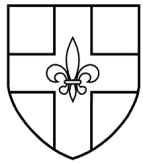


Public Document Pack



CITY OF  
*Lincoln*  
COUNCIL

**Chief Executive & Town Clerk**

City Hall, Beaumont Fee

Lincoln, LN1 1DB

Telephone: (01522) 873387

Facsimile: (01522) 542569

Website: [www.lincoln.gov.uk](http://www.lincoln.gov.uk)

Minicomms: (01522) 873693 - Reception

**TO ALL EXECUTIVE MEMBERS**

**Democratic Services** are dealing with this matter

Direct Line: (01522) 873387

E-Mail: [democraticservices@lincoln.gov.uk](mailto:democraticservices@lincoln.gov.uk)

Date: 6 May 2020

**EXECUTIVE - THURSDAY, 14 MAY 2020**

Dear Councillor,

Further to the previously issued agenda for the Executive meeting of Thursday, 14 May 2020, please find attached the following additional papers.

4. Covid19 - Financial Challenges (Pages 3 - 22)

If you require any further information please feel free to contact me using the information provided above.

Yours faithfully,

Graham Watts  
**Democratic and Elections Manager**

This page is intentionally blank.

**SUBJECT: COVID19 - FINANCIAL CHALLENGES**

**DIRECTORATE: CHIEF EXECUTIVE & TOWN CLERK**

**REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER**

## 1. Purpose of Report

- 1.1 To set out the likely high-level financial challenges arising as a result of COVID19 and the Council's response to this unprecedented financial situation.

## 2. Summary

- 2.1 It is clear that COVID19 is taking its toll on the financial resilience of the Council as income streams are reducing, debt recovery is being deferred and there is a growing necessity to incur costs to ensure services are being provided throughout this difficult period.
- 2.2 In response to calls from the sector the Government have allocated a total of £3.2bn of grant funding to support local authorities. The allocation of the original £1.6bn was very heavily weighted towards social care authorities with District Councils only receiving a small share. The allocation of the second tranche of £1.6bn was based on a higher proportion for District Councils but was based on a per-head basis. This simple form of allocation does not take into account the individual nature of different types of authority, Lincoln with its tight urban boundary, high day time economy and high need population has been severely disadvantaged by this method of allocation.
- 2.3 The Council is currently forecasting a shortfall on the General Fund budget of c£3m in 2020/21 after the allocation of £1m of government grant funding. The Housing Revenue Account is forecasting a £1m shortfall for which no government support has been provided. In response to this we are undertaking a number of urgent actions focusing on:
- Extensive lobbying and media campaign
  - Controls to limit expenditure
  - Repurposing of Vision 2025
  - Emergency Budget
- 2.4 The Council has responded quickly to the current crisis to support our residents and businesses, delivering crucial and much needed services. The council set up local support systems to help the vulnerable and the homeless and have worked at pace to deliver financial lifelines to local business. Whilst at the same time we continue to empty the bins, keep parks open, pay benefits and carry out emergency housing repairs.

2.5 Moving forward into the recovery phase the Council's ability to lead on, finance and support key practical and relevant interventions will be critical to the recovery of Lincoln and Lincolnshire's economy.

### **3. The Council's Response During COVID19**

3.1 The key Priorities during the emerging crisis for the City of Lincoln Council were agreed in early March 2020 as:

- protect the most vulnerable in our city
- supporting businesses
- deliver our public protection/health and statutory responsibilities if we can
- protect our staff and elected members
- provide community leadership to our residents and businesses

3.2 As a Council we identified business-critical services which will ensure the delivery of the above and these are;

- Homelessness/rough sleeping
- Sheltered accommodation
- Lincare
- Emergency Repairs
- Customer Services
- Communications
- Revenues and Benefits
- Bereavement Services
- CCTV
- Parking
- Refuse Collection/Street Cleansing
- Food Safety/Enforcement

3.3 We have utilised the capacity we have available in our workforce to try and continue to deliver these in some form and provide resilience. Over the course of a week in mid March, normal service delivery across all services moved to, limited face to face, vulnerable staff being sent home, new technological solutions being developed, new risk assessments being undertaken, and then on to the current operating model of over 400 staff being given the capability to work and take calls from home. Many staff have been retrained and refocused on critical service delivery.

3.4 In addition, as part of our Community Leadership role we have created new teams to support the community (a new befriending service and community helpline) and a business support service (ensuring grants are paid and appropriate advice is given). Other staff not supporting critical service delivery have provided essential support to ensure businesses have been paid grants, invoices have been paid, advice has been given and the most vulnerable in our City have been supported through our new Community helpline and befriending service.

