



City of Westminster

## Policy and Scrutiny

**Meeting or Decision Maker:**

Finance, Planning & Economic  
Development Committee

Cabinet Member for Finance and  
Council Reform

**Date:**

9<sup>th</sup> March 2023

**Classification:**

General Release

**Title:**

The ongoing impact of Covid-19 on  
Council Finances

**Wards Affected:**

All

**Policy Context:**

Corporate Finance

**Key Decision:**

N/A

**Financial Summary:**

**Report of:**

Gerald Almeroth – Executive Director of  
Finance Resources

## 1. Executive Summary

- 1.1. This report summarises the financial impact of the Covid pandemic on Westminster City Council.

## 2. Recommendations

- 2.1. That the committee note the content of the report

## 3. Background Including Policy Context

### National Impact of Covid-19 on Local Authorities

- 3.1. The Covid pandemic had a significant impact on the finances of local government across the country, with substantial increases in expenditure and falls in income, especially from sales, fees and charges and commercial activity.
- 3.2. The Institute for Fiscal Studies (IFS) issued a briefing note in January 2022: *“Looking back to look forwards: what can we learn from data on the impacts of COVID-19 on councils in 2020–21?”*. Their key findings were<sup>1</sup>:
  - i) Councils’ net expenditure on Covid related (non-education) services increasing by around £4.1 billion.
  - ii) The scale of changes in expenditure and SFCs income across service areas varies significantly. Relative to what one might have expected in the absence of the pandemic, central and other services (+£1.3 billion), adult social care services (+£0.9 billion) and highways and transport (+£0.8 billion) saw the biggest increases in net expenditure. The first two were largely driven by higher gross expenditure, while the last was driven overwhelmingly by lower sales, fees and charges (SFCs) income, especially from parking.
  - iii) Public health also saw a notable increase in gross expenditure and culture and leisure services a big fall in SFCs income. In contrast, spending on children’s social care services increased by somewhat less than might have been expected.

There was also significant variation in changes in expenditure and income across councils. The median council saw its per-capita net spending on services increase by 14.7% year-on-year, but a fifth of councils reported an increase in spending of over a third. Nine in ten

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- <sup>1</sup> [https://ifs.org.uk/sites/default/files/output\\_url\\_files/BN337-Data-impacts-on-councils.pdf](https://ifs.org.uk/sites/default/files/output_url_files/BN337-Data-impacts-on-councils.pdf)

councils saw their total income from sales, fees and charges fall, with the median change being a fall of 18%.

- 3.3. A further report from the IFS identified that council tax shortfalls were most notable in London, the North East and North West, where in the first half of the 2020–21 fiscal year receipts actually fell year-on-year by 1.4%, 1.3% and 0.2% respectively<sup>2</sup>. The City of Westminster saw the full year fall of 5.6%.

### **Covid-19, Lockdowns and the Impact on the Council's Finances**

- 3.4. The broad impacts noted in the IFS report were also felt in Westminster. The lockdown led to social distancing and the closure of many buildings, with people instructed to work from home if they could. The impact of the lockdown on the Council and its finances was three-fold:

- reduced income from lower footfall in the City
- increased expenditure to support our most vulnerable residents
- extra funding from the government to offset many of the financial pressures councils were facing.

### Westminster's Response to the Pandemic

In the first year of the pandemic the Council put in place a wide range of support for residents and businesses across the City. Key areas were:

- The mortuary team facilitating research-based post-mortems with St Mary's Hospital, contributing to our understanding of the virus and aiding the fight against Covid-19.
- Working alongside partners to develop and implement just under 100 public realm schemes.
- Supporting over 1,000 businesses in the hospitality sector through fast tracking licensing applications and pavement licences when the City reopened in April 2021.
- Supported 22,000 shielding residents through Westminster Connects phone calls and signposting; delivered 80,000 meals to those in need and registered 4,000 volunteers on our platform.
- Accommodating 266 individuals in the first phase of the 'Everyone in' programme, and then successfully moving on over 75% from hotel accommodation. The council had placed over 800 individuals in emergency accommodation as a result of Covid-19 since March 2019.

