

Agenda Item	
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Report to Cabinet



Date of Meeting	30 th June 2020
Portfolio	Leader of the Council and Cabinet Member for Finance
Report Author	Julie Murphy
Public/Private Document	Public

Financial Implications of the Covid-19 Outbreak

Executive Summary

1. To update Members on the forecast financial position relating to the impact of Covid-19 on the Council's General Fund and Collection Fund, and Heywood, Middleton & Rochdale Clinical Commissioning Group.
2. To outline the actions required in order to mitigate the financial impact of Covid-19.

Recommendation

- 2.1 Members are requested to note the financial impact of the Covid-19 outbreak on the Council and the funding provided by the Government to help mitigate this.
- 2.2 Members are requested to approve the utilisation of the emergency funding of £13.6m provided by the Government to mitigate the additional expenditure/loss of income resulting from Covid-19, as detailed in Section 5.2.
- 2.3 Members are requested to consider and approve a spending freeze during 2020/21 in order to mitigate the financial implications of Covid-19.
- 2.4 Members are requested to note the actions required in order to mitigate the longer term financial implications of Covid-19, as outlined in Section 5.5.
- 2.5 Members are requested to note the financial impact of the Covid-19 outbreak on Heywood, Middleton & Rochdale Clinical Commissioning Group (CCG), as detailed in Section 5.6.

Reason for Recommendation

- 3.1 To approve the usage of the emergency Government funding to mitigate the additional expenditure/loss of income resulting from the Covid-19 outbreak.
- 3.2 To approve further actions required in order to mitigate the financial impact of the Covid-19 outbreak.

Key Points for Consideration

4.1 Background

- 4.1.1 In response to the Covid-19 outbreak, the Government has made a series of policy announcements, some of which have impacted on local authorities. The Council is dealing with a wide range of issues to support residents and businesses which will have a considerable impact on the Council's financial position both in the short term and in the longer term.

4.2 Government Funding

- 4.2.1 Some of the Government's initiatives have been supported by additional funding, and the Council has received several government grants.

4.2.2 Emergency funding for local government

£13.6m share of the £3.2bn total funding:

- To support local authorities to manage pressures on social care and support vulnerable people, and help deal with pressures on other public services.

4.2.3 Hardship Fund

£3.1m share of the £500m total funding:

- £0.5m earmarked to be targeted at financial hardship;
- Balance to offset increased Local Council Tax Support (LCTS) discount in the Collection Fund.

4.2.4 Business Grants

- £46.7m share of the £12.3bn total funding to provide grants to businesses under the Small Business Grants Fund and Retail, Hospitality and Leisure Grant Fund.
- Additional funding of up to £0.8m, in order to top-up the estimated £1.5m remaining from the business grants allocation to fund an estimated £2.3m of discretionary business grants.

4.2.5 Infection Control Fund

£2.158m share of the £600m Infection Control Fund and care home support package:

- 75% of the initial funding received is to be passed straight to care homes within the local authority's geographical area for use on infection control measures, including to care homes with whom the local authority does not have existing contracts.

- The remaining 25% must also be used for infection control measures, however local authorities are able to allocate based on need.

4.2.6 **Reopening High Streets Safely Fund**

£0.197m share of the £50m funding from the European Regional Development Fund (ERDF):

- To support practical measures so businesses can re-open quickly when they are allowed to, staff get back to work and customers return to shops confident it is safe.
- It will also support a range of practical safety measures including new signs, street markings and temporary barriers. Councils will also be able to use this money to develop local marketing campaigns to explain the changes to the public and reassure them that their high streets and other commercial areas are safe

4.2.7 **Test and Trace Service**

£1.592m share of £300m additional funding for councils in England to support the new Test and Trace Service and to develop tailored outbreak control plans.

4.2.8 **Further funding to support those who are vulnerable**

A share, to be confirmed, of £63m for local authorities to assist those struggling to afford food and other essentials

4.2.9 **Business Rates Retail Relief**

The Government has also increased Business Rates Retail Relief to 100% for 2020/21 impacting on Retail, Leisure and Hospitality sectors, and Nurseries. The financial impact of the additional relief given for the Council is c£21m, which will be offset by Government Section 31 grant funding.

4.2.10 Delegated decisions have been approved in accordance with Part 3 of the Council's Constitution in order to implement the measures required to utilise the funding provided by the Government under the Hardship Fund, Business Grants and Business Rates Retail Relief.

4.3 **Alternatives considered**

4.3.1 Not applicable.

Costs and Budget Summary

5.1 **Forecast additional expenditure and loss of income**

5.1.1 As detailed in section 4.2.2, the Council has received £13.6m in emergency funding to offset additional expenditure and reduced income caused by the impact of Covid-19. Currently it is expected that the financial impact will exceed the funding that has been received.

- 5.1.2 The Council submitted a return to the Ministry of Housing, Communities and Local Government (MHCLG) on 19th June detailing the forecast additional expenditure and loss of income expected during 2019/20 and 2020/21. Table 1 shows a summary of forecast additional expenditure, totalling £13.9m.

Table 1 Forecast additional expenditure 2019/20 and 2020/21

Expenditure	£m
Adult Social Care	4.546
Children's Social Care	2.655
Education	0.484
Highways and transport, Public Health & Housing	0.941
Cultural & Related	2.250
Environmental and regulatory services	0.779
Finance & Corporate	0.895
Other services	1.339
Estimated Total Spending Pressure	13.889

- 5.1.3 In addition to the additional expenditure, the return to MHCLG on 19th June also forecast loss of income of £25.2m as a result of Covid-19, as detailed in Table 2.

Table 2 Forecast loss of income 2019/20 and 2020/21

Income	£m
Business Rates/Council Tax	9.500
Sales, fees and charges	5.155
Commercial Income	10.513
Estimated Total reduction in Income	25.168

5.2 Mitigation of additional expenditure/loss of income

- 5.2.1 Currently the impact is projected at £39.1m, with £13.6m additional funding to offset these pressures. At a Greater Manchester level there is work on going to understand the impact of Covid-19 on the Transport levy, Fire and Rescue, and the Waste Disposal levy, each of which may have an impact on Rochdale's overall position. Collectively the 10 Districts within Greater Manchester continue to work with the Government to secure further funding against these pressures, however at this stage there is no certainty.
- 5.2.2 The Council is reviewing its level of reserves and treasury management strategy to maximise the use of any available one off funds to offset against these pressures. The June government return asked each Local Authority to state the level of reserves that could be deployed to offset Covid-19 costs. Rochdale indicated £7m; this being a £3m reserve established for Manchester Airport dividend pressures and £4m of General Balances, established for various unforeseen issues, relevant ones being demand pressures and a reduction in the collection of Business Rates and Council Tax. Rochdale indicated in its return that these reserves would require

replenishing to their original value, and therefore are only available to deploy to Covid-19 costs as a cashflow.

5.2.3 Work will continue with the established sub groups to improve the accuracy of these financial forecasts as greater understanding around the timeframe is established. The longer term implication needs to be assessed to support the Council in financial planning going forward.

5.3 Business Grants

5.3.1 The Government has provided £46.7m of funding to allow the Council to pay a grant of either £10,000, or £25,000 to eligible businesses. The criteria are:

- One-off grant of £10,000 to businesses currently eligible for Small Business Rates Relief or rural rate relief, to help meet their ongoing business costs.
- Grants of £10,000 where the Rateable Value (RV) is £15,000 or less, or £25,000 where the RV is greater than £15,000 and less than £51,000.
- Businesses may only receive one grant.

5.3.2 As at 12th June a total of £40.860m had been paid out in business grants to 3,672 businesses. The Council has projected that £45.2m will be paid out if all eligible businesses apply for the grant.

5.3.3 The Government has also announced that local authorities would be provided with up to £617m to provide grants to small businesses with ongoing fixed property-related costs who were not eligible for Small Business Grant Fund or the Retail Hospitality and Leisure Grant Fund. Rochdale is expected by the Government to spend £2.3m on these grants, funded from the estimated £1.5m remaining from the original business grants allocation, topped up by additional government funding of £0.8m.

5.4 Collection Fund

5.4.1 There is forecast to be a considerable impact on the Collection Fund in 2020/21 as a result of the impact of Covid-19 and government initiatives. This will impact on the Council's General Fund in 2021/22.

5.4.2 For 2020/21 the Council's General Fund income relating to Business Rates and Council Tax was approved at Budget Council, and is guaranteed. However, the net impact on the Council of the initial 2020/21 Collection Fund forecast is a deficit of approximately £9.5m. This takes into account increased government funding to offset the impact of:

- Increased Business Rates Retail Relief to 100% for 2020/21 impacting on Retail, Leisure and Hospitality sectors, and Nurseries.
- Increased Local Council Tax Support discount.

5.4.3 The forecast deficit is due to:

- Lower anticipated collection rates re Business Rates and Council Tax, and the need for higher bad debt provisions.

- Anticipated higher level of empty properties re Business Rates which will result in higher levels of discount given.
- Reduced/delayed expansion of Business Rates and Council Tax bases re developments/ new build plans.

5.4.4 Any deficit in the 2020/21 Collection Fund will be brought into the Council's General Fund in 2021/22.

5.4.5 There is likely to be a longer term impact on Collection Fund income dependent on the recovery of businesses and households, which will impact on the Council's core funding for services. Work is ongoing to assess the longer term impact on the Council's financial position.

5.5 Required Actions

5.5.1 There are a number of actions that are required in order to mitigate the impact of the financial implications of Covid-19 outlined in this report.

5.5.2 Government funding

Continue alongside the other Greater Manchester councils to work with the Government to secure further funding against the ongoing financial impact of Covid-19.

5.5.3 Review capital spend

A review of the capital programme 2020/21 is ongoing to establish which projects will be, or could be, delayed or cancelled in order to reduce the impact of borrowing costs on the Council's revenue budget.

5.5.4 Consider restrictions on spending

Members to consider a spending freeze during 2020/21.

5.5.5 Impact on Medium Term Financial Strategy (MTFS)

Work is ongoing to understand the medium term financial implications of Covid-19 for the Council, in particular the impact on Council Tax income, Business Rates income and commercial income.

5.5.6 Recovery planning

Currently it is expected that the financial impact of Covid-19 will exceed the funding received to offset additional expenditure and reduced income. The Council is reviewing its level of reserves and treasury management strategy to maximise the use of any available one off funds to offset against the financial impact of Covid-19.

Once there is more certainty regarding the timeframe and impact resulting from the Covid-19 outbreak, further work will be undertaken to understand how the financial pressures can be managed going forward.

5.5.7 New Operating Model

Work is currently ongoing to establish a New Operating Model that would enable the Council to continue to deliver its vital services within the budget

available. This will need to reflect the ongoing pressures on expenditure and income following the Covid-19 outbreak.

5.5.8 Savings Programme

Recurrent savings may have to be identified once the impact on the MTFS is understood and the work on the New Operating Model is complete, in order to ensure that the Local Authority remains a going concern into the future.

5.6 Heywood, Middleton & Rochdale Clinical Commissioning Group (CCG)

5.6.1 The CCG have to submit monthly returns of health related expenditure relating to Covid-19. The March return totalling £172k was submitted for health related costs including residential and the use of the Norton Grange facility to manage hospital discharge. This was confirmed and reimbursed on the 16th April.

5.6.2 On the 15th May the return for April was submitted; this totalled £1.1m. The May return was a further £700k.

5.6.3 It is difficult to forecast the level of increased expenditure likely as the situation is currently very reactive, although guidance received on 19th May indicates a tightening of controls in relation to allowable expenditure categories. For months 1-4 the CCG has been informed it will receive an allocation to meet all reasonable expenditure and therefore, should break even for these months, guidance is due imminently in relation to the remainder of this financial year.

5.6.4 Cabinet agreed that in 2020/21, as a result of the Covid-19 outbreak, each organisation will be responsible for their own variations within the Pooled Fund.

Risk and Policy Implications

6.1 There are no major legal implications arising as a result of this report.

6.2 The use of reserves to address the pressures as a result of the Covid-19 outbreak is a one off solution which cannot be sustained into future years. The Government has asked each Local Authority to state the level of reserves that could be deployed to offset Covid-19 costs. Rochdale has indicated that any reserves deployed would require replenishing to their original value.

Consultation

7.1 All services engage with the production of the service based financial information within this report. The Leadership Team and the Leader and Cabinet Member for Finance have been updated on the financial implications for the Council resulting from the Covid-19 outbreak.

Background Papers	Place of Inspection
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