3.5 Plans are currently being developed within the Council in relation to recovery. Using the learning and transformation from this Emergency situation to create a new normal for how we operate as a Council moving forward.

#### 4. Key Financial Challenges

4.1 The paragraphs below provide a summary of potential financial challenges the Council faces across a number of areas:

- Exceptional costs of dealing with Covid19
- Increased service demand in the short term and long term
- Impact on local taxation
- Loss of income
- Impact on Towards Financial Sustainability Programme
- Impact on Capital Programme

#### 4.2 In year additional costs incurred in dealing with Covid19 and service demand

These costs continue to emerge and be incurred and at this stage cannot yet be forecasted with certainty, however those that we are currently aware of, and where we have an estimated cost are stated as follows:

Cost Pressure	Full Year 20/21 Estimate £
Revenues & Benefits - Increased overtime costs to implement Business Rate Reliefs and LCTS Hardship Scheme as well as responding to an increase in HB claims	12,600
CCTV – Additional shift allowances/overtime	13,000
Homelessness – additional accommodation costs for housing rough sleepers	55,000
Street Cleansing/Refuse – increased fly tipped as a result of reduced enforcement and closure of HWRC	13,000
Community Services – additional costs in relation to open spaces and maintenance of service provision	5,000
Support Cells – costs of establishing Business Support and Civic Society Cells	5,000
External Bodies - financial support being sought from third party organisations that the Council has close working links	235,000
External Bodies – Lincolnshire Community Trust crisis fund	5,000
Health & Safety/Facilities Management – additional costs of social distancing measures and PPE	20,000
<b>TOTAL ESTIMATED ADDITIONAL COST</b>	<b>363,600</b>

In addition to these estimated cost in 20/21, the Council has also incurred £54k in 19/20 following our initial response to COVID19. These costs were primarily in relation to IT infrastructure and services to ensure the majority of our service teams were able to operate remotely. Including these costs results in total forecast costs to the Council of £418k.

#### 4.3 Medium term increased service demand.

Clearly this is an area, particularly with regards to the long term, where the impact of service demands cannot be forecasted with any real accuracy but based on increased service demands following the last recession, there is likely to be:

- An increase in homelessness cases and demands on the Housing Solutions Team in both the short and long term.
- An increase in demand for, and the cost of, those eligible for the Local Council Tax support scheme in both the short and long term.
- A longer term impact on the Council's pension fund contributions.
- An increase in demands on the Customer Services Team and Welfare Advice Team as more customers rely on the Council's Services in the longer term.
- An increase in contributions required to the bad debt provisions.
- The impact on the local economy and demand for services

These areas will play a key factor in the development of the future years budgets and MTFS 2021-26.

#### 4.4 Loss of income

The most significant pressure facing the Council during 20/21 is the plummeting loss of income across a range of discretionary services as well as through our investments and rental streams. The Council's reliance on local income streams has increased significantly in recent years as Government funding has reduced through austerity measures and we have had to be more self-sufficient and secure our own funding sources.

The table below sets out some very high level, initial estimates of what the income losses could be, currently in the region of £3.6m. At this stage though it is not possible to forecast these with any accuracy and they will ultimately be impacted by the length of the lockdown and phased recovery period and the local and national economies ability to recover. It is expected that some of this lost income will be impaired permanently and will never recover to previous levels. Actual income will be closely monitored alongside performance/usage information. These key income areas are as follows:

Income Area	2020/21 Budget £'000	Months 1-3	Months 4 -12	2020/21 Budget Impact £'000
		Realistic Impact	Realistic Impact	
Car Parks	5,996	100%	25%	2,624
Development Management inc Land Charges	547	50%	40%	232
Building Control	211	50%	40%	90
Licensing	126	20%	0%	6
Hackney Carriages & Private Hire	122	20%	5%	11
Markets	219	20%	10%	27
Investment Property/Rental Income	3,579	20%	5%	313
Leisure Services	85	100%	20%	34
Green Waste	648	0%	5%	24
Treasury Investment Income	89	25%	70%	52
Enforcement Officer	25	100%	0%	6
Public Conveniences	32	100%	0%	8
Community Centres & Rec Grounds	81	100%	0%	20
Bus Station	133	70%	15%	38
Visitor Information Centre	146	100%	10%	47
Hartsholme Country Park	75	100%	25%	41
<b>TOTAL INCOME AT RISK</b>	<b>12,114</b>			<b>3,572</b>

#### 4.5 Impact on Local Taxation

In the current financial year there will be there no direct budgetary implications of any reductions in Council Tax or Business Rates bases due to the operation of the Collection Fund with pre-set precepts which must be distributed to the General Fund and major preceptors (LCC, PCC and Government).

There will however be cash flow implications during the current financial year as a result of:

- Reduced NNDR collected due to the application of new reliefs, c£27m
- Reduced NNDR collected due to cancelled DD's from businesses experiencing financial difficulty or those ceasing to trade – these are likely to be seen later in the financial year
- Reduced CT collected due to an increase in LCTS applications – as at the end of April there had been 280 new claims increasing the scheme cost by £265,567 (this is shared between all major preceptors)
- Reduced CT collected due to cancelled DD's and missed payments by customers experiencing financial difficulty – as at the end of April there were 1,602 less payments than in the same month last year (this includes 556 payments deferred until later in the financial year).

- As at the end of April the Council Tax in collection rate was 9.85% which is 0.22% below the same period last year.
- The collection rate for NNDR was 14.54% which is 0.47% higher than the same period last year. However due to the fact over £27m of relief has been awarded to approx. 1,000 accounts this collection rate is masking an increase in outstanding payments from those accounts that still have a balance to pay.

The Government have recognised this cash flow impact and have; released a number of grants upfront in 2020/21; deferred the first three months of payment of the NNDR central share; and have stated that they will pay the full share of the new NNDR reliefs to District Councils and will only reconcile and allocate to the County Council and Government at the end of 2020/21. However this cash for the new reliefs is not expected to be received until mid-May and will be made by monthly instalments.

The Council is not currently anticipating any shortages in its cashflow, however this is kept under constant review.

Beyond 2020/21 there will be a budgetary implication for both Council Tax and Business Rates. It is likely that a significant deficit will be declared in January 2021 for both funds which will need to be absorbed in 2021/22. The level of this deficit will depend on; how much the underlying NNDR base reduces during the year due to, businesses ceasing to trade, and the in-year collection rate, as well as how much the LCTS scheme increases in claimant numbers and the in-year collection rate. As well as the distribution of the deficit there is also likely to be an ongoing reduction in the bases which will reduce resources from 2021/22 onwards.

The Government have provided £1.2m by way of a CT Hardship fund which will mitigate some of the pressures on the Collection Fund but it is currently unclear whether this will be sufficient to compensate the Council and is only for one financial year. It does also not compensate for the increase in LCTS claimant numbers.

#### 4.6 Impact on Towards Financial Sustainability Programme

The current MTFs 2020-25 was approved on the basis that £500k of savings were required to be delivered in 2020/21, increasing to £850k in 2021/22 and £1.25m from 2022/23 onwards.

Based on a high-level assessment of the planned programme it is estimated that approximately £340k of savings could still be delivered through deletion of vacant posts, hours and securing contract savings. This would leave a cost pressure of £160k in 20/21. Beyond 20/21 the programme will also be impacted as many of the review/projects take time to develop and implement so steps not taken now will impact in the medium term.

#### 4.7 Housing Revenue Account (HRA)

The paragraphs above show additional costs and income pressures in relation to the General Fund, the HRA too faces financial pressures primarily through income loss. The key income pressure being rental income which will be impacted by both



the in-year collection rates as well as loss of income due to voids which can't currently be let.

Unlike Council Tax and Business Rates the loss of Housing Rents will be borne in the current financial year. Although the Council is able to apply both Discretionary Housing Payments and the new Discretionary Housing Rents Hardship Fund (£100,000 has been allocated from earmarked reserves) it is unlikely that this will be sufficient and there will be an increase in the level of rent arrears in year.

A range of modelling scenarios of the likely level of arrears that may arise in year have been developed which, show that if the current social distancing remains in place until the end of June, arrears will increase from their current level of £825k to c£1.552m, an increase of £727k. Although a provision for bad debts is made each year there is unlikely to be sufficient provision set aside for an increase in arrears of this level. An increase in provision, at a direct cost to the HRA, of a similar amount to the increase in arrears would be required at the end of the financial year.

In addition, based on the number of void properties which are currently unable to be re-let it is estimated that a further loss of rental income of c£50k could be experienced.

#### 4.8 Impact on the Capital Programmes

The Council has a number of capital schemes that were either on site or in the process of commencing, across the General Investment Programme (GIP) and Housing Investment Programme (HIP). Key schemes include:

- De Wint Court – contractor had left site, returned 4<sup>th</sup> May.
- Markham House – contractor had left site, returned 4<sup>th</sup> May.
- Demolition works at QER – works had no yet commenced.
- Boutham Park Lake – works not yet commenced

In addition, there are a number of ongoing capital work programmes, primarily the decent homes programme, Lincoln Standard and Health & Safety works in the HIP and the planned maintenance programme in the GIP.

Each of these schemes and programmes will now be delayed and will have implications specific to each scheme, including:

- Risk to external funding from Government Departments and external partners e.g. NHLF, HE and MHCLG e.g. 1-4-1 receipts
- Risk of increased cost due to time delays and inflationary costs.
- Claims for compensation events under the Force Majeure clauses in live construction contracts
- Potential for survey works and investigations to expire and need to be redone.
- Impact of economy in the longer term and the housing market effecting the viability of schemes that are currently at feasibility stages.

Each scheme is currently being individually assessed to understand the full financial implications, again some of which will not be known with certainty in the short term.

#### 4.9 Other considerations

Beyond the current financial challenges set out above there remained a question over the timing of the Spending Review, the Fair Funding Review and the new Business Rates Retention Scheme implementation. It would seem highly unlikely that these could now be progressed with sufficient time for implementation in 2021/22. Additionally, the implications for implementing a revised business rates model at a time when there has never been more uncertainty in business rate forecasts cannot be underestimated.

In response to calls from the sector for these reviews to be delayed the Government have recently announced that the Fair Funding Review and the implementation of 75% Business Rates retention will no longer be implemented in 21/22. However, the announcement also explained that the Government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 21/22 local government finance settlement. This leaves a number of unanswered questions primarily whether or not the planned reset of the system will go ahead and only serves to increase the financial uncertainty.

### 5. **MHCLG Financial Support**

- 5.1 Whilst there are a significant number of unknowns at this stage, some of which will not be known for a number of months, possibly into 21/22, what is certain is that the Council faces an unprecedented financial shortfall in 20/21.
- 5.2 To date the financial support (other than cashflow) that has been provided by the Government totals £1,050,718 for the COVID19 grant and a further £20,250 for the Rough Sleeping grant. This pales into insignificance when compared to the amount of financial pressures the Council is facing.
- 5.3 The allocation of the £1,050,718 was undertaken in two phases. The first allocation saw the weighting of funding heavily towards social care authorities with the Council receiving an allocation of only £67,175. Following a significant amount of lobbying by District Councils, the second allocation had a greater weighting towards them with a 65:35 split between County and District. However, fundamentally, this was allocated on simple flat per-head amount resulting in an allocation to the Council of £983,543.
- 5.4 Although the increase in funding directed towards District Councils was welcomed it does still not address the significant income pressures that the Council is facing. Nor does it reflect the differences and individual nature of each council and allocate resources on a fair and proportionate basis. This simple basis of allocation makes no sense as each council is individual and draws income in different ways. As a City Council with a tight urban boundary and small population but with a much larger travel to work and visitor catchment area and with the problems such as homelessness associated with an urban area, allocating resource on a per-head basis does not account for the income losses we are forecasting, which are driven

by the commuter and visitor economy; and our higher need nature impacting on the costs incurred. Future allocations should be based on need, supporting those towns and Cities, like Lincoln, where there is the greatest economic pain.

- 5.5 The MHCLG have been collating evidence and examples, from Treasurers Societies, individual authorities and through an all local authorities data collection exercise, to capture cost and income pressures. We submitted our own response to both the MHCLG and LGA as well as completing the data collection exercise in order to lobby for further financial support and to highlight the plight of District Councils. It is understood, from analysis by the LGA, that the level of expenditure and income losses reported in the exercise was 3 to 4 times higher than the funding that has been provided to the sector so far. A further data collection exercise by MHCLG is being undertaken in early May, which we will respond to, this will be critical in strengthening the sectors case for additional resources. Further details of the Council's lobbying response are set out in paragraph 6.3 below.
- 5.6 To date there has been no financial support provided by Government for HRA's, we must therefore continue to include the pressures the HRA faces in any lobbying and in any financial impacts that are provided.

## **6. Proposed Mitigation**

- 6.1 Facing costs and income losses in the General Fund of c£4.1m and with Government funding of £1.1m leaves the Council facing an in-year budget shortfall of £3m. The level of this shortfall could have catastrophic consequences for the Council, its services and the City.
- 6.2 In response the we have embarked on a number of urgent actions;
- Extensive lobbying and media campaign
  - Controls to limit expenditure
  - Repurposing of Vision 2025
  - Emergency Budget
- 6.3 Lobbying Campaign  
The Council had, following allocation of the initial grant of £67k, lobbied MHCLG for further funding for the sector as a whole and for recognition of the income losses being borne by District Councils. This lobbying was undertaken alongside the other Lincolnshire District Councils. In response to the latest allocation of funding we are now embarking on our own lobbying campaign to clearly set out the Council's position as one of the 'outlier' districts who are unfairly disadvantaged by the use of a per-head allocation.
- 6.4 We are working with the Society of District Council Treasurers and the District Council Network to identify other 'outliers to strengthen our joint case. A letter to the Secretary State for CLG has been submitted, as attached at Appendix A. This has also been submitted to the LGA, SDCT and DCN in order to act as a case study and example to be used in their discussions with the MHCLG. In addition a letter has also been sent to the Council's key partners in order to gain their support for our campaign.

