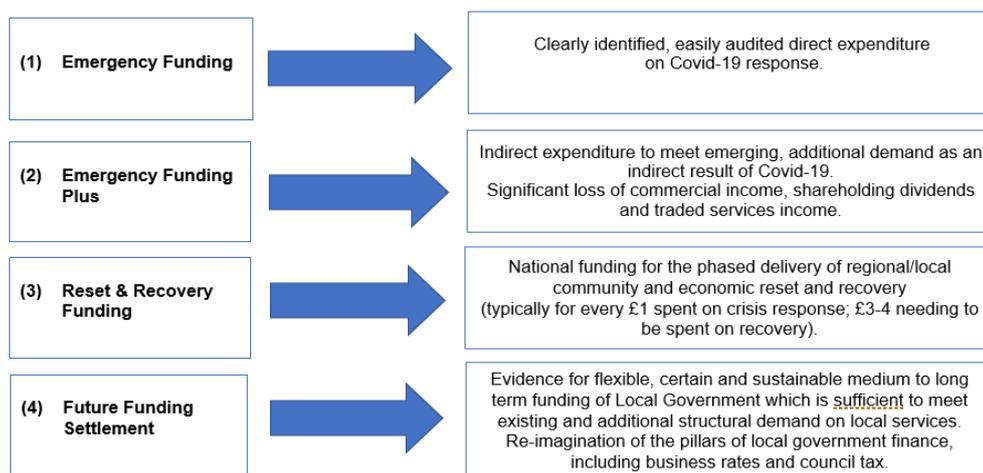


SHORT REPORT	
Subject Matter	Financial Impact of Covid19
Lead Officer	Rebecca Maher (Acting 151)
Date	26 th May 2020
Decision	To note the contents of this report



1 INTRODUCTION

- 1.1 The Covid-19 pandemic has had a significant financial impact on the current financial position of the council. This has been in the form of both additional expenditure and a loss of income from various sources.
- 1.2 A log of all financial pressures is being maintained and updated on a regular basis. This is used to complete returns that are submitted to the Ministry of Housing, Communities and Local Government (MHCLG) on a monthly basis.
- 1.3 The council's budget for 2020/21 was approved at Council on 10 March 2020. This was predicated on several assumptions around the level of income that could be achieved from various sources along with the successful delivery of planned savings across directorates.
- 1.4 Regional conversations with government around the funding requirements for local authorities have been based on the following framework: -



- 1.5 MHCLG are due to issue guidance shortly setting out which financial pressures they will fund, and it is expected that this will confirm that only the first two criteria – Emergency Funding and Emergency Funding Plus – will be covered. This guidance is likely to have an impact on the figures, and increase the shortfall, set out in this report.
- 1.6 No changes have currently been made to the Section 151 responsibilities of the Chief Finance Officer nor the requirements of Section 114 of the Local Government Finance Act 1988 which means that the council is still legally required to operate within a balanced budget. If this is not possible then remedial action would need to be taken in order to avoid the issuing of a S114 notice.

2 CURRENT IMPACT – APRIL TO JULY 2020

- 2.1 The funding that the council has received from the Government in response to Covid-19 is set out in the table below: -

Income Stream	£m
Council Tax – Hardship Relief	4.547
Small Business Grants	73.036
Care Homes – Infection Control	2.876
Emergency Funding – Tranche 1	12.495
Emergency Funding – Tranche 2	9.083
Total	102.037

- 2.2 Only the emergency funding of **£21.578m** is unringfenced and can be used to fund the range of financial pressures being incurred.

- 2.3 The latest version of the MHCLG return was submitted on 15 May 2020. This reported estimated financial pressures of **£24.385m**, which is made up of **£10.566m** additional expenditure and **£13.819m** loss of income. This is based on the assumption, specified by the MHCLG, which is that the current circumstances continue for a period of 4 months i.e. until the end of July. This leaves a shortfall of **£2.807m** which would need to be funded from the council's reserves unless compensating savings are identified during the financial year.
- 2.4 The Finance Management Team and Statutory Officer Group have approved a document which sets out the principles on which this emergency funding should be allocated. The financial pressures are now being assessed against these principles and a further decision-making process will be required to approve the allocation of the grant following this. If it is decided that some of the areas included in the MHCLG return are not eligible to be funded from this grant, the shortfall outlined above will increase.
- 2.5 It should be noted that the figures in this return are still high-level estimates as it is difficult to know exactly how long the impact of some of the financial pressures will be experienced for. Whilst the MHCLG's assumption of a 'return to normality' from July seems unlikely, it will take time to assess the real effect of the relaxing of lockdown measures on council services.