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<sup>2</sup> [Employment, income and council tax during the COVID-19 crisis: a geographical analysis and implications for councils | Institute for Fiscal Studies \(ifs.org.uk\)](#)

- Successfully negotiated the first major phase of reopening the City.
- Significantly engaged/supported over 12,000 businesses and WCC delivered or commissioned business support programmes.
- Provided business rates relief to businesses

The Council continued to adapt its response to the pandemic as it evolved in 2021/22 by:

- Supporting residents – the Council continued working proactively with partners to support vulnerable residents
- Volunteering opportunities – an interactive map on the Council website provided details of local organisations that were assisting residents through COVID-19, the kinds of support they offer, and how to get in touch
- Hybrid Council meetings had been taking place to maintain open and transparent decision making. During 2021/22, the regulations changed to continue to allow hybrid meetings, but decision-making must be by members in physical attendance at their Committee.
- COVID-19 pages on the Council website were updated daily and provide further information.
- The Council's Internal Audit service had worked with the Council to ensure that awareness of fraud risk and appropriate systems of governance and internal controls had been maintained despite the changes in processes necessary to provide local people and businesses with rapid and effective support. Internal Audit assurance that Covid-19 funding provided by the Government has been used for the purpose intended, continued into 2021/22 in respect of Income Compensation Claims, Protect and Vaccinate and Rough Sleepers. Some of this work will continue into 2022/23.

### [Financial Impact of the Pandemic](#)

3.5. The financial impact of the pandemic on Westminster was considerable whereby the Council had:

- incurred additional costs supporting the most vulnerable people in the community;
- been negatively impacted by reduced economic activity in the City which has led to significant reductions in income from sales, fees and charges, and;
- needed to review and delay saving proposals that are no longer considered deliverable.
- This is summarised in the table below:

2020/21 Outturn	
Item	£m
Income Variance	49.194
Expenditure Variance	11.874
<b>Total Variance</b>	<b>61.068</b>
General Covid Grant	(29.210)
SFC Compensation	(28.007)
<b>Net Variance (funded by unallocated reserves)</b>	<b>3.851</b>

3.6. The biggest impact on the Council's financial position was due to reductions in income. In 2020/21 the variance based on the largest income streams was £49.1m. However, a number of income losses were mitigated by the Government's 75% Sales, Fees and Charges (SFC) compensation scheme through which the Council received £28m to cover 2020/21. The table below outlines the income variances:

3.7. A summary of the Council's top income variances in 2020/21 can be found in the table below:

ELT	Major Income Streams with Losses	Full Year Budget £m	Full Year Actuals £m	Full Year Variance £m	Full Year Variance %
Environment and City Management	Parking - Paid for Parking	39.866	30.456	9.410	-23.60%
Environment and City Management	Parking - PCNs	19.912	12.473	7.439	-37.36%
Environment and City Management	Parking - suspensions and dispensations	23.092	18.643	4.449	-19.27%
Environment and City Management	Parking - Resident Permits	4.471	4.491	-0.021	0.47%

Environment and City Management	Commercial Waste	18.199	7.684	10.515	-57.78%
Environment and City Management	Licensing (top two income streams)	3.65	1.641	2.009	-55.04%
Environment and City Management	Road Management	8.81	8.644	0.166	-1.88%
Environment and City Management	Leisure Services	5.974	0.113	5.861	-98.11%
Children's Services	Registrars	2.302	1.261	1.041	-45.22%
Growth, Planning & Housing	Planning	7.336	4.867	2.469	-33.66%
Innovation and Change	City Promotions, Events and Filming	4.704	0.83	3.874	-82.36%
Other Corporate Directorates	Local Land Charges	1.794	1.105	0.689	-38.41%
Finance and Resources	Property Income - General Fund	30.333	30.946	-0.613	2.02%
Finance and Resources	Court costs recovery income	1.908	0	1.908	-100.00%
	<b>Total</b>	<b>172.349</b>	<b>123.155</b>	<b>49.194</b>	<b>-28.54%</b>

3.8. In 2021/22 there were a further £20m of income losses – in comparison to pre covid budgets. This was against a range of income sources but the largest variances were in parking, leisure, waste and planning.

3.9. Over the two years of lockdowns the Council lost approximately £70m in income from sales, fees and charges.

## SFC Compensation Scheme

- 3.10. The Government reimbursed authorities for 75% of Covid-related income losses in 2020/21 and 2021/22 (after the first 5% of losses is absorbed by local authorities). To qualify, income losses must have been related to the delivery of services. The compensation scheme excluded commercial and rental income.
- 3.11. The Council received £28m of government support for 2020/21. A further £2.4m was received in 2021/22 from the SFC compensation scheme.

