

Report title: COVID-19 Finance Update	
Report to: Corporate Policy and Scrutiny Committee	
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Date: 26 May 2020	For: Discussion
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County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 To provide a briefing on the Council's response to the COVID-19 pandemic.

2. Recommendations

- 2.1 None – the report is for information and discussion.
- 2.2 To ask the Committee if there are further questions or points, they would like us to raise with the Ministry of Housing, Communities and Local Government (MHCLG)

3. Background

- 3.1 The COVID outbreak spread to the UK in late January 2020. On 11 March, the outbreak was declared a pandemic. On 20 March, the government shut all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March, the government imposed a lockdown on the whole population, banning all "non-essential" travel and contact with people outside one's home (including family and partners), and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to social distance when in public.
- 3.2 The Council had to act quickly.
- 3.3 The number of COVID-19 cases has grown significantly since early March. The frail and elderly are the most vulnerable. The health and care sectors are significantly affected and face high demand and pressures on workforce due to COVID-19 related absences.
- 3.4 However the pandemic has affected other Council services as facilities have had to close, which includes, but is not limited to Libraries, Country Parks and Recycling Centres.

3.5 There was significant and urgent work undertaken across the council and social care providers to ensure an effective response in order to:

- Ensure the safety and wellbeing of people in Essex and our most vulnerable residents
- Support providers suffering financial hardship as a result of COVID-19
- Support providers within the social care market to remain sustainable at a time when they may be under significant pressure in order to ensure that care staff can continue to work and do not suffer financial hardship as a result of COVID-19
- Maintain statutory duties.

It was also vitally important that we sustain providers of social care to make sure that they can continue to operate in the face of demand and workforce pressures. The council took firm and swift action to protect the social care provider market.

3.6 The Government has made several announcements in response to the pandemic. A summary is attached below along with some Frequently Asked Questions.



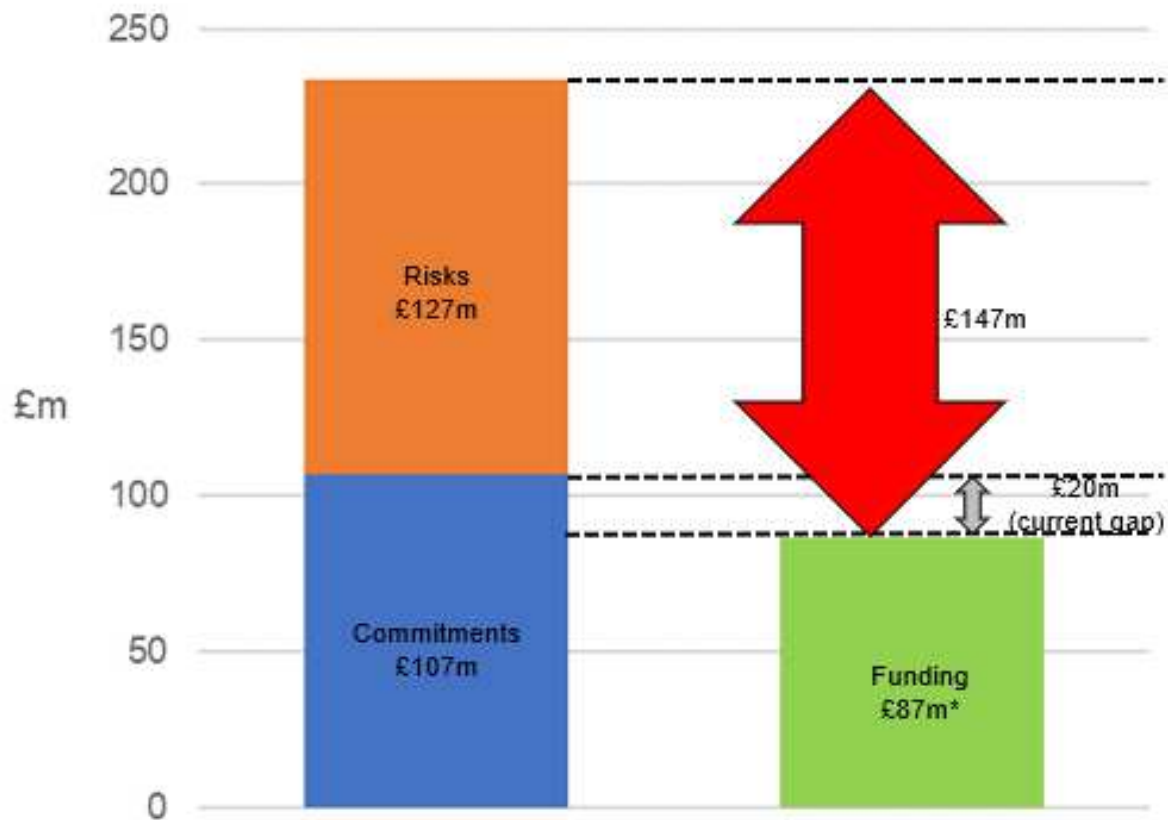
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4. Estimated costs and income pressures

4.1 At the time of writing, the Council has approved decisions totalling £74.5m. An overview of these decisions is shown at Appendix 1. The majority of decisions relate to Adult Social Care. These decisions have been temporarily financed from the Emergency Reserve and the General Balance pending the receipt of emergency funding from the government (the impact on reserves is set out in section 8).

4.2 There are also other future cost pressures or potential income losses, for which the Council has not yet taken decisions or are currently in the governance process. These include Operation Shield, additional children's social care costs, loss of income (notably from closed services) and anticipated non-delivery of savings where capacity has been redirected to focus on the pandemic. The latter is notably demonstrable in Adults Social Care which has an ambitious change and savings programme approved by Cabinet in February 2020 which will need re-appraising in light of the pandemic response. These other pressures are estimated at £32.2m, which equates to a total value of £106.7m. This is before any underlying losses on council tax and rates (which technically do not hit the revenue account until 2021/22 due to how tax is managed in the Collection Fund) but in financial strategy terms is critical to making decisions about our spending commitments given this is key to sustainability.

4.3 Below sets out the estimated cost of the first infection wave and the potential funding available.



* Includes an assumed £23m from CCGs

- 4.4 To date the Council has received £37.4m of additional funding from central government and is due to receive a further £26.2m from the second tranche of funding, therefore a total of £63.6m. This leaves an estimated shortfall of £43.1m. This could reduce to £20.1m, if we successfully claim a share of the NHS £1.3bn allocated to Clinical Commissioning Groups (CCGs); currently modelling shows that we have expenditure of £23m which we consider eligible to claim against the NHS funding. However, until this is formally agreed it remains at risk.
- 4.5 Discussions are underway with CCGs and we are close to agreeing a set of principles for how we work together, in relation to funding and decision making.
- 4.6 Within the position, there is forecast lost income of £14m, of which £5m relates to fees and charges. The remaining £9m relates to adult social care client income (£5.7m) and other income (£3.3m). In addition, there is further risk of £4.2m on income from fees and charges, particularly in relation to place, education and registrars. Also, some of these services have ongoing staff commitments, therefore we are looking to furlough staff where appropriate (see 4.7 below).
- 4.7 The Council has considered the furloughing of staff, where that staffing expenditure is funded by fees and charges; i.e. there is no further recourse to

funding. This work is underway but it is estimated that the likely monthly claim will be circa £300,000, which will offset some of the fees and charges lost income.

- 4.8 The committed expenditure position includes costs for supporting Operation Shield. These are estimated so far at £750,000. This reflects the costs associated with mobilising provisions supplied by central government for those in Category A and, also Category B as well as the creation and operation of Essex Welfare Service (EWS) which includes; staffing, technology and volunteering costs to assist those who are unable to access support. A Cabinet Member Action is being prepared, noting that there may be the potential of mutual aid which could reduce this value.
- 4.9 The Council is required to complete monthly returns to Government on estimated cost and income pressures.

5. Risks and Opportunities

- 5.1 In addition to the costs and pressures set out above, there are also a number of financial risks. We estimate that our current risk exposure could be **£128m** (total £234m including the costs and pressures set out above). Below are some areas where we are likely to see significant risk and potentially costs or loss of income:
- **Personal Protective Equipment (PPE) supplies** will present additional future costs; it is not simply whether we need to provide or fund PPE for the care market, but given recent government guidance we are also assessing what the PPE need is for Essex directly employed staff, community schools and other supply chain areas.
 - **Adult Social Care Self-funders**, a letter from the MHCLG suggests local authorities should support the market more broadly where they have private arrangements with self-funders. We await further guidance from government, but direct intervention would be financially unsustainable with the current funding availability.
 - **Ongoing impact for both adults and children social care** - after the pandemic the health service will go back to normal but adult social care will still be feeling the impact as people will remain in residential beds and in the care system. There will be impacts on chronic health conditions both directly and indirectly as a result of the pandemic (e.g. COVID related health issues and impact of deferred care for other conditions). The pandemic will also impact on people's mental health, as well as the economic situation. There are many factors to consider that are social and community based that will take a long time to come through.
 - **NHS may announce the end of the Emergency Period** before the end date of the contractual arrangements we have entered into around block bed provision in particular, and therefore we may not be able to reclaim total costs from the NHS
 - **Future waves** of the pandemic could increase demand due to people starting to present at hospital again, which are likely to require additional funds in the future. The timelines for this are still unknown

