



CABINET

Wednesday, 24 June 2020

Report Title: COVID-19 Financial Impact

Cabinet Portfolio	Cabinet Member - Finance
Cabinet Member with lead accountability	Councillor Martin Bond
Corporate Plan Theme	Corporate
Exempt Report?	N
Reason for Exemption	Open
Key Decision?	N
On Public Notice?	N/A
Wards Affected	(All Wards);
Originating Service Area	Corporate Services
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Recommendation for Decision

Cabinet is recommended to:

- Approve the progression of an Emergency Budget during 2020/21, aligned with the Reset and Recovery phase of the Council's COVID-19 response, with all services included for review.
- Note the ongoing financial implications of the impact and response to the COVID-19 pandemic; and
- Note the Council's and City Region's response to the pandemic.

1. Purpose of this Report

1.1 The purpose of the report is to recommend the progression of an Emergency Budget.

2. Background

2.1 Introduction

Local Government is at the forefront of the national effort to respond to coronavirus and protect vital services for communities and has taken significant action, including delivering essential services for local people, providing care for vulnerable people and supporting the local economy, at the same time as ensuring front-line services are retained wherever possible.

COVID-19 is the biggest challenge the UK, and local authorities, have faced for many generations and it is clear that the pandemic provides an even greater risk to St Helens and the Liverpool City Region (LCR) than it does to the rest of the country.

The Council was encouraged by the Government's promise to do "whatever it takes" to support the nation through the crisis and its stated commitment to work with Local Authorities in doing so. The Council is extremely proud of how it – alongside partners and communities – has mobilised in response to the pandemic and continues to stand ready to do "whatever it takes".

St Helens Council identified a set of principles to guide the COVID-19 response:

- It will seek out those made most vulnerable by the current situation and actively support them;
- Its services will guide people to the support they need;
- Its services will ensure all residents receive the essentials they need;
- It will support the organisations, groups and businesses within our communities and maximise their impact; and
- It will prepare for the long-term now, beginning to think and plan for the organisation we must become.

Providing additional support during the current pandemic has had a significant financial impact upon Local Authorities, with the impact forecast to be felt over a sustained period, impacting upon both the current financial year's budget, as well as future years' budgets. The financial impact for the Council has been reported to Government via two data returns.

Financial modelling currently indicates that the estimated costs of a lockdown until July this financial year could cost the Council as much as £29.5 million. But it is likely that, however long the national emergency lasts, the financial implications will stretch beyond 2020/21 and beyond this sum, recognising that the impact upon the local economy and the demand placed upon local government services is likely to be significant.

Government have recognised that Local Authorities face financial pressures in dealing with a response to COVID-19 and have provided some financial support, in the first instance to alleviate the immediate pressures and assist with cashflow in the initial stages of the lockdown period. However, the quantum of additional funding provided to date does not come close to covering the forecast financial pressures that the Council faces as a result of its response to the current situation.

The timeline of Government funding announcements and deadlines for data collection are summarised in the following table:

Table 1 – Timetable of Government announcements for Local Authority funding & data collection deadlines

Date	
20 March	Funding announcement – Emergency Funding Tranche 1
25 March	Tranche 1 allocation confirmed
6 April	Government data collection request
15 April	Government data collection deadline 1
18 April	Funding announcement – Emergency Funding Tranche 2
29 April	Tranche 2 allocation confirmed
14 May	Funding announcement - Infection Control Fund
15 May	Government data collection deadline 2
22 May	Funding announcement - Test & Trace Service Funding
19 June	Government data collection deadline 3

The detail in this report demonstrates how the Government funding allocated to Local Authorities to date is wholly insufficient to meet the existing and growing demands on our services.

Prior to the national emergency being declared, the Council had received a Budget Report which indicated that there remained significant financial challenge in the short to medium term, which, without the necessary support from national Government, will be substantially dwarfed by the potential impact of COVID-19.

3. Financial Implications

3.1 Emergency Funding Announcements

On 20 March, Government announced a national £1.6 billion of Emergency funding, recognising the vital role that Local Authorities are playing in supporting communities and local economies during the COVID-19 pandemic, which was intended to help address the pressures Councils are facing in response to the pandemic across all the services delivered.

Allocations to individual Local Authorities were calculated on the basis of relative need (as used in the Local Government Finance Settlement process) and the Council received payment of £6.39 million on 27 March.

In allocating the funding Government stated that this would enable Councils to do the following:

- Meet the increased demand for adult social care and enable councils to provide additional support to social care providers.
- Meet the cost of extra demand and higher business-as-usual costs of providing children's social care, including as a result of school closures and the need for increased accommodation to address the need for isolation.
- Provide additional support for the homeless and rough sleepers, including where self-isolation is needed.
- Support those at higher risk of severe illness from COVID-19, who may soon be asked to self-isolate in their homes for the duration of the pandemic, including supporting those within the most clinically high-risk cohort who also have no reliable social network (i.e. who are both at high risk clinically and socially).
- Meet pressures across other services, as a result of reduced income, rising costs or increased demand in order to continue to keep normal services, such as refuse collection, running.

On 18 April the Government announced that a further £1.6 billion of funding would be provided to Local Authorities to meet additional pressures arising from the pandemic and help continue to deliver frontline services. In doing so, they referred to:

- getting rough sleepers off the streets.
- supporting survivors of domestic abuse into safe accommodation.
- supporting the shielding programme for clinically vulnerable people.
- assistance for the public health workforce and fire and rescue services.
- aspects of the death management process, such as body storage, public funerals and crematoria.

- Councils continuing to provide vital services including adult social care and children's services.

It was announced that these funds would again be un-ringfenced, recognising that Local Authorities are best placed to decide how to meet these pressures in their local areas.

On 29 April, the Government confirmed how this second allocation would be allocated to Local Authorities and published individual Council allocations. Unlike the initial tranche of funding, distribution was on the basis of an amount per head of population.

This new allocation basis saw some large changes from the first allocations across Local Authorities. Over £260 million was added to the funds of 260 (mainly) district Councils, with this being reduced from other (metropolitan, unitary, London & counties) authorities' allocations. The allocation for St Helens was confirmed as £4.97 million, which is £1.42 million (22.2%) less than the initial allocation.

At the time of allocation, the Communities Secretary stated that the second tranche of funding was being distributed "in the fairest way possible, recognising the latest and best assessment of the pressures they face" and that "Councils are playing a central role in our national fight against coronavirus and the government continues to back them at this challenging time".

£214,000 of the Emergency grant funding has been applied to fund COVID-19 related expenditure in 2019/20.

3.2 Government Data Returns

Government have undertaken two data collection exercises in order to help them better understand the impact that COVID-19 is having on Local Authorities' finances. They initially wrote to all Local Authorities on 6 April asking for information, advising that the Government was committed to supporting Local Authorities to play their part in the national effort. Government stated the importance in them receiving up-to-date data on how existing funding was being used, any changes in income and expenditure and, looking ahead, they advised they would also like to understand emerging pressures.

To do this, MHCLG issued a data collection form to complete by 15 April. They advised they will then ask for updates on a monthly basis. The initial submission was to cover a three month timeframe to the end of June 2020.

The second data collection exercise was announced at the end of April, with a deadline of 15 May for completion. Data requested was similar to that included within the first data collection form. However, the timeframe that the return was asked to cover was extended, with Government requesting that full financial year estimates were estimated assuming that current restrictions remain in place until the end of July 2020 - a four-month timeframe.

A new component of the second data collection exercise was the inclusion of a section on "Reserves and Balances", asking specific questions regarding how much the current reserves and balances could be deployed to meet COVID-19 pressures throughout 2020/21 and what the impact of doing this would be on the Council's wider financial strategy.