## Business Rates and Council Tax (Collection Fund)

- 3.12. Council Tax and Business Rates are the Council's largest income sources, and the Council has a responsibility to collect on behalf of the GLA and government. It collects and recognises in its account the following:
- Gross Council Tax (including GLA share): £98m
  - Gross Business Rates (after retail relief given by government during COVID): £2.4bn – approximately 10% of the business rates collected nationally. The largest for any billing authority.
- 3.13. Compensation (known as s31 grant) covered losses in the Collection Fund but is recognised in the General Fund upon receipt. However, due to accounting regulations Collection Fund losses are realised the year after they occur. Therefore, this increased earmarked reserves by £361m in 2020/21, which is then used over three years from 2021/22 to cover the corresponding Collection Fund loss.
- 3.14. The collection of business rates and council tax has been impacted by the Covid-19 outbreak as residents and businesses face an uncertain financial situation. The restriction on courts has in effect suspended recovery action for unpaid bills and reduced cash receipts. The 2020/21 council tax collection rate for the year was 91.1% which is 5.6% lower than the previous year, which has been identified as higher reduction than other London boroughs when compared to the first half of the financial year. Collection rates for business rates and council tax, pre covid and post covid are shown in the table below:

	2019/20 Collection Rate	2020/21 Collection Rate	2021/22 Collection Rate
Ctax/NNDR			
Council Tax	96.7%	91.1%	91.5%
NNDR	97.6%	88.8%	91.9%

## Expenditure 2020/21

3.15. As the Council redirected its services towards supporting the City during the pandemic, most expenditure variances were Covid-related. The key expenditure variances were:

- In Adults Services, there was additional £1m spend mainly on PPE, increased staffing and support for the provider market. Furthermore, financial savings of £0.725m were deferred into financial year 2021/22.
- Children's Services experienced Covid-related additional expenditure regarding short breaks for children and social care across Families Services.
- Rough Sleeping incurred gross costs of £1.5m during the year supporting rough sleeps off the streets. However, this was largely offset by specific government grant funding.