- **Tax revenues** are at considerable risk due to the number of new Universal Credit (UC) applicants nationally and the unknown impact of non-payments. To date, the increase in UC applications has not yet flowed into the council tax system, this is being monitored.

There is also a potential opportunity in relation to demand. The decisions made to date are based on a set of demand assumptions in a constantly changing environment, however the actual demand could be lower, therefore reducing potential cost. For example, the predicted amount of beds needed is going down so that may mean we spend less than we originally assumed.

- 5.2 Council Tax take and collection levels remain a key risk. We are in continuing discussions with the Essex district councils on this and other matters. We are working with Pixel Financial Management, commissioned via the County Councils Network, to undertake modelling in this area. If the Council Tax collection rate reduced by 1% for the full year this would equate to circa £7m loss in income to ECC.
- 5.3 At this stage, it is difficult to assess the impact on business rates collection levels due to complexity of the number of reliefs and grants which mean that April's cash collection is not comparable to that of April 2019.
- 5.4 Referral levels in Children's Services remain low as do Domestic Abuse volumes and it is felt that increased demand will be seen once schools return and full access to families is resumed and so the risk remains that pressures could increase through care levels. As an example of future cost, should placements increase by 10% a 6-month pressure could be £3.6m. From discussions with other local authorities their experiences align with Essex where they have not seen an increase in care levels but are however raising the risk that they could in 3 - 6 months' time.
- 5.5 It is anticipated, once schools return, that there could be an increase in volume of Education and Health Care Plans (EHCP) which may result in an increased cost and so push the High Needs Block within the Dedicated Schools Grant (DSG) into further deficit.
- 5.6 There is risk around developers and other contractors' costs and viability, and the potential impact on our ability to deliver the capital programme. At present this has not manifested in significant changes to the programme, with the construction industry prioritised in the government guidance on return to work, but we will continue to carefully monitor the situation.
- 5.7 The position and risks and opportunities are being continually monitored and will be reported in the monthly internal reporting and quarterly reports to Cabinet.

6. Medium Term Impact

- 6.1 Based on what we know, the majority of the £106.7m commitments are likely to be one-off in nature. This does assume that the transformation pause, which

delays the realisation of planned savings, is a one-off impact. However the risks could impact longer term.

6.2 The Spending Review has been delayed.

6.3 The Government have confirmed that the move to 75% business rates retention and changes to how funding is distributed between councils under the fair funding review will not now go-ahead next year. This means that there will be another 'emergency year' of funding to 2021/22 for Local Government, and we need to prepare our medium-term planning against a backdrop of continued funding uncertainty. Over the coming weeks, we will commence drawing up scenarios for our medium-term modelling.

7. Other key financial issues

7.1 The deadline for the draft accounts for 2019/20 to be produced has been pushed back to 31st August, with the deadline for publishing the final audited accounts on 30th November. Whilst the extended dates now provide additional flexibility and time to close our accounts for 2019/20, we are still planning to produce the draft accounts by the end of June and to publish our final, audited accounts by the end of September. This recognises the need to draw a line under the 2019/20 financial year as soon as practicably possible, in order to support the ongoing response to COVID-19 and on our subsequent financial recovery. The provisional outturn should be presented to Cabinet on 16th June. The Chief Accountant worked closely with the Chartered Institute of Public Finance and Accountancy (CIPFA) to influence and work through the impact of COVID-19 on the revisions to the national accounts closure timetable.

7.2 We are starting to see a reduction in the level of debt we are collecting. We are monitoring on a weekly rather than a monthly basis with the focus on chasing recent rather than old debt.

