

Cheshire East Council

Title: COVID-19 Financial Briefing for Members
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In managing the response to the COVID-19 pandemic the UK public sector finances are facing unprecedented pressures. Central Government are reacting to these pressures with regular financial announcements and funding packages. This note is being provided to help members of the Council understand the issues, the changing environment and the level of complexity associated with forecasting of the financial impact of COVID-19.

Significantly for Local Authorities there is a regulatory framework that prevents borrowing to support revenue expenditure and makes it illegal for an authority to set an unbalanced budget in any financial year. These requirements present a difficult situation if in-year forecasts show potential large deficits in the Council's budget. Senior officers have engaged with government officials and are following guidance from professional networks in identifying the situation locally.

On 28th April 2020 The Secretary of State for Housing, Communities and Local Government (Robert Jenrick), in response to a question in Parliament provided the following response:

“At the start of this emergency, I said that we would give councils the resources they need to do the job, and I meant it. <..> We will back councils with the financial resources they need as we work together in this national endeavor against coronavirus.”

Cheshire East Council forecast in June that in responding to the COVID-19 emergency there could be financial impacts on the Medium Term Financial Strategy (MTFS) of as much as £70m. This estimate reflected both additional expenditure and lost income compared to the Council's budget. It also reflected potential cash losses in the year from Council Tax and Business Rates.

The government response has involved financial support packages in the UK worth in excess of £33bn to be administered by Local Authorities. Locally this has seen Cheshire East Council administer schemes worth c.£165m to protect businesses and keep people safe.

In producing forecasts of the financial impact the Council is reacting to the constantly changing situation. Public health emergencies, lockdown and then the easing of lockdown each bring significant challenges to Council services. As guidance changes this inevitably impacts on the financial forecasts. Over time forecasts will therefore vary to reflect the latest position.

Table 1: The response and recovery to COVID-19 is affecting many areas of the MTFS:

| Item | Est. £m | Notes (£m represent forecast annual impact – subject to change) |
|---|----------|---|
| Increased Expenditure | £42.033m | Areas with most significant forecasts of expenditure: Supporting Adult Social Care services (£9.3m) - Home to School Transport (£7m) - Delays to infrastructure projects (£6.3m) - ICT (£4.3m) - PPE (£4.1m) – Waste Services (£2.7m) - Unachievable/ delayed savings targets (£2m) - Children's Social Care (£1.7m) - Agency staffing (£1m) — Leisure Services (£1m) — Shielding (£0.4m) - Homelessness (£0.4m) |
| Income Losses | £14.058m | Areas with most significant potential losses: Car Parks (£3.7m) - Culture Services (£2.5m) - Care Fees (£2.1m) - School Catering (£1.6m) - Planning & Development (£1m) - Registration of births and marriages (£1m) |
| Collection Fund Cash Deficit for | £13.800m | Figure represents a cash deficit, but debt may continue to be collected which could significantly reduce the financial impact. |

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|---|---|
| Council Tax & Business Rates | Effects on the MTFS come from written-off debt, changes in Council Tax Support claims and changes in property numbers. Debt that will be collected does not impact the MTFS Year-end Surplus / Deficit carries forward to the next budget Latest proposal is to spread deficit across 3 years |
|---|---|

Table 2: Non-Ringfenced support to the Council is an incomplete and complex position:

| Announced | Funding for CEC (England total) | Notes |
|------------------------|--|--|
| 19 th March | £9.150m (£1.6bn) | Adult Social Care based payment |
| 18 th April | £10.539m (£1.6bn) | Payment per capita to help reflect lost income |
| Sub-Total | £19.689m (£3.2bn) | |
| 2 nd July | £2.712m (£0.5bn) for Expenditure | Adult Social Care / deprivation based payment |
| Total | £22.401m (of £3.7bn) | |
| 2 nd July | £n/k (£n/k) for Income £nil for Collection Fund | Paid at 75p in £1 above 5% losses Defer Collection Fund Deficit over 3yrs |

To date therefore £22.401m has been confirmed to compensate for Increased Expenditure and Income Losses although further allocations are pending associated with income losses. No support has been proposed for Collection Fund losses, although an in-year deficit can be deferred over three years. Central Government have made statements related to Local Authorities having received enough money to cover costs incurred up to July 2020. Forecasts for Cheshire East show that statement may be accurate up to that month; but there is no certainty that future announcements could extend the position to cover the full-year forecast costs requested and identified in this briefing.