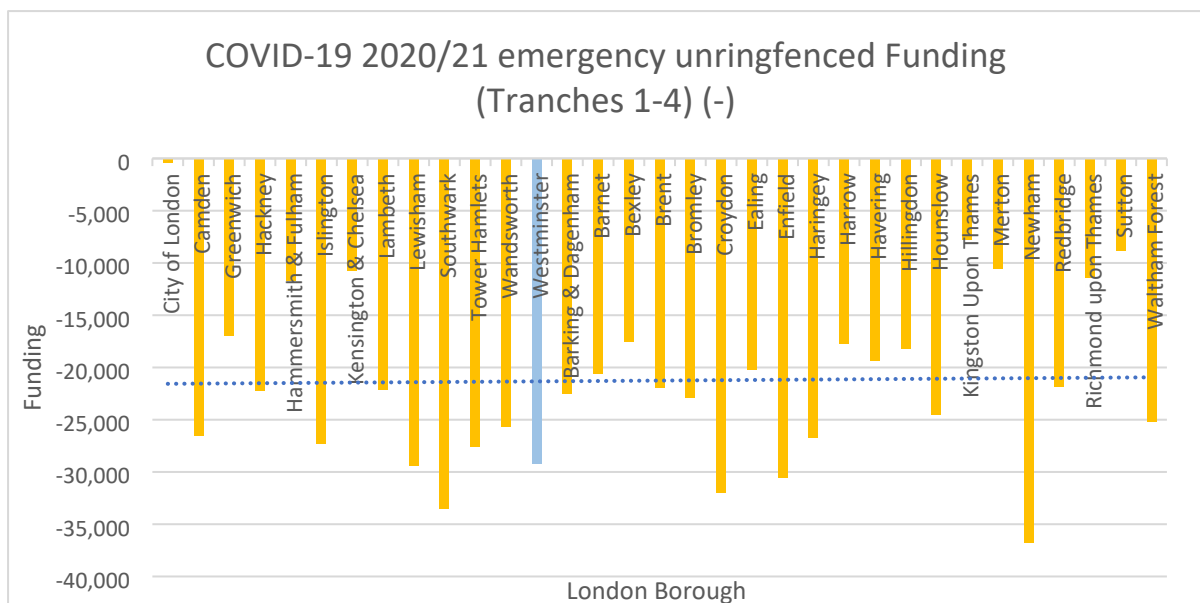
### 2020/21 Savings

- 3.16. In March 2020 (prior to the pandemic) Full Council approved savings of £18.9m to be delivered in 2020/21. However, the impact of the pandemic meant that a number of these savings were delayed or were no longer considered deliverable.
- 3.17. A total of £5.6m of savings which were due in 2020/21 were not delivered due to the pandemic. This represents approximately a third of all savings – therefore two thirds of savings were still delivered.
- 3.18. Most of these undelivered savings were related to income from the Council's leisure management contract, growth in property income and outdoor media advertising.

## Funding

- 3.19. The financial support the Government provided is summarised in appendix 1. The total general Covid-19 funding received by the Council in 2020/21 was £29.2m and £10m in 2021/22 excluding any amounts due from the income compensation scheme. In addition to various other grants there was also passported funding to support residents and businesses.
- 3.20. The table below summarises how the general covid grant funding the council received compares to other London Boroughs:





3.21. The Government's financial support covered the following areas:

- grant funding, both general and specific, for local authorities to cover expenditure and income losses arising from the pandemic;
- grant funding provided to local authorities as intermediary that then needs to be passed on to businesses and individuals;
- grants funding to help with Test & Trace, contain outbreak management and local enforcement, and;
- cashflow support for local authorities, including the deferral of certain payments to Government and the bringing forward of grants.

3.22. The level of Government support, as detailed in appendix 1 is summarised as follows:

- General support - £57m
- Support for businesses - £1.2bn
- Support for Test and Trace and Local Enforcement - £11m
- Other Specific Grants - £5.5m
- Support for Care Providers - £3.4m
- Support for residents - £2.7m

### Reserves and Safety Net

3.23. Unanticipated expenditure and overspends reduce the Council's unallocated general fund reserve. Level of the general fund reserve is one measure of the Council's financial resilience. Pre covid this was £63m and has now reduced to £57m. Considering the impact of the pandemic, it is a small reduction in the reserve due to the funding received from the government. The movement in the unallocated general fund reserve is summarised below:

Year	General Fund Reserve £m
2019/20	63.3
2020/21	59.4
2021/22	57.4

- 3.24. As part of the Business Rates Retention system Westminster retains 5% of the total business rates it collects – c£90m of the £2.4bn that it bills. If Business Rates collection falls. The Council must fund the £7m of losses. Westminster have held a risk reserve for this scenario and that has been drawn down to cover the loss in 2021/22 and 2022/23.

### On-going Impact – MTFP

- 3.25. The Covid-19 pandemic has led to a continued review of the Council's MTFP as new pressures emerge from reduced activity in the City, reducing fees and charges. It is estimated that the impact of the Pandemic on the Council's main income streams is a reduction of circa. £15-£20 million (adjusted for inflationary increases).
- 3.26. As part of the 2023/24 budget the following areas of pressures have been put forward, the roots for which go back to the pandemic:
- Planning income
  - Parking Income
- 3.27. Economic uncertainty – i.e. high inflation and increases in interest rates has also placed further pressure on council budgets. In 2023/24 the Council have had to make an inflationary allowance of £32m to 2026/27. Pre-pandemic this figure was closer to £5m.

### Leisure Income

- 3.28. Prior to the pandemic the Council's leisure contract was based on a management fee structure. It meant that the Council received monthly income from its leisure provider SLM. The income was also subject to annual increases over the life of the contract. Effectively all demand and usage risk was held by SLM.
- 3.29. The onset of the pandemic and closure of leisure sites meant that income stopped overnight. This led to a renegotiation of the contract. Westminster agreed to waive the management during 2020/21 and then entered into a contract variation. The variation is based on a profit share model with a sharing of risk.

The leisure market has changed substantially since the pandemic and it is unlikely that the Council will be able to enter into another management fee

arrangement again – with its current provider or any other. Longer term the Council will have to accept that it is unlikely to receive as much income from its leisure as it did pre-covid.

### **Adult Social Care**

- 3.30. A separate Covid Review report in respect of ASC will be taken to the Adult Social Care Policy and Scrutiny Committee.
- Social workers have left the practice since covid and that is putting huge strain on the services in terms of recruitment. A lot more social workers are now agency as opposed to perm and this is driving up employment costs in that sector; and
  - SEND – an increase in needs re mental health needs and some learning issues leading to increases in Education, Health and Care Plans.