- 6.5 In response to the letter to the Secretary of State a discussion with the Ministry's Finance Director has now been scheduled for 6<sup>th</sup> May. A further update will be provided on the outcomes of these discussions.
- 6.5 Alongside this the Council will continue to work alongside the other Lincolnshire Councils to lobby for further funding for the sector as a whole.
- 6.7 Expenditure Limits  
Although the Council is determined to make the case for further resource, and for this to be allocated on a more 'fair' basis, further funding from the Government cannot at this stage be guaranteed. As a precursor to an Emergency Budget the Council must therefore exert some controls over the expenditure that it is incurring in order to limit its budget shortfall.
- 6.8 This requires at this first stage, consideration by all budget holders as to whether expenditure being incurred is absolutely necessary, if it can be deferred or if an alternative is available. This will not though impact on the delivery of the Council's statutory and critical services as well as its new support cells for Business Support and Civic Society. We will also need to reflect on the level of grant support that we currently provide to external organisations to consider whether, given other funding and support that they are being provided with and the level of their current activities, it still justifies the current level of financial support. This will also apply to any requests for additional funding that we are receiving from such organisations at this time. We will also need to consider the implementation of a vacancy freeze, at the moment there is little active recruitment being undertaken due to the lockdown restrictions.
- 6.9 Looking ahead beyond this first stage of expenditure control there may be future, new, essential, costs that need to be incurred to preserve income streams, e.g. asset maintenance and enhancement. As it will be critical to maintain income streams wherever possible there may be a requirement to reallocate some budget areas to resource the required investment.
- 6.10 Vision 2025  
In terms of the Council's Vision 2025, which unfortunately was never fully launched, a short piece of work is now being undertaken to repurpose it and the key projects which will now need to focus on the recovery of the Council and the City.
- 6.11 The economic recovery of the City will require the established strong local partnerships and strategic community leadership of the Council to continue to work effectively, which includes the Council leading on, financing and supporting key practical and relevant interventions. The economy depends upon the pipeline projects that are either already underway or in development being delivered, this includes the Council's support of the construction sector with new Council house building, opening up of the 3,200 home sustainable urban extension, accelerated growth of the digital sector and business digitalisation, city living and key worker housing as part of the continued transformation of the city centre, the opportunities from the Medical School currently under construction and many more. Lincoln's ability to maximise the opportunities proposed by the Town Fund, Homes England funding, digital and infrastructure funding and the remnants of European funding depends on the Council being able to lead that partnership, provide match funding and co-ordinate delivery.

- 6.12 In terms of the Council's own recovery this will focus around the One Council programme, some areas of which have been accelerated as a result of the COVID19 situation, leapfrogging many of the original obstacles. We will now use this learning and transformation to create a new normal for how we operate as a Council moving forward. Alongside this will be the Towards Financial Sustainability Programme which will need to be reviewed in light of the severe financial pressures both in the current financial year but also over the medium term.
- 6.13 The cumulation of these two areas of repurposed focus will be reflected in an Annual Delivery Plan for 20/21.
- 6.14 Emergency Budget  
Dependent on the outcome of the Council's and Local Government's lobbying for further financial support for the sector as a whole there will be a need for the Council to consider an Emergency Budget. This would reflect the additional cost pressures and incomes losses for 20/21 as set out above and would need to identify resources to finance this budget shortfall.
- 6.15 The Council would have no option other than to identify the use of general and earmarked reserves in the General Fund to resource this shortfall. The Council holds general balances, which can be called upon to manage fluctuations between financial years and to ensure that an overall balanced budget is maintained. These should not be used for day to day expenditure and it is important that they are replaced when the short-term need has passed.
- 6.16 As at quarter three 19/20 budget monitoring the level of General Fund general reserves, forecasted for 31.03.20, was estimated to be £2.184m, this will of course be subject to the final outturn position which may have deteriorated during March. Over the period of the MTFS 2020-25 this balance is forecast to reduce to £1.645m (or potentially lower dependent on the 19/20 outturn). The Council could look to use some of this general reserve however this would only be a short-term measure and would increase the requirement to deliver future savings in order to replenish the reserve in the future, in order to main it at an acceptable level.
- 6.17 In addition to general reserves the Council also holds a number of specific earmarked reserves, these are monies set aside to resource; future transformation programmes, investment in assets, strategic delivery programmes, volatility reserves, un-ringfenced grant allocations etc. Some examples of these include:
- Insurance Reserve
  - Bus Station/Car Park Asset Replacement
  - Business Rates Volatility Reserve
  - Invest to Save Reserve
  - Vision 2025 Reserve