In addition to funding received to compensate for the financial impact on the Council's MTFS, there has been significant additional funding provided to support new activities administered by the Council. The activities are listed below along with the value of the funding and the forecast spend.

Table 3: New activities are receiving direct funding of c.£165m.

| Activity (National Total) | Spending forecast | Funding | Variance |
|--------------------------------|----------------------|-------------|----------------|
| Test & Trace (£300m) | <i>tbc</i> | £1,533,331 | <i>tbc</i> |
| Towns Fund (£5bn) | <i>tbc</i> | £750,000 | <i>tbc</i> |
| Rough Sleeping (£108m) | £72,000 | £6,000 | £66,000 |
| Active Travel (£225m) | <i>tbc</i> | £774,000 | <i>tbc</i> |
| Opening High Streets (£500m) | <i>tbc</i> | £339,533 | <i>tbc</i> |
| Infection Control (£600m) | <i>tbc</i> | £5,320,292 | <i>tbc</i> |
| Business Grants (£12.3bn) | £87,500,000 | £95,514,000 | c.(£8,000,000) |
| Disc. Business Grants (£617m) | £4,200,000 | incl. above | c.£4,200,000 |
| Business Rate Holiday (£9.7bn) | £58,785,655 | £58,785,655 | £0 |
| Council Tax Hardship (£500m) | £2,500,000 | £2,062,635 | c.£500,000 |
| Local Bus Network (£167m) | <i>tbc</i> | £229,632 | <i>tbc</i> |
| Emergency Assistance (£63m) | <i>tbc</i> | £326,293 | <i>tbc</i> |

To date there is no confirmation of how any variance to these forecasts will be managed. Some 'new burdens' funding is also being made available.

Any variation between COVID-19 related funding and the financial impact actually incurred by the Council would need to be managed within the Medium Term Financial Strategy. The level of uncertainty over funding, and the fact there is no Local Government Settlement beyond 2020/21,

presents a significant risk to the Council's reserves at present. The Cabinet and Executive Leadership Team are constantly reviewing the position to understand when decisions will be required.

Conclusion

The financial impact on local authorities from the response and recovery from COVID-19 will be significant. To identify how financial support to Councils may be considered the MHCLG has asked for financial forecasts to be provided by Local Authorities. These have been presented within specific guidelines and take into account known issues at a point in time. As the data returns have required full-year impacts the figures are inevitably subject to potentially large changes as the scale of the emergency becomes clear. The Council has complied with these requests and has presented financial implications in line with other authorities; and this overall narrative has supported the Local Government Association in presenting a consistent message across the sector when meeting with government ministers and officials. However, this approach of forecasting long term financial issues against a constantly changing emergency will continue to present difficulties in communicating the actual impact on the Council's Medium Term Finances.

To provide transparency and understanding of the impact of COVID-19 the Council has reported, via Cabinet, the activities and issues that the Council has engaged in to date and the headline financial implications. Further information will be reported via Cabinet in September and October if appropriate to support the further understanding of the financial position.

Further Reading

The Local Government Association and the County Councils Network are leading national campaigns to promote the role Local Government has played in responding the pandemic and the impact this is having on Council finances.

<https://www.local.gov.uk/topics/finance-and-business-rates>

<https://www.countycouncilsnetwork.org.uk/>

The Government provide comprehensive information on the response to the pandemic:

<https://www.gov.uk/coronavirus>

MHCLG regularly update detailed guidance on the impact on Local Authorities:

<https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government#local-government-finance-and-funding>

MHCLG have published the financial impact monitoring forms from Local Authorities for April and May 2020:

https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information?utm_source=72ec5937-115b-4101-91b7-486ed384193e&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate