

COVID19 FINANCIAL IMPACT AND RESPONSE UPDATE

Report of the Corporate Director – Corporate and Support Services

1. INTRODUCTION AND PURPOSE OF REPORT

- 1.1 The purpose of the report is to provide an update on the financial impact of COVID19 on the Council in 2020/21 and over the medium term period and how the Council is responding to the significant financial challenge ahead.
- 1.2 The report builds on and updates the detail provided in the Corporate Performance and Resource Report Annual Report 2019/20 elsewhere on this agenda.

2. COVID19 FINANCIAL IMPACT

- 2.1 The financial challenge presented by the impact of the COVID19 pandemic is unprecedented. The Council's current forecast of the financial impact (cost and loss of income) was submitted to Government on 19 June. This is the third iteration of the Government return with previous submission being made in April and May.
- 2.2 The Council forecasts a full year adverse financial impact of COVID19 of £58.8m (including HRA impact) as at June 2020. This is made up of £24.4m additional costs and £34.4m expected income losses. It is important to note that the forecast does not include estimates of the financial impact of a second wave of COVID19 and/or a local lockdown scenario. The summary at Appendix 1 provides detail of the service areas and income streams impacted by the pandemic.
- 2.3 The June return shows an £11m increase in the estimated impact compared to the May return. This is due to:
 - The extension of the estimates beyond a 4 month impact assumption advised by Government in May. The June return assumes the impact in relevant areas will continue beyond the end of July, which Government are assuming is the end of the lockdown period; and
 - Government asked for the June return to show a gross position on estimated additional costs including the additional costs linked to Track & Trace, Infection Control and Council Tax Hardship which the Council has received Government funding for.
- 2.4 To date the Council has received £23.4m of Government COVID19 support funding as detailed in Appendix 1. This leaves a net impact/gap of £35.4m (£58.8m less £23.4m) in 2020/21.
- 2.5 On 2 July, detail of a further Government funding support package was announced. At the time of writing the detail of this support package and individual Authority funding allocations are still to be released by Government. The headlines are as follows:

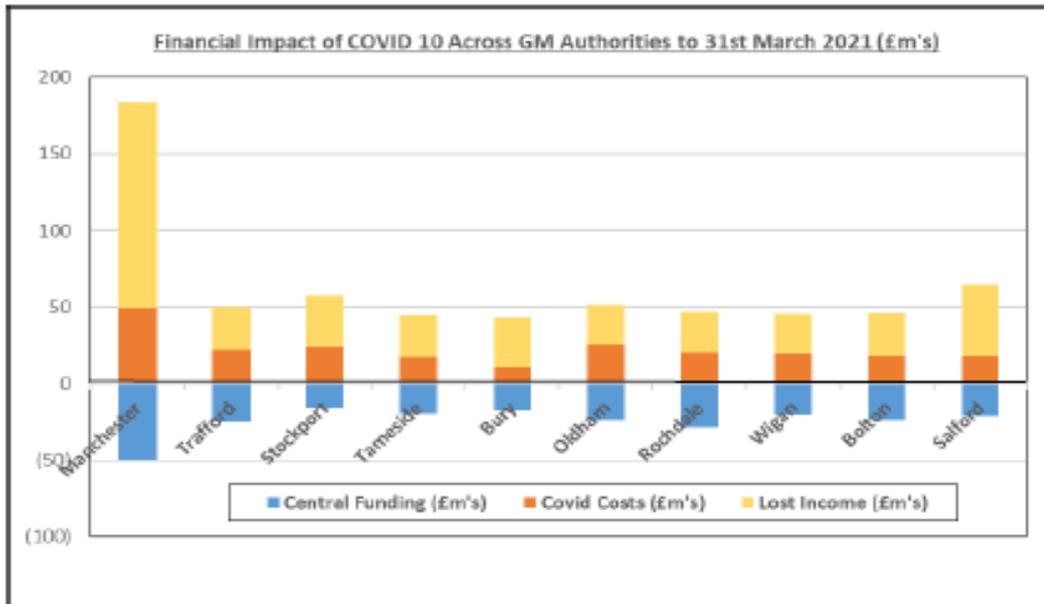
- A further tranche of unringfenced cost pressure funding of £500 million nationally was announced. Whilst the allocation basis has yet to be confirmed, the Council normally receives circa 0.5% allocation of national funding indicating an expectation of circa £2.5m. However, it is noted that a new formula is expected to be used and therefore this amount is far from certain;
- A scheme to compensate Local Authorities sales, fees and charges income losses. The detail of what Government consider to be covered by sales, fees and charges is yet to be confirmed but the Government announcement does specifically mention income losses from 'car parks, museums and other cultural assets'. The scheme will require the Council to meet the first 5% of planned income from sales fees and charges with losses over and above this being compensated at 75p in the pound. It should be noted that this scheme does not appear to cover income losses related to commercial income which the Council expects the full year impact to be circa £15.5m. In addition, the position with regard Leisure Trusts is currently uncertain;
- Support for pressures on irrecoverable Council Tax and Business Rate income to be addressed by Government as part of the next spending review; and
- Ability to reimburse any Collection Fund deficits over 3 years. The legislation that governs Collection Fund accounting currently requires deficits to be reimbursed within two years of the deficit being declared and realised.