Whilst the Council could look to use these reserves to meet the budget shortfall this would leave us in the position of reducing reserves to unacceptably low levels with; no future financial resilience to cushion any further financial pressures; no ability to support the recovery of the City's economy; and with no funds to resource future investments.

6.18 In short if we were to use these general and earmarked reserves, to the level currently required to meet the estimated budget shortfall, the level of reserves would be seriously depleted and inadequate. This could result in the Council being unable to meet expenditure requirements in future years and require the consideration of a Section 114 notice to be issued (further details of a S114 are set out in paragraph 8.2). It is therefore critical to the Council that further financial support is provided by the Government.

6.19 In terms of the Housing Revenue Account although it holds general and earmarked reserves, (general reserves are forecasted to be £1m as at 31.03.20), these are a much lower level than the General Fund. An alternative for the HRA would be to reduce the revenue contributions it makes to the capital programme. This isn't without consequences and will reduce the level of resources required to support the 30-year Business Plan, reducing the investment in maintaining existing Council dwellings as well as investment in the New Build Programme.

## 7. Strategic Priorities

7.1 The MTFFS underpins this policy and financial planning framework and set out the overall framework on which the Council plans and manages its financial resources to ensure that they fit with, and support, the direction of the Council's vision and strategic priorities. Vision 2025 identifies the Council's strategic priorities, setting the vision and direction for the council and the city for the next five years.

## 8. Organisational Impacts

### 8.1 Finance

The content of this report sets out the high-level financial challenges, as can currently be identified, that the Council faces over the short and medium term. Although the estimated budget shortfalls set out in the report are for the current financial year, 20/21, the impact on future years budgets and delivery of a sustainable Medium Term Financial Strategy should not be overlooked.

The Council has never before faced such a high level of risk to its financial sustainability. In the absence of any further resources to be allocated by the Government it may be necessary to issue a Section 114 notice on the Council, if not at the point of the Emergency Budget being approved then certainly at the point of setting the 2021/22 budget in March 2021.

### 8.2 Legal Implications including Procurement Rules

The Local Government Finance Act, 1988 places certain responsibilities on the Chief Finance Officer, namely Section 114 (3): "*The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.*"

This Section 114 notice, therefore, has serious operational implications. Full Council must meet "*not later than the end of the period of 21 days beginning with*

*the day on which copies of the report are sent*" (Section 115 (3) of the local Government Finance act 1988) to consider this notice.

The S114 Notice had a specific aim: to prompt action to attempt to avoid a negative General Fund balance. In order to achieve this the order bans all new expenditure, with the exception of safeguarding vulnerable people and statutory services

### 8.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

## 9. Risk Implications

9.1 The Council's Medium Term Financial Strategy includes a comprehensive risk assessment which highlights the Council's dependency on discretionary income streams. Although this is highlighted as an amber risk for 20/21 and a red risk for future years the onset of the COVID19 pandemic and the implications across all discretionary income sources is not something that could have reasonably been contemplated.

The risks to the Council's financial sustainability are as set out in the report.

## 10. Recommendation

10.1 The Executive are asked to:

- a) note the significant financial challenges that the Council faces;
- b) endorse the urgent actions that are being undertaken in response to this, and;
- c) task officers to develop further these actions and options for consideration, as part of an Emergency Budget, if no further financial resources are forthcoming from the Government.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** No

**How many appendices does the report contain?**

One

**List of Background Papers:**

None

**Lead Officer:**

Jaclyn Gibson, Chief Finance Officer  
Telephone (01522) 873258





CITY OF  
*Lincoln*  
COUNCIL

The RT Hon Robert Jenrick MP

Secretary of State for Housing,  
Communities and Local Government

Ministry of Housing, Communities and  
Local Government

**Leader of Council**

Councillor R J A Metcalfe  
City Hall, Beaumont Fee,  
Lincoln, LN1 1DB

Direct Line: (01522) 873297

PA Direct Line: (01522) 873286

Our Ref: Financial allocation

Your Ref:

Date: 01/05/2020

Dear Secretary of State

As we are all aware, in response to calls from the sector, the Government have recently announced a further tranche of £1.6bn of grant funding to support local authorities. This is in addition to the £1.6bn announced in March and included a larger share for district councils.

