Leicestershire County Council

CABINET – 22 MAY 2020

CORONAVIRUS (COVID-19) FINANCIAL IMPLICATIONS

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to update the Cabinet on the expected financial implications of the coronavirus (COVID-19) and the measures being put in place to monitor and minimise the impact.

Recommendations

2. It is recommended that:

   a) The Cabinet notes the increasingly serious financial position facing the County Council and the measures in place to monitor and minimise the impact.

   b) The district councils, as collection authorities, be asked to provide the County Council as soon as possible with accurate, updated council tax collection figures.

   c) The County Council's financial position be drawn to the attention of Members of Parliament with a request that they advocate with Ministers the measures set out in this report to ensure the stability of the County Council and its ability to provide front line services, whilst noting that the ongoing pressures on the Special Educational Needs and Disabilities budget exacerbate the financial concerns.

   d) The Cabinet notes the support given to providers of adult social care and that further support will be provided, as set out in the report.

Reasons for Recommendations

3. To ensure Members have a clear understanding of the Council's financial position, both in the short and medium term, to enable them to make informed decisions on future service delivery and also to support them in discussions with Cabinet Members and MPs in securing monetary resources to safeguard the ongoing financial viability of the County Council, and local government in general.

Background

4. Coronaviruses are a family of viruses common across the world in animals and humans. COVID-19 is the illness seen in people infected with a new strain of coronavirus not previously seen in humans which began in Wuhan Province in China in December 2019 and has since spread to most parts of the world.

5. The Cabinet considered an urgent report on the matter at its meeting on the 28 April 2020 which advised members on the impact of the virus, including the financial implications. This report provides an update to that financial position.

Circulation under the Local Issues Alert Procedure

6. This report has been emailed to all members of the County Council.

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PART B

Estimated Financial Impact

7. The overall financial impact of the pandemic is difficult to quantify at present. There is the wider impact from the deep-rooted economic recession that will follow. Latest forecasts suggest that the UK Government deficit could be as high as 12% of GDP in the current financial year. This is likely to be by far the biggest deficit for well over a century. To put it into context, the equivalent figure for the financial crisis in 2008 was around 5%. Unemployment is expected to increase from 4% to 10%, despite the unprecedented government measures being put in place.

8. The latest assessment of the overall impact on the County Council's MTFS is set out in the table below:

	£ million
Estimated spending pressure	34.0
Estimated income loss	21.8
Total 2020/21 financial pressure	**55.8**
Share of £3.2bn grant fund	**-27.6**
Gap	**28.2**

9. Recognising the significant uncertainty, it is estimated that without further Government support the County Council will face a financial gap in the order of £28 million in the current financial year. These financial implications will continue beyond the current financial year adding to the financial gap identified in the MTFS. The impact is across the board covering additional expenditure, reduced income levels and savings no longer achievable. For example it includes:

    Increased expenditure (Crisis management)

    - the cost of interventions to support the supplier market where Government measures are insufficient or not applicable, including cash flowing providers at risk (potentially in the order of £20m);
    - increased costs of equipment and IT infrastructure to facilitate staff working from home during lock down; (£1m)
    - support to community and third sector groups to allow them to continue to provide critical services (£1.5m community fund created);

Increased expenditure (Medium-term including recovery)

- the costs of recovery are likely to be significant for front line services. Socially distanced working practices are almost certainly going to be significantly more expensive and inefficient. For example, despite a reduction in the number of locations the extra costs of household waste sites are expected to be in the order of £10,000 per week ongoing. This will be significantly more initially, as traffic management and booking systems are put in place. Other services that entail close contact with service users, especially social care and transport will have similar extra costs;
- increased waste disposal costs as people are spending more time at home. Early signs are that tonnages are up by about 10%. This could be as much as £1m on the assumption that these inflated tonnages continue for 6 months;
- Savings no longer achievable - for example planned savings linked to changed target operating models in Adult Social Care could be compromised through, for example, increased demand or different service delivery models being required;

Reduced Income

- reductions in income levels for commercial services (for example school foods income alone is £1.6m a month);
- reduced levels of council tax and business rates income impacting on the County Council's core funding assumptions. Underlying increases from housing/business growth and annual rate increases are assumed to generate roughly £6-8m additional core funding per year. Potentially income could actually reduce, depending on the impact of the longer-term picture on unemployment and business failure, potentially pushing the impact up to £10m;

Increased Project/Capital Costs

- increased costs of capital projects as work on site has to be put on hold, or delivered incorporating new working practices to ensure social distancing is observed (potentially £2m on some of the current key schemes);
- additional costs arising from project delays such as Fit for the Future where the planned go-live in April 2020 has had to be put back (estimated overall project delays, circa. £2m).