General Balances are reviewed as part of the budget setting process and act as a safety net to take account of the wide range of local financial risks facing the Council and are not in place or available to cope with the impact of national emergencies or global pandemics – it is

considered that this is the role of the national Government. Earmarked Reserves are established to fund specific projects and programmes. These commitments and projects are essential parts of the Council's activity, and the regeneration programmes will be essential in contributing towards the recovery from COVID-19.

Future submissions will be provided to Government as part of the monthly data collection exercise. Government issued the third data collection return on 12 June, for completion by 19 June.

The Council have also been providing data to the LCR, so that the financial impact across the region as a whole can be assessed, with the basis for this data being a considered six-month timeframe.

3.3 St Helens Position

The latest data return to Government highlights the significant pressures that the Council faces, forecast on a four-month timeframe, and is summarised in the following table, alongside the latest forecast provided to LCR, based upon a six-month timeframe (PTO):

Table 2 - Expenditure and Income Pressures for St Helens

Emergency Funding Allocations		
	£m	
Emergency Funding Tranche 1 announced 20th March 2020	6.391	
Emergency Funding Tranche 2 announced 18th April 2020	4.973	
Total Funding	11.364	
	(i) Government Return 15.05.20 £m	(ii) LCR Return 18.05.20 £m
Additional Expenditure Pressures	9.813	12.562
Pressures on Planned 20/21 Savings	1.286	1.438
<u>Loss of Income</u>		
Sales, Fees & Charges	8.726	10.473
Commercial Income	2.142	3.000
Other Income (including loss of interest)	1.167	1.527
Business Rates/ Council Tax	6.318	7.000
Forecast Loss of Income	18.353	22.000
TOTAL ADDITIONAL COST PRESSURES & LOSS OF INCOME	29.452	36.000
UNFUNDED PRESSURES	18.088	24.636

3.4 Expenditure Pressures

The significant majority of the additional expenditure costs are relating to social care, ensuring there is sufficient support available for individuals in the community, capacity in residential and nursing settings, the purchase of PPE (£2.2 million for Adult Social Care and £1.3 million for other services) and supporting hospital discharges.

Additional costs have also been incurred providing accommodation for homeless / rough sleepers, shielding and costs to support local charities and community food banks.

In addition, there are additional staffing costs in a small number of service areas e.g. to support weekly refuse collections and to cover essential staff who may be self-isolating.

Some of the pressures that are being reported are exacerbated by the different treatment of Local Authorities by Government. An example of this is in Leisure Services where Council run facilities are required to still pay Business Rates, whereas private sector providers are exempt in the current year due following the Government decision to provide this exemption to businesses in the retail, hospitality and leisure sector. Another example is the non-availability of access to the furlough scheme for Councils for employee cohorts that would qualify in private sector settings.

3.5 Pressures on Planned 20/21 Savings

The Council has had a significant number of long term cost pressures which it has been addressing as part of budget setting, but these pressures are being magnified by the current situation.

The approved Budget for 2020/21 included savings proposals of £5 million, that were required to be delivered in 2020/21 to balance the budget. However, a number of these savings can no longer be delivered, or will be delayed in implementation, due to the impact of COVID-19 and the lockdown situation. The financial pressure from savings not being achieved is estimated at £1.438 million.

3.6 Income Pressures

The income loss arises from significant reductions in sums received from sales, fees and charges, commercial and other income (circa £15m) including:

- Leisure Services (£2.2m)
- Car Parking & Highways (£1.5m)
- Waste Collection and Recycling (£1.6m)
- Trading services (£2.3m) including charges for the provision of school meals
- Commercial income (£3.0m)
- Investment / Dividend Returns (£1.5m)
- Other (£3m)

Future anticipated losses in income will arise in the event of business failure and loss in Business Rates income as the economy shrinks, whilst the impact on residents' ability to pay council tax will be considerable. This a very difficult area to forecast until there is greater future certainty; a sum of £7m has been included in the most recent forecasts and will be refined as evidence becomes more available to support the actual level of losses experienced.

3.7 Liverpool City Region

As mentioned in section 3.2, LCR has been conducting its own data collection exercises to assess the position across the City Region and to lobby Government to ensure the necessary funding is provided to all Councils.