However, although this financial support is to be welcomed, the allocation of these resources to individual authorities does not reflect sufficiently the burdens that are being felt by the different authority types and is woefully below the financial losses that the City of Lincoln Council is experiencing.

Based on this latest allocation, just over £1m has been awarded to the Council to help maintain services and cover loss of income as a result of the UK's coronavirus outbreak.

Covid-19 has taken its toll on the financial resilience of the Council as our income streams reduce, debt recovery is deferred and there is a growing necessity to incur costs to ensure services are being provided throughout this difficult period.

As a result of this, we estimate that a further £3.5m is needed from government in order for the authority to fully recover following the pandemic.

The most significant pressure facing the council during 20/21 will be the plummeting loss of income across a range of discretionary services as well as through our investments and rental income streams. Car parking income alone has fallen from £115k a week to £1k a week, over £1.5m will be lost within 3 months.

Our tourism, leisure and development management income streams are also severely affected. We expect some of this lost income to be impaired permanently and will never recover to previous levels. The Council's reliance on local income streams has increased significantly in recent years as Government funding has reduced through austerity measures and we have had to be more self-sufficient and secure our own funding sources.

As an example one of our national hotel chain tenants is seeking a rent reduction from us in the region of £800k over the next two years and that is after they have accessed Government support.

In terms of costs, demand for some services for those most vulnerable is increasing, such as homelessness and helping people access benefits. As an urban centre and with high levels of deprivation the demand for these services is on a normal basis significantly higher than in more rural areas and is even more so at this current time. While the additional Rough Sleeper grant of £20,000 was welcome, it only covers a fraction of the additional costs.

In addition we are having to meet the additional cost of setting up our response cells as well as a rising demand for financial support from many of the charity, voluntary and community groups we already support. At the same time as these costs are increasing the Council's other costs are not reducing. We have been discouraged from accessing support available to businesses through the furlough scheme, but we are now left with very little choice but to pursue this route.

Going beyond the current financial year it is inevitable that council tax and business rates income will fall. The level of this reduction will depend on; how much the business rate base reduces during the year due to businesses ceasing to trade and the collection rate (for those not eligible for the new reliefs); and how much the claimant numbers for the local council tax support scheme increase. The Council has already seen over 200 new claims for Local Council Tax Support in the first month and with a low paid, predominately low skilled population and higher than average levels of deprivation, this is set to increase significantly.

The recent announcement that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021 is welcomed but the open ended statement that "the government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth" does not provide any further comfort that our resources will not be taken and redistributed and only serves to increase the financial uncertainty.

After bearing the brunt of a decade of austerity, (since the period of the last Spending Review alone, the Council's Core Spending Power has reduced by 15.2% in comparison to the national average of a 10.1% increase) and having to make over £8.5m of budget reductions over that time, our ability to deal with the current crisis is precarious to say the least.

With Government funding of just over £1m and forecast costs/losses in the region of £4.5m the Council is now left in the position that if further funding does not become available, then we will be forced to look closely at the services we provide and will inevitably have to stop some of these in order to balance our books. The impact of which could be catastrophic for the city.

The Council has responded quickly to the current crisis to support our residents and businesses, delivering crucial and much needed services. We have set up local support systems to help the vulnerable and the homeless and have worked at pace to deliver financial lifelines to local business. Whilst at the same time we continue to empty the bins, keep parks open, pay benefits and carry out emergency housing repairs.

We have used our resources with the promise from government that funds would be replenished, however, following the latest allocation announcement, this is not happening. It is extremely disheartening to hear that the hard work and commitment to this magnificent city and its community are not being as recognised by the government as had been hoped and expected.

Moving forward into the recovery phase the council is best placed to drive and support our local economy through; delivering the homes and infrastructure our communities need; stimulating growth and jobs; providing and enhancing the support systems to our vulnerable residents; tackling climate challenge and ensuring we continue to enhance our remarkable City. The Council's Vision 2025 ( attached ) was already focussing on these priority areas and will now be repurposed to target these priorities in new ways to lead and bolster the City's economic recovery.

Lincoln is the economic powerhouse of the broader Lincolnshire economy, attracting residents, students, visitors, shoppers and businesses to not only the city but then dispersing some of them to the surrounding area.

An independent review of the economy's performance shows that between 2012-2018, Lincoln created an average of 874 new jobs per annum against a baseline target of 175 new jobs. In just 6 years Lincoln has seen job growth of 5,244 which is 25% above its target for a 24-year period. A further 1,000 jobs per annum have also been created in the area immediately surrounding the City demonstrating the economic impact of the city's offer beyond its boundaries. This economic growth has been the result of partnership investment in key sectors, infrastructure, housing and key regeneration/economic development schemes such as the Lincoln Science & Innovation Park and city centre redevelopment. Growth in tourism, digital & knowledge based companies, manufacturing and business administration have been the highest employment generators.