10. Due to the scale and speed with which the virus has impacted society and created the financial problems that the County Council faces it will not be possible to reduce costs or raise new income in the current financial year to fully fund the gap. Assuming the financial gap remains at £28 million (it could easily grow) it is expected to be closed by the following measures:

- £4m MTFS Risks contingency
- £10m General Fund (requires replenishment)
- £14m Reprioritise capital programme (potential requirement to replenish).

11. The financial impact in future years is even more uncertain. Although it is hoped that measures to contain the virus will be greatly reduced, the financial challenge will need to be met due to:

    - Reduced growth in housing and business premises reducing new taxes being raised;
    - Greater level of tax defaults and reliefs;
    - Replenishment of the General Fund;
    - Delays to existing savings programmes;
    - Reduced ability to generate alternative income, for example through property rental;
    - Higher service costs due to long lasting changes from the crisis, for example the care home market will potentially look very different;
    - Greater support requirements, e.g. social care, from higher unemployment.

12. The County Council's key income streams are Council Tax and Business Rates, with £390 million of income budgeted for 2020/21. At present, a relatively small £10m reduction in the current year is forecast. This will be updated once the updated collection figures from the district councils have been received, and the expectation is the position will worsen, with the potential for further pressure in the medium and longer term.

13. Information from the Centre for Economics and Business Research, an independent economics research company, indicates that the economy of the East Midlands is likely to be hit harder than any other part of the UK. The relative impact is higher due to the region's sizeable manufacturing sector, which has largely shut down. This is likely to have long-term consequences for the County Council's tax base.

County Council Approach

14. The County Council is taking a number of measures to ensure the impact on the financial position is minimised where possible. These include:

    In the immediate crisis period

    - Balancing adherence to Government advice where possible with protecting the overall financial position;
    - Sign-posting suppliers to significant and wide-ranging Government support measures;
    - Furloughing employees where service is impacted by a full or partial loss of external/commercial income;

- Maintaining financial discipline by ensuring senior financial staff are appraised of, and approve, significant additional expenditure;

Medium Term including recovery

- Minimising recovery and ongoing costs by ensuring a range of options for future service delivery are considered;
- Reviewing and reprioritising the capital programme;
- Accelerating the digital programme;
- Identifying new savings and service rationing.

Government assistance and potential future measures

15. The Government has already provided £28m in extra grant. This has helped to reduce the expected impact on the County Council's financial position from an estimated £56m in 2020/21 to £28m. Other Government measures that have prevented the position being worse are the instruction to schools and academies to pay for free school meals and the Coronavirus Job Retention Scheme.

16. However, it is crucial that further support is provided both in the short-term and for future years. In particular the Government should be encouraged to consider further measures to ease the financial burden and ensure the stability of local authorities. For example:

i. A commitment to underwrite Council Tax and Business Rates income in both 2020/21 and 2021/22;

ii. A consistent and considered approach to Adult Social Care. The market was fragile going into the crisis and the impact of COVID-19 on residential homes has been profound in human terms. The financial impact has also been profound and the implications are just being seen. The current approach of the Government, in requesting local authorities to support the wider market whilst not providing sufficient funding, will not work. There is a strong case for national intervention to support the sector or providing adequate resources to allow local authorities to undertake this task;

iii. Local Authority services are highly regulated and in many cases defined in legislation. The Government needs to consider relaxing rules in the short-term as there is a practical issue of delivering services. In the medium-term affordability will increasingly be an issue;

iv. Local authorities continue to face non-COVID-19 pressure. The largest for many is Special Education Needs and Disabilities (SEND). The Department for Education has been slow to address this and must come up with a coherent plan with sufficient funding, and soon. The liability for the County Council will be in the order of £20 million by the end of the financial year;