### **Planning for Future “Black Swan” Events in terms of protecting its long-term financial health**

- 3.31. The Civil Contingencies Act 2004 places a range of responsibilities on local authorities to work with other category 1 responders to be able to respond to and recover from major incidents and emergencies. This includes undertaking an assessment of the risks in relation to the major incidents and emergencies in the local authority area and using this to inform the development of proportionate emergency plans and preparations.
- 3.32. The Borough Resilience Forums are responsible for maintaining and updating the Borough Risk Registers, based on both the National and London Risk Registers. The resilience team produces, maintains, reviews and updates the councils’ generic contingency plan for major incidents and emergencies. These are based on standardised plans introduced across London.
- 3.33. There are a variety of other plans and frameworks at a borough or regional level, providing additional detail for specific risks. These include, for example, the Bi-Borough Humanitarian Assistance Plan and the Fuel Disruption Protocol. Humanitarian assistance arrangements are overseen by a bi-borough Humanitarian Assistance Board, reflecting the shared nature of Children’s and Adults’ social care services. Contingency plans are regularly reviewed, tested and exercised with any post-incident learning points applied to future plan updates.
- 3.34. While the very nature of “black swan” events are outliers, the Council and indeed the country, will not be able to mitigate every eventuality. However, from the experience of the Covid pandemic, while there was a significant degree of financial loss from key income streams, government intervention did protect much of the council’s financial position through its AFC compensation scheme.

- 3.35. The impact of Covid on the Council's general fund balances (after grant funding and compensation) was a reduction in general reserves from £63.3m in 2019/20 to £57.4m at the end of 2021/22. This demonstrates that the Council's general reserves can be considered robust as long as "black swan" events are aligned with national government intervention.
- 3.36. Every year, the s151 officer submits a s25 report which is part of the annual budget report. This s25 report considers the adequacy of reserve levels. The s151 officer does consider the Council to have robust reserve levels for the size and complexity of the Council's operations and to cover any risks that may become real.

**If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:**

Jake Bacchus, Director of Finance

## Appendix 1 – Government Grants 2020/21

Scheme	National Funding	WCC Share	Purpose
<b>General Support for Councils</b>			
General Support	£4,600m	£29.3m	Un-ringfenced funding to help councils respond to the pandemic. Four tranches of payments have been made by Government.
New Burdens Grants	Unknown	£0.246m	New burdens funding to help with the administration cost of processing the grants
New Burdens Allocation	Unknown	£0.038m	New Burdens Payments for Council Tax Hardship Fund and Business Rate Reliefs.
High Street Funds	£50m	£0.233m	Reopening High Streets Safely Fund
Sales, Fees and charges scheme	Unknown	£28.007m	Councils may claim 75p in the pound after absorbing the first 5% of losses against budget on reduced income from sales, fees and charges.
<b>Support for Test &amp; Trace and Local Enforcement</b>			
Local Authority compliance and enforcement grants	£30m	£0.192m	This is to support the council with the enforcement of Covid-19 restrictions or to encourage individuals within the borough to comply with the measures.
Contain Outbreak Management Fund	Unknown	£6.310m	Set of payments for local authorities to help support and maintain proactive containment and intervention measures. Circa £2m of funding will be used in 2021-22.
Track and Trace	£300m	£2.890m	Funding to support the test and trace service and to implement outbreak control plans.
Payments for Community Test Funding	Unknown	£1.737m	Funding to support asymptomatic community testing in the City. Rolling forward from previous year.
<b>Other Specific Purpose Grants for Councils</b>			
Support programme for extremely clinically vulnerable.	£32m	£0.309m	New guidance for clinically vulnerable residents at second lockdown has led Government to pledge over £32m funding for local councils in support.