Additional Expenditure

- 2.6 The additional expenditure is broken down across the following key headings (as specified by the MHCLG return): -

Area	£m	Details
Adult Social Care (ASC)	5.304	Further details below (2.7)
Children's Social Care	0.241	Additional/exceptional placement costs
Children's Services – Other	0.601	Reparation sessions, increased S17 claims
Education	0.930	FSM Vouchers (Summer Holidays), Early Years provider support
Cultural & Related	0.002	Signs for parks
Environment & Regulatory	1.006	Temporary mortuary
Finance & Corporate	0.121	Additional ICT costs – home working and remote committee meetings
Other – Shielding	0.533	Food parcels for vulnerable residents
Other – PPE (non-ASC & HRA)	0.015	

Area	£m	Details
Other – unachieved savings/delayed projects	1.811	Further details below (2.8)
Total	10.566	

Adult Social Care Additional Expenditure – Further Details

2.7 The Adult Social Care additional expenditure incorporates the following areas:

Area	£m	Details
Additional Demand	0.808	Purchase of additional beds and access to flats in order to allow faster discharge from hospitals.
Supporting the Market	3.231	This relates to the paper that was presented to Emergency Committee on 6 May regarding support to Care Homes.
Workforce Pressures	0.590	Additional Social Workers and Care Assistants
PPE	0.675	Purchase of PPE
Total	5.304	

Unachieved Savings/Delayed Projects – Further Details

2.8 Although the council was able to set the 2020/21 budget without the need for savings by individual directorates or the use of reserves, the Medium-Term Financial Strategy did include some existing planned savings. There are also budget pressures that were due to be addressed during 2020/21. Staff in both Adult Social Care and Prevention & Protection directorates are currently focussed on Covid-19 and therefore the work required to implement these savings and address budget pressures has been delayed.

2.9 Savings that were planned and are now unlikely to be achieved include: -

- Consultation on non-residential charging in Adult Social Care deferred for 1 year
- Review of Adult Social Care placements – delayed by 6 months

2.10 Existing budget pressures that directorates were working on addressing, and that have been partly included in the latest MHCLG return, include: -

- Children’s Services SEND transport - £2.700m in 2019/20
- Neighbourhoods Property Maintenance Account – £1.200m in 2019/20

Loss of income - General

2.11 The council is experiencing a loss of income in the following areas: -

Area	£m	Details
Education – Other	0.644	Residential Education Centres
Highways and Transport	1.348	Car parking and enforcement charges
Cultural & Related – Sports, Leisure & Community Facilities	0.850	Fees & charges generated in parks, libraries and museums. Sandwell Valley car parking income.
Environment & Regulatory – Other	0.503	Income from enforcement activity / proceeds of crime. Fees from events at Registration Services (weddings)
Planning & Development	0.599	Building control & planning fees
Finance & Corporate – Other	2.561	Investment income, income from Templink, Printing and traded Legal Services
Other	1.234	Income form Markets (internal & external) and rental income from commercial properties and ad hoc room rentals.
Total	7.739	

2.12 The loss of income included in this table assume that services reopen and reintroduce charges from the beginning of August, in line with the MHCLG assumption, which may not be possible. In some of these areas, the loss of income is definite as the service has closed or charging ceased e.g. car parking. However, in other areas assumptions have been made about the likely level of non-payment as a result of the suspension of debt enforcement activity and the expected economic downturn.

Loss of income – council Tax and Business Rates

2.13 The April statistics for council Tax and Business Rates have been reviewed and has identified a total estimated loss of income in these areas of **£6.079m** made up of: -

- 1% reduction in council Tax collection rate – estimated loss of income of £1.996m for the full financial year
- 2% reduction in Business Rates collection rate – estimated loss of income of £1.083m for the full financial year
- Significant increases in applications for the council Tax Reduction Scheme (CTRS) – estimated loss of income of £3.000m for the full financial year

- 2.14 These figures are likely to change as the year progresses because there are still Business Rates reliefs to be entered into the system and CTRS applications to be processed. CTRS eligibility also changes during the financial year based on residents' financial circumstances and therefore these may alter as lockdown measures are eased.