The forecast funding gap for each of the City Region authorities is shown in the table below:

Local Authority	Expected Financial Costs	Government Support to Date	Funding Gap
	£m	£m	£m
Halton	25.8	7.8	18.0
Knowsley	38.5	10.1	28.4
Liverpool	127.7	34.0	93.7
St Helens	36.0	11.3	24.6
Sefton	50.4	17.5	32.9
Wirral	62.8	20.7	42.1
TOTAL	341.2	101.4	239.8

The funding gaps in the table above highlight the fact that the current support allocations received from Government will only cover 26-35% of the estimated financial costs. This situation is similar across the country, with the chairman of the Local Government Association's Resources Board stating at the time of the second data collection exercise that Local Authorities "will need up to four times the funding they have been allocated by Government so far" to meet cost and demand pressures, as well as the huge drop in income.

This view has been reiterated by the Association of Directors of Adult Social Services (ADASS), who have stated:

"It is clear the £3.2 billion of additional funding to date will not be sufficient beyond the initial three-month period identified by Ministers, or to cover all of the measures that will be needed over the coming period to ensure continuity of care, address needs and to stabilise local providers. Further Funding will be needed."

As well as individual authorities and special interest groups urging Government to provide sufficient funding to meet all financial pressures, the LCR has been lobbying Government as a collective, setting out the size of the challenge that the City Region faces, as well as the financial impact on the region and the longer term implications of financial pressures relating to the current pandemic not being fully funded.

The Liverpool City Region Metro Mayor and political leaders across the City Region sent a direct letter to the Prime Minister, backed up by a detailed paper entitled "The Case for the Liverpool City Region", asking for fair funding and produced a press release, asking for support online from members of the public, using the hashtag #LCRfightsback.

The Council shall continue to lobby the Government to provide clarity around the extra funding that is desperately required.

3.8 Other Government Funding Announcements

Government made announcements about support for businesses as part of the Budget on 11 March, including cash grants of up to £3,000 for businesses who are eligible for Small Business Rates Relief. This scheme was revised on 17 March to provide grants of £10,000 for eligible small businesses and grants of up to £25,000 for businesses in the retail, hospitality and leisure sectors with a rateable value of less than £51,000 and total rateable values under State Aid limits. These schemes are to be administered by Local Authorities, with Local Authorities being fully compensated for the cost of this measure. St Helens Council received an allocation of £31.668 million for the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF).

At the Budget, Government also announced that businesses in the retail, hospitality and leisure sector with rateable value below £51,000 would pay no Business Rates for 2020/21. This relief scheme was expanded on 17 March to any business in the retail, hospitality and leisure sector, irrespective of rateable value and with no impact from State Aid limitations. Further revisions have led to the inclusion nurseries, local newspapers and other retail sectors. The impact of this measure for St Helens was a reduction in Business Rates collectible of £19.498 million, with a compensatory Grant payment from Government being received on a monthly basis to cover the reduction.

As part of the Budget speech, the Chancellor of the Exchequer announced the creation of a £500 million Hardship Fund to provide council tax relief for economically vulnerable households, with St Helens' allocation being £1.906 million. The funding has been provided to Local Authorities for the purpose of reducing the annual Council Tax bill for 2020/21 of all recipients of working age local council tax support by a further £150.

Government announced the creation of the Local Authority Discretionary Grants Fund on 1 May. This fund is aimed at small and micro businesses who were not eligible for either the SBGF or the RHLGF. The cost of this scheme will be funded by either:

- Where the Authority has spent all of the allocation of the SBGF and RHLGF, they will receive an extra 5% of their funding allocation; or
- The scheme will be funded by any underspend against the allocation for the SBGF and RHLGF, subject to a limit of a 5% underspend.

For St Helens, 5% of the original funding allocation equates to £1.583 million.