<b>Scheme</b>	<b>National Funding</b>	<b>WCC Share</b>	<b>Purpose</b>
Covid Winter Grant Scheme	£170m	£0.776m	Covid Winter Grant Scheme used to support children, families and the most vulnerable over winter during the second wave of the pandemic.
Local authority Emergency Assistance Grant for Food and Essential Supplies	£63m	£0.284m	Help people struggling to afford food and other essentials
Emergency Support for Rough Sleepers	£3.2m	£0.250m	Funding to help rough sleepers self-isolate during the pandemic.
Next Steps Accommodation Programme	£105m	£1.721m	For interim accommodation and support for the 15,000 vulnerable people accommodated during the pandemic.
Protect Programme: the next step in winter rough sleeping plan	£15m	£1.000m	The £15 million funding is on top of the £91.5 million allocated to 274 councils in September to fund their individual plans for rough sleepers over the coming months.
Rough Sleeping Drug and Alcohol Treatment Grant Scheme 2020-21	Unknown	£1.125m	To provide additional support to people who are experiencing or have recently experienced rough sleeping. Rolling forward from previous year.
<b>Support for Care Providers</b>			
Infection Control (2 Tranches)	£1,146m	£2.576m	Infection Control in care homes. 75% of the funding must be passed straight to care homes within our geographical area – even if the Council does not have a contract with them. Councils can decide how to allocate the remaining 25% based on needs, but it must be used for infection control.
Social Care Funding - Increased Care Home Testing	£149m	£0.148m	To support increased care home testing of residents and staff.

Scheme	National Funding	WCC Share	Purpose
Social Care Funding - for local authorities to boost staffing levels	£120m	£0.662m	This funding has been provided for local authorities to boost staffing levels. In particular: <ul style="list-style-type: none"> <li>- Provide additional care staff where shortages arise</li> <li>- Support administrative tasks so experienced and skilled staff can focus on providing care</li> <li>- Help existing staff to take additional hours as overtime or help with covering childcare costs.</li> </ul>
<b>Support for Businesses and Council Taxpayers (Council distributes)</b>			
Council tax Hardship Fund	£500m	£2.2m	Help residents with council tax payments by £150. The council has supported 1,413 households so far and is considering other schemes to support residents and fully utilise the fund.
Test and Trace Support Grants	£70.53m	£0.538m	This is to be paid to residents who need financial support when self-isolating due to either being infected or potentially being infected.
Business Rates Retail Relief	£10,000m	£945m	Retail relief given to businesses and fully supported by the Government. The relief is expected to be more than the grant paid but more funding will be paid by central Government to recognise the additional relief.
Small Businesses	£12,000m	£98.555m	Grants paid to businesses of £10k or £25k each depending on their rateable value. The Council has paid out all the funding it has received and paid approximately 5,612 businesses.
Discretionary Local Authorities Grants	£617m	£4.840m	Additional to the above £12bn to help businesses who did not benefit from the first round of business grants.
Additional Restrictions Support Grant allocations	Unknown	£7.547m	Additional Grants to support local restrictions for lockdown period dating 5 <sup>th</sup> November to 2 <sup>nd</sup> December and a top-up to this fund for the national lockdown commencing 5 <sup>th</sup> January.

<b>Scheme</b>	<b>National Funding</b>	<b>WCC Share</b>	<b>Purpose</b>
Local Restrictions Support Grants (Open)	Unknown	£7.208m	Two Grants to support the nation's economy and its businesses in response to Coronavirus and specifically for businesses that were still open but have been severely impacted by Local Covid Alert Levels and restrictions during 1 <sup>st</sup> August to 4 <sup>th</sup> November 2020 and 2 <sup>nd</sup> December to 18 <sup>th</sup> December.
Local Restrictions Support Grants (Closed) Addendum	Unknown	£54.806m	Three Grants to support local businesses closed by restrictions for lockdown period dating 5 <sup>th</sup> November to 2 <sup>nd</sup> December, for tier restrictions entered into on 2 <sup>nd</sup> December and under the national lockdown from 5 <sup>th</sup> January onwards.
Closed Business Lockdown Grant (January)	Unknown	£65.565m	The Closed Businesses Lockdown Payment will be in addition to LRSG (Closed) Addendum: 5 <sup>th</sup> January onwards scheme payments. Funding to deliver a one-off payment for businesses that have been required to close from 5 <sup>th</sup> January 2021 due to the introduction of national restrictions. This funding is not retrospective.
Christmas Support Payment for wet-led pubs	Unknown	£0.250m	To support the nation's economy and its businesses in response to Covid-19.
<b>Cashflow support</b>			
Deferred Rates	£2,600m	£192m	The deferral of local authority Q1 payments of the Central Share of retained business rates until the second half of the financial year.
Advance payment of reliefs	£1,800m	£90m	Up-front payment of business rates reliefs