7.3 There are areas for which the sector is awaiting clarity from MHCLG and Treasury, including:

- What more can be done on council tax and rates support before it recovers to a sustainable footing
- Clarity as to when capital grant funding will be confirmed and received, i.e. HIF & if flexibility will be given on grant conditions (notably timing) given the likely slippage or reprofiling of some capital projects

8. Reserves

8.1 As referred to in 4.1, decisions totalling £74.5m have been approved. These decisions have been temporarily funded from the Emergency Reserve and the General Balance pending the receipt of the additional funding from government.

8.2 This means that the Emergency Reserve has been reduced to under £1m (from £10m). The General Balance now stands at £60.2m after recent decisions on the additional Government funding (FP/681/04/20 and FP/698/05/20).

9. Other Government Support

- 9.1 The Government has provided additional support to businesses and residents, including:
- Grants to businesses who are eligible for Small Business Rates Relief and Rural Rates Relief would receive a grant of £3,000, and those businesses in the retail, hospitality and leisure sectors with an additional cash grant of up to £25,000 per business (£10,000 for those with a rateable value of under £15,000)
 - Business rate reliefs for retail, hospitality and leisure sectors
 - Business rates holiday for nurseries
 - Loans to businesses, as well as bounce back loans to smaller businesses
 - Hardship fund to provide support to economically vulnerable households, to provide more council tax relief, either through existing council tax support schemes or through complementary reliefs
 - Additional funding for Business Improvement Districts
 - Pledged to spend £76m to support vulnerable children and victims of domestic violence and modern slavery
- 9.2 As at 12th May, £240m of grants have been paid to businesses, out of the £342m initial allocation for districts in Essex. This means that 82% of businesses have been paid, which is over the Government's floor target of 80%. The districts have paid all businesses they have had contact with, however with several businesses currently closed, it is proving difficult to obtain bank details for some in order to pay the grant over. We are supporting the districts on communications to increase the number of businesses that can be paid.
- 9.3 On the 2nd May, the Government announced an additional 5% uplift to the £12.3bn funding previously announced for the Small Business Grants Fund (SBGF) and the Retail, Hospitality and Leisure Grants Fund (RHLGF), which equates up to £617m. Further guidance will be sent out shortly, as well as specific allocations. As this is a discretionary scheme, this will require formal governance within the districts.
- 9.4 The current focus of District Councils is on the payment to businesses, after this focus will switch to the payments of the hardship fund to qualifying residents.
- 9.5 Districts are not offering blanket payment deferrals on Council Tax, however there has been a small overall increase in non-payments so far, and exceptional requests to change payment plans from 10 to 12 months, but the situation is being monitored.
- 9.6 We are working closely with District Council's Finance Officers to collect data to establish and monitor the overall position on Business Rates and Council Tax. However, it will be difficult to predict the overall impact for the year, and therefore on the Collection Fund until trends become more established.

Breakdown of decisions made to date relating to the first Wave of COVID-19 Infections

Service Area	£000	Detail
Adult Social Care	18,600	To secure residential care capacity in order to support the timely discharge of people from hospital.
	11,400	To support providers to cope with the anticipated demands placed upon them.
	7,400	To purchase up to 332 beds in care homes which are currently closed/mothballed.
	7,000	To reimburse some of the additional costs incurred by residential and nursing care providers during the 16-week period from 19 March 2020 – 8 July 2020.
	5,550	To secure capacity for those currently using Day Care where centres are closing and to support sustainability of the market during the emergency.
	3,988	To Provide extra equipment supply to support people home from hospital and Support the wider health and social care system by moving to seven-day working for social workers and equipment deliveries.
	2,000	To secure personal protective equipment (PPE).
	1,200	To support our most vulnerable service users with care technology for a maximum period of six months.
Corporate and Customer Services	10,000	To put in place measures relating to the management of additional body storage facilities as a result of COVID-19.
Place Services	2,720	To compensate for anticipated loss of income as a result of the suspension of Highways and Transportation services.
	2,465	To compensate the anticipated loss in income as a result of the suspension of Essex Outdoors service.
	783	To compensate the anticipated loss in income as a result of the temporary closure of County Parks facilities.
	650	To compensate the anticipated loss in income as a result of the temporary suspension of classroom-based learning at Adult Community Learning centres.
	550	To compensate the anticipated loss in income as a result of the temporary closure of Colchester and Chelmsford Park and Rise services.
	173	To compensate the anticipated loss in income as a result of temporary closure of Essex Records Office and suspension of certificates service.
Total Approved Decisions (as at 7th May)	74,479	