2.6 As part of the May and June returns the Council has identified £6.7m of earmarked reserves and General Fund balances which can be used support the Council to mitigate the impact and meet the funding gap. Whilst the Council's Reserves Policy has set aside these monies to mitigate unprecedented events which the pandemic has presented to the Council, it is recognised that the use of these reserves and balances are not a permanent solution to the financial challenges faced. This is highlighted by the need to replenish these reserves and balances in 2021/22 to ensure the Corporate Director – Corporate and Support Service in his role as the Council's Section 151 Officer can assess these as robust as part of his risk assessment of the Council's budget and Medium Term Financial Plan (MTFP).

2.7 Including the identified reserves and balances, the Council forecast COVID19 financial impact is £28.7m in 2020/21.

3. STOCKPORT POSITION COMPARED TO GREATER MANCHESTER (GM) AUTHORITIES

3.1 The estimate net impact (after Government funding) across GM is circa £460m, including the GMCA and Metrolink. The chart below shows the position for each of the GM Authorities.



3.2 Compared to the other GM Authorities, Stockport is not an outlier. The estimated financial impact reflects the following characteristics and demographics of the Council and the Borough:

- Size of Local Authority;
- Relatively high proportion of CQC registered care home beds compared to other GM Authorities;
- Commercial investment income loss impact including Airport and other reasonable commercial interests including assets in the Town Centre;
- Relatively high dependence of Council Tax as a funding source for Stockport's net revenue position (67%).

3.3 It is recognised by the GM Authorities that the impact and financial legacy of COVID19 goes beyond 2020/21. Finance Officers are working with colleagues across the Council to understand the in-year monitoring position (combining business as usual forecasts with the COVID19 financial impact set out in this report) to understand the ongoing pressures beyond 2020/21 and inform the Council's 2021/22 budget setting process and MTFP.

3.4 As has been highlighted previously the uncertainty, volatility and complexity of the financial landscape is significant and exacerbated further by the pandemic. Whilst there are many unknown variables it is likely the financial impact beyond 2020/21 will be in the following areas:

- Reduced Council Tax Taxbase and lower levels of growth;
- Reduced Business Rates Taxbase and lower future growth;
- Supressed levels of income from a variety of sources;
- Increased demands on social care, public health and other budgets;
- Increased cost of ensuring financially stable social care market; and
- Impact of social distancing on efficiency and capacity of council services.

3.5 In addition, it is likely there will be an impact on the Council's Capital Programme, regeneration plans and employment. The Council is developing programmes of work such as the Economic Resilience working group, Build Back Better and One

Stockport to mitigate any impact. This will be important as the Council will need to play a key role in the economic and financial recovery of the Borough and GM alongside other GM Authorities and its partners. This can only be achieved if the Council has a robust financial platform not only in 2020/21, but over the medium term period.