v. Despite being the lowest funded county council, Leicestershire went into this crisis in reasonable financial shape. That is not the case for many local authorities, and this has just exacerbated and accelerated their financial problems. There is a likelihood of increasing intervention by the Ministry of Housing, Communities and Local Government as there will be an increasing number of local authorities seeking financial assistance over coming months. This intervention will need to be short-term and tactical, but also strategic. This is an opportunity to put the whole of local government on a much sounder financial footing and to recognise that much of the structure of local government is unsustainable. This applies not just to the remaining two-tier areas but also smaller unitary authorities;

vi. All upper tier local authorities will emerge from the crisis in a weaker shape but the key challenges of Adult and Children's Social Care remain, and indeed will be more acute. The Government needs to consider measures to resolve these pressures with the utmost priority;

vii. The continuation of one-year settlements for local authorities has become increasingly unhelpful. A comprehensive spending review, combined with implementation of the various proposed funding reforms, needs to be undertaken as soon as possible. A commitment to additional funding for local government needs to be in place for the 2021/22 financial year and a clear indication of the results of funding reforms needs to be given as soon as possible to reduce any transitional periods;

viii. Continuing to ensure significant funding is available for infrastructure development to help kick start economic recovery. This includes significant and meaningful investment to enable society to build on some of the environmental benefits that have accrued indirectly as a result of the pandemic (such as increased cycling and walking infrastructure).

17. On 13 May, the Prime Minister announced £600m for infection control in care homes. The purpose 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 care homes and between one care home and another.

18. The funding has been allocated to areas based upon the number of care home beds. This has resulted in an allocation to the County Council of £6.7 million. The conditions of the funding are still be developed, but key points are expected to be:

    i. 75% of the funding allocated to care homes on per bed basis, not just County Council service users.
    ii. To receive the second instalment, councils must have returned a Care Home Support Plan
    iii. Payments contingent upon improved reporting and investment in infection control by homes and councils.

iv. Remaining 25% also available for infection control but there is greater discretion and it can be used in either residential or domiciliary care.
v. Funding expected to be received in June and July
vi. Emphasis on speed of payment to providers

19. The County Council's approach is contingent upon the Government's grant conditions, but is expected to be:
    i. 75% paid to care homes, in the county geography, as soon as practical
    ii. 25% used to contribute towards provider costs relating to domiciliary care private customers (self-funders). This portion of the providers' business has not been covered by the County Council's latest interventions.
    iii. Small retainer to support other urgent requirements

20. Whilst undoubtedly helpful to the care market this latest funding announcement will only have a limited impact upon the County Council's financial gap, as outlined in this report. This is due to the significant proportion of care in Leicestershire paid for by private individuals.

21. In addition to the distribution of the £6.7 million other financial measures that have been taken by the County Council to support local adult social care providers are:
    i. Support with staff recruitment
    ii. Annual inflationary uplift incorporating the National Living Wage
    iii. All providers received a cash-flow payment so that they are paid in advance of service provision
    iv. 10% uplift in April for residential care banded rates and domiciliary care providers
    v. Guaranteed minimum level of income for domiciliary care providers, for a 3-month period
    vi. Flexibility for Community Life Choices providers to deliver services in an alternative way, to maintain service user outcomes

22. An independent piece of analysis has been commissioned to identify further cost uplifts that are required to support care providers in this period.

Summary

23. The County Council is in a better position than many as it had a robust financial position going into the crisis as a result of sound management and tough decisions taken since 2010. However, this crisis will have a profound impact on the organisation as the existing pressures such as social care and SEND must not be forgotten. The financial growth in the current year is £24 million, excluding inflation. Mitigation measures to reduce this growth in future financial years are currently on hold.

24. When exiting the crisis, the financial challenge faced by the County Council is likely to be bigger than at any point during austerity.

Background Papers

Report to the Cabinet meeting on 28 April 2020 – 'Coronavirus (COVID-19) Impact and Response of the County Council'
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5994&Ver=4

The Government's Emergency Coronavirus Bill
https://publications.parliament.uk/pa/bills/cbill/58-01/0122/cbill_2019-20210122_en_1.htm

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