The Council itself has been at the forefront of this investment in the offer of the city based on the needs and asks of the broad community. The city centre has been bucking national trends in terms of redevelopment, attracting new national and independent retail, leisure and hospitality brands supported by investment in a transport hub that has been instrumental in securing that investment. The strength of the Lincoln economy and its role across the County in the past 8 years is there to see.

Lincoln and Lincolnshire's economic recovery will require the established strong local partnerships and strategic community leadership of the Council to continue to work effectively, which includes the Council leading on, financing and supporting key practical and relevant interventions. Our economy depends upon the pipeline projects that are either already underway or in development being delivered, this includes the Council's support of the construction sector with new Council house building, opening up of the 3,200 home sustainable urban extension, accelerated growth of the digital sector and business digitalisation, city living and key worker housing as part of the continued transformation of the city centre, the opportunities from the Medical School currently under construction and many more. Lincoln's ability to maximise the opportunities proposed by the Town Fund, Homes England funding, digital and infrastructure funding and the remnants of European funding depends on the Council being able to lead that partnership, provide match funding and co-ordinate delivery.

The city's economic recovery is now under threat, Lincoln's economy cannot survive without the City Council and we cannot survive and lead on the recovery if we do not have the funding certainty now. Without further financial support from the Government the Council will be forced to retreat from the current support we are providing and our future planned interventions, and focus our efforts solely on our financial survival.

We do not want to be in a position of freezing expenditure in the midst of a crisis or reducing our support to our residents and businesses who need us now more than ever. However, the Council has a statutory responsibility to issue a Section 114 notice if it's budget is imbalanced and the risk of this remains real, if not within the early part of this financial year, we have no confidence that we will be able to balance the budget, with sufficiently resilient levels of reserves, next year.

We ask that the Government give urgent consideration to further packages of financial support and that the allocation of any further resources more accurately reflects the very real pressures to income and expenditure the City of Lincoln Council is facing.

The initial £1.6bn of Government funding was heavily weighted towards social care authorities with district councils only receiving a share of £200m, allocated on the basis of the 2013/14 Settlement Funding Assessment. The latest allocation has been based on a simple flat per-head amount and then split between two tier areas.

Despite this second allocation resulting in an increase in the share of funding to district councils, up from 1% to 13% with the average allocation increasing from £51k to £1.1m, it does still not address the significant income pressures that the City of Lincoln Council is facing. Nor does it reflect the differences and individual nature of each council and allocate resources on a fair and proportionate basis. This simple basis of allocation makes no sense as each council is individual and draws income in different ways. The Government needs to reconsider how it allocates any future allocations that may be forthcoming.

As a City Council with a tight urban boundary and small population but with a much larger travel to work and visitor catchment area, almost twice as many people visit the city during the daytime as live here, and with the problems such as homelessness associated with an urban area, allocating resource on a per-head basis does not account for the income losses we are forecasting which are driven by a commuter and visitor economy and our higher need nature impacting on the costs we incur.

We are asking for an urgent structured conversation with the Government about providing further financial support so that we can recover quickly and effectively to ensure our city remains a great place to live, work, visit and invest in.

We would also ask that consideration is urgently given to other flexibilities and support including:

- Financial support for Housing Revenue Accounts, they are facing real pressures in the form of rising rent arrears and loss of rental income through current void properties. To date no specific financial support has been provided that can be attributed to the HRA's.
- A temporary lifting of the restriction, through the Prudential Code, to allow borrowing to be undertaken for revenue purposes and for this to be provided through the PWLB at discounted rates. Access to such funds would, in the absence of further Government funding, allow us to borrow and spread the impacts of our financial losses over a number of years.
- A new capitalisation directive, similar to the treatment of the lost income on investments made in Icelandic Banks, to allow income losses to be spread over a number of years and financed through the delivery of service reductions allowing crucial time for these to be implemented.
- A fast-tracking of other Government grant schemes and a loosening of grant conditions and delivery timescales to allow resources to be pumped back into our City's economy to kick start it's recovery, e.g. Towns Fund, Local Authority Accelerated Construction etc.
- An implementation of the consultation proposal to see the timeframe for the spending of Right to Buy receipts extended from three to five years.

I would welcome a very urgent conversation

Yours sincerely



**Cllr Ric Metcalfe**  
**Leader of Council**