4. COVID19 FINANCIAL RESPONSE

- 4.1 Whilst the Council took early assurances from the Government's stance that Local Government would be supported in its overriding aim to support residents and businesses to mitigate the impact of COVID19, it is clear that Government expect Local Authorities to share the burden. On this basis the Council is assessing the short, medium and long-term financial impact of the current situation in terms of expenditure pressures and income loss. The work on this is being progressed by the Finance Team as part of the in-year monitoring, review and update of the Council's MTFP and monthly iterations of the Government COVID19 financial impact return.
- 4.2 The following work is being completed by Finance Officers with colleagues across the Council to monitor the financial impact and identify mitigations that can be put in place to address the financial gap in 2020/21 and across the medium term period:

Quarter 1 Finance Report - A 2020/21 Quarter 1 Finance report will be presented to the Cabinet meeting in July and CRMG meeting in September. The report will set out the forecast outturn position for 2020/21 combining the business as usual forecast with any further update to the COVID19 financial impact set out in this report. This will identify any surpluses (for example where services have temporarily ceased due to COVID19 and expected costs are not being incurred) as well as deficits not related to COVID19 to provide a full picture of the Council's financial position in 2020/21;

2020/21 Reserves Policy - The annual review of the Council's Reserves Policy will be presented to the Cabinet meeting in July and CRMG meeting in September. As in previous years the review will realign the Council's earmarked reserves to its strategic and corporate priorities. Obviously, the Reserves Policy will also need to consider the COVID19 financial impact and consider which earmarked reserves could be used to meet any funding gap in 2020/21 if and over the medium term period if needed to smooth out this impact whilst permanent solutions are identified. This will include consideration of how resources set aside can be replaced through the use of borrowing and/or capital receipts for example. It is also important to note that the use of earmarked reserves to support the funding of any financial gap presents an opportunity cost to the Council, as these resources were set aside for a specific purpose/positive investment which may be adversely affected as a result.

MTFP Summer Review – The Summer Review of the Council's MTFP will be presented to the Cabinet meeting in October 2020 and the CRMG meeting in December 2020. The review ensures the underlying MTFP assumptions and forecasts are robust and based on the latest available information. This will include the up to date position on the Council's forecast of the COVID19 financial impact.

Identification and Review of Available Resources – As part of the MTFP updates one-off resources available which haven't been earmarked will be identified and considered for use to support the mitigation of the financial impact. This will include consideration of the use of available capital receipts to support transformation projects that revenue resources (budgeted and/or held in earmarked reserves) have been set aside to fund.

Capital Strategy and Capital Programme - Review of the Council's Capital Programme to consider rephasing of capital schemes to reduce the revenue costs of the schemes in over the next two to three years.

- 4.3 Members will be aware that the Council has a legal requirement to deliver a balanced budget. If spending is likely to exceed the available resources for a council the officer charged with responsibility for the effective financial management of the council, the Section 151 officer, must issue a Section 114 (S114) notice under the relevant section of the Local Government Act, section 114.
- 4.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued modified guidance to council CFOs to allow councils under budgetary pressure due to COVID-19 the time and space to explore alternatives to freezing spending via a S114 notice.
- At the earliest possible stage, a Chief Finance Officer (CFO) should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming S114 requirement.
 - The CFO should communicate the potential unbalanced budget position due to COVID-19 MHCLG at the same time as providing a potential S114 scenario report to the council executive (Cabinet) and the external auditor.
- 4.5 Whilst highlighting the significance of the financial challenges facing the Council, the Corporate Director - Corporate and Support Services remains cautiously hopeful that at this moment the Council's MTFP can be addressed through expected additional Government support and the robust processes we have in place for budget setting, monitoring and scrutiny. In addition, this impact needs to be seen alongside the Council's and GM's ambition to build back better, the work that will shape our recovery strategy and the growth and reform strategy that ensured we were in a financially resilient and robust position pre-COVID19.

