantly held for contractual commitments (e.g. PFI sinking funds), measures that keep us safe e.g. flood mitigation measures, legal and uninsured risks, appeals or ring-fenced / held on behalf of other parties. Many of our reserves have been used in the short term to support internal borrowing and would firstly need to be replenished via PWLB borrowing (at rates that we are hoping will be more favourable than current rates), increasing revenue pressures and replenished post usage. Therefore we would merely be storing up the issue rather than addressing the problem.

13.4. We will continue to work collaboratively , internally externally with Budget Scrutiny , partners and other local authorities and government departments, to find an appropriate solution for the sector and from government seek a degree of certainty of any further financial assistance to be provided with the following being priority for consideration as a basis for planning for 2020/21 and beyond:

- The true cost to the Council of responding to the pandemic is underwritten by the government.
- Consider an income equalisation grant which offsets the net reduction in commercial income during the recovery period.
- Roll forward of core funding and one off grants allocated in 2020/21 for 2021/22.
- Protection is required of the core resource base such as business rates (e.g. 100% safety net) and Council Tax (baseline protection).
- To relax the constraints and interest rates for PWLB borrowing – particularly when needing to borrow to replenish reserves, fund essential revenue activities or drive economic recovery in the region.

13.5. It is critical that Bristol remains open for business in driving economic recovery. This will require putting in measures to sustain its services, protecting the most vulnerable and supporting businesses to continue trading alongside promotion and investment in the region. A Council recovery plan to manage costs and prioritise the recovery of key services will be required. Councils have not received an unequivocal response from government that no further financial assistance will be received. Data and additional information is being provided as per governments request and as such we still remain hopeful. However at the earliest opportunity post July 2020 it will be necessary for a report to be taken to Cabinet or Council outlining the scale of budget gap and proposal for resetting the revenue and capital plans (some areas may require consultation), should there be a need for implementation in 2020/21. The relevant forum will be determined by the Policy and Budget Framework and recommendations being sought. It will also be necessary to refresh the Council's Business and Service plans later this year to reflect this impact and to ensure consistency in delivering changing priorities.