Government have acknowledged some of the cashflow pressures that Local Authorities face in the current situation and have advanced certain funding streams ahead of the usual profile, including Section 31 Grants for Business Rates, which led to the Council receiving £7.054 million as one receipt at the start of the year; previously Section 31 Grants been received monthly.

On 14 May, the Prime Minister announced a national allocation of £600 million for "infection control in care homes", with the intention that funding would be allocated to Local Authorities to passport to care homes. St Helens' allocation, based upon the number of care home beds within the authority, multiplied by an Area Cost Adjustment, totalled £1.794 million.

The primary purpose of the fund is to support adult social care providers, including those with whom the local authority does not have a contract, to reduce the rate of COVID-19 transmission in and between care homes and support wider workforce resilience, to be administered within a strict time frame and criteria.

The funding is subject to the submission of a Care Home Support Plan by the Council to the Department of Health and Social Care, to be jointly signed off between the Council and the CCG and for publication on the Council website. The care providers who receive the funding will be required to provide evidence that the grant has been spent for the purposes as set out, with any underspends subject to a clawback provision. Current guidelines setting out what the funding can be spent on have been criticised by ADASS as being “confused and unnecessarily bureaucratic”, including the fact that the fund cannot be spent on PPE.

The Government has also announced funding for Health to meet the costs of the response to COVID-19. Of particular relevance to the Council, in the guidance COVID-19 Hospital Discharge Service Requirements, the NHS is committed to fund any services required to enable hospital discharges or avoid hospitalisation from the 19 March 2020 until the end of the COVID-19 period.

The Council will access this funding to fund the capacity for hospital discharge that was created within the community via the block booking of beds, particularly in the first few weeks of the COVID-19 period, but which will also continue throughout the period. Similarly, any new or increased packages of care arising in this period as a result of COVID-19 and in relation to hospital discharge will be funded via Health. Council officers within the People’s Services Department are liaising with CCG colleagues to feed into their monthly return regime to identify relevant costs, after which funding will follow.

On 22 May, Government announced £300 million would be provided to Local Authorities to develop and action plans, with local NHS and other stakeholders, to support Test and Trace Services in the local community. Government announced allocations for the Test and Trace Service Support Grant on 11 June, with St Helens being allocated £1.328 million. Once the responsibilities of Local Authorities under the Test and Trace scheme are clear, consideration will be made regarding the adequacy of the level of funding provided.

On 24 May, Government announced £50 million would be allocated to Local Authorities to support their local high streets get safely back to business. The Reopening High Streets Safely Fund is intended to support practical measures so that businesses are able to reopen quickly when allowed to. The allocation for St Helens is £160,220.

On 17 March, Government announced the creation of the Coronavirus (COVID-19) Rough Sleeping Contingency Fund, to assist Local Authorities to provide accommodation and support to people who are unable to self-isolate, with St Helens allocation being £8,250.

3.9 Future Impact & Uncertainty

The current level of uncertainty about COVID-19 and future Government guidance makes the task of producing financial estimates very difficult. As demonstrated in Table 2 in Section 3.3, the time frame used has a significant impact on figures for financial pressures and, the longer the time frame used, the greater the level of uncertainty.

The future impact upon the local economy is very uncertain; however, the fact remains that the longer the pandemic goes on for, the greater the impact will be, and the greater the intervention by Local Authorities will need to be to assist businesses and individuals to return to normality.

The funding gap highlighted in the report only relates to revenue expenditure. The Council has an extensive capital programme and the current pandemic may have implications for capital schemes in terms of costs, timeliness and delivery.

Current projections by the Liverpool City Region Combined Authority are that St Helens will face the second largest economic slowdown out of all LCR authorities, with an anticipated 39% decline in output and over 25% of jobs at risk.

These future interventions will carry costs to the Council that cannot be estimated with any certainty at the current time, and for which there is no guarantee of funding from Government.

The Government's stance on funding Local Authority pressures appears to have changed since the start of the crisis; the Chancellor of the Exchequer promised to do "whatever it takes to get the nation through" in March, a message that was backed up by the Communities Secretary, who urged Council leaders not to put off spending decisions because Government would be 'supporting you and ensuring money flows to you'.