5. FURTHER GOVERNMENT SUPPORT

- 5.1 Whilst we welcome the Government support to date including the additional support package recently announced, there is still an expectation that further Government support is needed to address the financial challenge ahead. As set out in this report the forecast of the financial impact on the Council is significant and does not include any financial impact for a second wave and/or a local lockdown. The Council will continue to lobby Government for further financial support.
- 5.2 Alongside our ask from National Government for additional direct financial support to stabilise our in year position, we are seeking a comprehensive supports package that includes:

- Greater certainty on the future direction of Local Government funding including greater certainty about the 2021/22 Local Government Finance Settlement to support financial planning and more detail on the impact of the Government Spending Review and planned reforms;
- Measures to manage the time limited nature of financial impacts. For example, to smooth the impact on the reduction to Council Tax and Business Rates receipts on the Collection Fund;
- Confirmation on the position of the future of Business Rates including planned reforms, baseline resets and the Greater Manchester 100% Business Rates Pilot);
- Measures to support Capital Programme investment including early confirmation of capital grants, retention of right to buy receipts, reduction in PWLB borrowing rates for schemes that will support the economic recovery, ability to capitalise costs associated with recovery;
- Specific support for the position of Manchester Airport and the aviation industry;
- Flexibilities in rules on existing funding streams; and
- Commitment to roll out of the UK Shared Prosperity Fund.

6. CONCLUSIONS

- 6.1 The financial impact of COVID19 on the Council is significant with a forecast impact, after Government confirmed support funding to date, of £35.4m as at June 2020 (£28.7m after the use of Council reserves and balances).
- 6.2 The impact of these financial losses after the long period of austerity will, without further funding and other flexibilities, leaves the Council facing a significant financial challenge in 2020/21 and across the medium term period. This comes at a time when the role of Council in supporting the Borough's and GM Region's recovery from COVID19 whilst looking to Build Back Better is critical.
- 6.3 Whilst the report highlights the significance of the financial challenges facing the Council, the Corporate Director - Corporate and Support Services remains cautiously hopeful that at this moment, with continued and additional Government support, the Council can meet these changes using its robust financial management platform that has been built pre-COVID19.

7. RECOMMENDATIONS

- 7.1 CRMG Members are asked to note and comment on the content of this report.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on Tel: 218 1025 or by email on jonathan.davies@stockport.gov.uk

APPENDIX 1 COVID19 Return June 2020

	Current Month Iteration Jun-20 £m
Estimated Spending Pressures	
Adult Social Care Total	11.112
Children's Social Care Total	0.571
Education Total	0.018
Highways and Transport Total	1.283
Public Health Total	1.504
Housing Total	0.740
Cultural & Related Total	2.719
Environment & Regulatory Total	0.662
Planning and Development Total	0.090
Finance & Corporate Total	2.500
PPE - Non ASC Total - (ASC PPE included in ASC line)	0.360
Unachieved Savings/Delayed Projects Total	1.663
Other Total	1.202
Estimated Total Spending Pressure (General Fund)	24.424
Estimated Income Losses	
Business Rates Receipt Income Losses Total	1.630
Council Tax Receipt Income Losses Total	10.566
Sales, Fees & Charges Income Losses Total	5.686
Commercial Income Losses Total	15.500
Other Income Losses Total	0.148
Estimated Total Income Loss (General Fund)	33.530
Total Impact (excluding HRA)	57.954
HRA Spending Pressures Total	0.000
HRA Income Losses Total	0.850
Total Impact (including HRA)	58.804
Funding Available	
COVID19 Support Grant	16.328
Track & Trace Grant	1.474
Infection Control Grant	3.110
Council Tax Hardship Grant	2.462
Rough Sleeping Grant	0.009
Total Income	23.383
Net Position - Before Reserves	35.421
Earmarked Reserves	2.817
General Fund Balances	3.929
Total Reserves and Balances	6.746
Net Position - After Reserves	28.675