3 LOOKING AHEAD – 2020/21

- 3.1 A review of the 2020/21 budget and Medium-Term Financial Strategy (MTFS) has identified further planned savings and existing budget pressures that are unlikely to be possible to address in the current circumstances. These are explained further below.

Neighbourhoods - Property Maintenance Account

- 3.2 There have been ongoing pressures on the Property Maintenance Account (PMA) which have previously been offset by revenue savings across the Neighbourhoods directorate. The overspend against this budget in 2019/20 was £1.200m. The MHCLG return currently assumes that it will be possible to reduce this by half as services will return to normal from August and will be able to begin the review of this. If this is not possible, the remaining budget pressure will be **£0.600m**.

Sandwell Children's Trust (SCT)

- 3.3 SCT have recently agreed their MTFP which includes savings across the next 3 years, £2.600m were planned to be delivered in 2020/21. The MHCLG return currently includes some SCT pressures relating to both direct Covid-19 related costs and the inability to reduce placements as planned due to the current circumstances. In addition to this there is estimated to be a further budget pressure of approximately **£0.378m** for the remainder of the financial year. Further work is required to understand how much of the £2.600m planned savings are unachievable.

Children's Services – Post 16 Service

- 3.4 Savings of **£0.250m** in the Post 16 Service are currently included in the 2020/21 budget which are now thought to be unachievable. The service also has approximately £2.000m of grant funding which may be at risk if it is not possible to achieve the associated outputs this financial year.

Children's Services – SEND Home to School Transport

- 3.5 The overspend against SEND Home to School Transport for 2019/20 was approximately £2.700m. The MHCLG return currently assumes that this will reduce to **£1.350m** as it will be possible to continue the project to address this from August. However, in reality the pressure is unlikely to be reduced

significantly during 2020/21. There is a possibility that the costs of this service will actually increase if children have to be transported separately due to social distancing measures.

Resources – Templink

- 3.6 There are financial pressures associated with payments to Templink staff which amount to **£0.360m** until the end of September and that have not been included in the MHCLG return.

Resources – Legal

- 3.7 Funding has not yet been identified to cover the costs of the newly formed Governance team. It is now unlikely that it will be possible to identify savings across the Resources directorate to fund this team. The cost of this team is **£0.290m**.

Resources - ICT

- 3.8 There has been a growing pressure on the recharge income for printing within the ICT budget. This pressure has significantly and quickly increased with the majority of people currently working from home. This should be offset by a reduction in expenditure across other service areas and a review of this will need to be undertaken and potential budget virements actioned to address this. However, it is possible that the corresponding savings are not able to be identified and therefore this could be a budget pressure for the council overall. The estimated pressure against this area is **£0.940m** if savings are not able to be identified across the rest of the council.

Oracle Replacement Project

- 3.9 The replacement of the Oracle system was due to be implemented on 1 September 2020. This has now been delayed until 1 April 2021 and the additional costs of this are currently estimated as **£0.158m**.

Capital Programme

- 3.10 An initial review of the council's capital programme has not identified any significant current issues. However, the following risks/issues have been highlighted: -
- Delays in progressing schemes although grants can generally be carried forward.
 - Potential for premiums being charged as contractors will be in demand when able to continue and will have additional H&S measures.
 - Major projects – Covid-19 is a Force Majeure event and therefore risk passes to council.

- School Basic Need funding for 2022/23 still to be announced and uncertainty around whether future allocations will take into account potential additional costs of temporary accommodation to allow social distancing in schools?
- Housing Revenue Account (HRA) – 30/40% delay in programme especially new build so spend will be pushed back into next financial year. The department for Business, Energy and Industrial Strategy (BEIS) are currently indicating an 8% reduction in March figures for availability of labour and 4.3% increase in costs for 4th quarter.
- HRA – Issues relating to the time limits for completion of Right to Buy applications.
- Local Transport Plan – some funding is time limited and therefore could be at risk unless deadlines are extended.