The message from Government has, however, changed over time. When discussing Local Authorities responding to COVID-19 on 4 May, the Communities Secretary told a parliamentary committee "We wouldn't want anybody to labour under a false impression that what they are doing will be guaranteed funding by central government" and that it was "only fair that central Government supports things that are open to all rather than individual choices by local councils".

St Helens Council is making "local choices" which are necessary to deal with the current pandemic. However, the financial consequences evidenced in this paper are a direct consequence of national Government policy and decisions in relation to the COVID-19 pandemic.

The change in Government message was set out more explicitly in a letter received from the Director of Local Government Finance on 28 May. The letter states that the £3.2 billion of Emergency Funding that Government has provided to Local Authorities is "to support Local Authorities in meeting the costs of the activities they have been asked to deliver" and then sets out what these are in an annex. The list of functions is as follows:

- Adult social care;
- Children's services;
- Public health;
- Fire and rescue services;
- Waste management services;
- Shielding the clinically extremely vulnerable people;
- Homelessness and rough sleeping;
- Domestic abuse; and
- Managing excess deaths.

The letter goes on to state that the additional cost pressures reported by Local Authorities under the second data collection exercise totals £1.25 billion, "which falls within the £3.2 billion of un-ringfenced grant the Government has provided to date". This stance by Government is a direct contradiction of the basis which it used for allocating the second tranche of Emergency Funding; as mentioned in Section 3.1, Government changed the allocation basis to an amount per head of population, with a split between county and district Councils, "to reflect the financial pressure being felt by Councils as a result of residents doing the right thing and staying at home, rather than using services including car parks and leisure facilities". How this statement

is consistent with the latest narrative, that funding is to cover expenditure on services that Councils have been asked to deliver, is uncertain.

This uncertainty has led Council leaders across the country to warn that billions more in financial support will be needed to avert potential catastrophes in local government and call for all increased costs and losses of income due to the pandemic to be under-written by Government. The Council continues to lobby the Government to provide funding that covers the loss of income Local Authorities are experiencing due to the pandemic, as well as all increased costs resulting from the Council's COVID-19 response.

Local authorities have a statutory obligation to deliver a balanced budget year on year and if they are unable to do so they must issue a Section 114 notice. The loss of income from fees and charges and other streams as a result of the pandemic, as well as the prospect of reduced income from Business Rates and the non-payment of Council tax will place Local Authority finances in a perilous position without significant Government intervention. The financial challenge the Council faces not only puts the response and other service delivery at risk, but also damages the prospects of a swift recovery.

The Council approved a 2020/21 Budget in March 2020, which presented several challenges in achieving a balanced budget position. It is proposed that the Cabinet approves the requirement for an Emergency Budget during 2020/21, aligned with the Reset and Recovery phase of the Council's COVID response, with all services included for review.

The Government have been considering major overhaul of the Local Government Funding mechanism for a number of years and it was confirmed, as part of the Spending Round 2019, that the major funding reform would be implemented in 2021/22., However, the Government announced on 29 April, that the planned review of Relative Needs and Resources (Fair Funding Review) and the review / reform of the business rates retention scheme will no longer be implemented during 2021/22. This delay results in significant uncertainty for the Council in considering future years budget requirements.

The Council remains committed to the overriding principles that nothing is more important than making sure the Council does all it can to keep residents safe and supported during these truly difficult times. Without the necessary levels of Government funding being secured, the size of the funding gap emerging means that the Council will need to make some really difficult decisions around service provision at a time when residents and communities are looking at it to lead the local recovery.

4. Legal Implications

4.1 None

5. Equalities Implications

5.1 None

6. Environmental Implications

6.1 None

7. Human Resources Implications

7.1 None

8. Corporate Landlord Implications

8.1 None

9. Health and Wellbeing Implications

9.1 None

10. Appendices

10.1 None

11. Background papers