Summary – 2020/21

3.11 The table below summarises the financial pressures outlined above, including the shortfall calculated from the MHCLG return: -

Pressure	£m
Shortfall per MHCLG return	2.807
Property Maintenance Account	0.600
SCT	0.378
Post 16 Service	0.250
SEND Transport	1.350
Templink	0.360
Legal	0.290
ICT	0.940
Oracle Replacement Project	0.158
Total	7.133

3.12 The council’s free balances at the end of 2018/19 were £12.105m which is equivalent to 5% of the net expenditure budget and is in line with the policy to hold balances of between 3-5%. If these pressures are required to be funded from free balances, these would reduce to £4.972m which is equivalent to 2% and is below the prudent level set out in the reserves policy. It would also limit the council’s ability to deal with ongoing pressures that are likely to result from the expected economic downturn.

4 LOOKING AHEAD – 2021/22 ONWARDS

Potential Contract Increases

- 4.1 Most contracts due to expire in the current calendar year are being extended for a period of up to twelve months where the Service Manager confirms this is appropriate and contract performance is acceptable. This has enabled procurement resources to be directed towards dealing with the impact of Covid-19. Extension of existing contractual arrangements best protects the council's financial interests. The overall value of contracts ending in the current year is £10.200m.
- 4.2 In the medium to long- term, it is likely that we will continue to experience issues in tendering and the achievement of value for money. Lack of face to face engagement could be detrimental to pre-market engagement and any market contraction that has occurred is likely to mean that prices increase, and potential suppliers limit the number of tender processes to which they commit resources. The impact of this on costs is not easily quantifiable.
- 4.3 Contracts that have been extended in 2020 will need to be retendered alongside the existing planned tendering for subsequent years which will create a pressure on resources in the Procurement team and across the council. In addition, there will be inflationary increases, above the amount included in the council's Medium-Term Financial Strategy, as suppliers seek to recover the loss of inflationary increases for those contracts extended in the current year.
- 4.4 An additional pressure could come from scarcity of commodities such as building supplies and electronic components which would have an impact in the construction industry and ICT hardware respectively. There is already some scarcity in both areas, and it should be expected that materials costs in these fields will increase.
- 4.5 Price falls in the oil market and reduced investment might also have a negative impact on markets in terms of supplier engagement with tender processes and increased costs that suppliers will pass on to contracting authorities.
- 4.6 There is also the impact of Brexit that will need to be considered. If the UK reverts to World Trade Organisation terms at the end of 2020 and tariffs are imposed in some industries, this could have a further impact on contract costs.

2021/22 Budget Pressures

- 4.7 The majority of the budget pressures highlighted earlier in the report are likely to continue into 2021/22 although further work is required to quantify the impact in that year.

- 4.8 There are also new budget pressures that are likely to arise as a result of planned activity not taking place during 2020/21. Examples of these are: -
- The increased workload for the Procurement Service as a result of contract extensions in the current year will mean additional capacity is likely to be required in the team at an approximate cost of **£0.060m**.
 - A planned restructure of the Revenue and Benefits Service may not take place this year. Savings of **£0.295m** had been included in the MTFS relating to this restructure and therefore may not be achieved.

5 LOOKING AHEAD – NEXT STEPS

- 5.1 The closedown process for 2019/20 is close to completion. This means that the General Fund balance will be confirmed. It will then be necessary to review the earmarked balances and reserves that are committed from this balance and assess whether any of these can be redirected towards Covid-19 pressures.
- 5.2 The Finance Service will be working closely with the Service Improvement team to understand the Reset and Recovery process for the council. As part of this, it is vital that the plans for Reset and Recovery are affordable within the reduced financial resources that are likely to be available.
- 5.3 The Local Government Finance Settlement is not expected until later in the financial year and it is still not clear whether this will be another one-year settlement or a multi-year settlement. In the meantime, the funding for 2021/22 onwards will need to be estimated and the Leadership Team will need to agree various assumptions on which this should be based.
- 5.4 With the current level of uncertainty, it may be necessary to produce best, middle and worst-case scenarios. This will allow for plans to be made around Reset and Recovery for each of these scenarios and for these to be put into action quickly once the funding position is confirmed.
- 5.5 A decision will also need to be made about what level of risk the council is willing to accept when setting the budget for 2021/22 i.e. the level of contingency incorporated into this budget and therefore the potential for a call on reserves if the budget that is set is insufficient.