

CABINET	AGENDA ITEM No. 5
11 May 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director Resources	
Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Finance	
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FINANCIAL POSITION

R E C O M M E N D A T I O N S	
FROM: Corporate Director Resources	Deadline date: N/A
<p>It is recommended that Cabinet considers on a monthly basis the financial implications of COVID-19 on the Council in the short, medium and long term and notes:</p> <ul style="list-style-type: none"> ● the significant financial implications that COVID-19 is having on the Council, including the current estimated cost of £18.3m in 2020/21 which exceeds the current £11.0m of funding made available from Government (£5.3m originally and £5.7m on the 18th April); ● the likely ongoing financial implications in future years, and that current savings plans must continue to be delivered where possible to prevent further deterioration in the financial position; ● the lobbying already underway with Government over the financial position; ● the financial packages being delivered by the Council and approves the proposed financial support to communities; and ● the arrangement in place with the Cambridgeshire and Peterborough Combined Commissioning Group for people coming out of hospital and into care. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following a referral from the Joint Management Team.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to provide an update on the financial impact of the Covid-19 pandemic and the work that Peterborough City Council is undertaking, in liaison with its wider Peterborough and Cambridgeshire partners, to address the challenges faced.

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1, 'To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.'

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 This report provides an update on the financial impact of the Covid-19 pandemic and the work that the Peterborough City Council is undertaking, in liaison with its wider Peterborough and Cambridgeshire partners, to address the challenges faced. The report provides information on the national and local position in respect of funding streams and support available and financial pressures presenting themselves.

This report should be read in conjunction with "Peterborough City Council's Response to COVID-19" which is also on the Agenda on the 11th May Cabinet Meeting. That report sets out the support the Council has delivered, and will continue to deliver, to the community to protect vulnerable people and provide critical local government services.

This report focusses on the financial pressures linked to delivering these key ongoing services and support to our communities. As with other Councils our estimated costs presently exceed funding provided to date from the Government. We will continue to lobby with other Councils through all available routes for additional funding.

The information is based on current knowledge and will fluctuate on a regular basis dependant on as we see new and emerging issues and opportunities. The content of this report reflects the position as at the release date of 26 April 2020.

This is the first meeting at which Cabinet will consider the emerging financial implications of COVID-19. It is clear that the full scale of the financial implications will be significant and the full magnitude is yet to be understood.

4.2 National Perspective - Local Government Finance

The Government have announced a number of initiatives and support to be delivered through Local Government. This has included:

- Via MHCLG
 - £1.8b of support for Business Rates Relief;
 - An initial £1.6b for support of COVID-19 costs;
 - An additional £1.6b of additional support for COVID-19 costs via an announcement on the 18th April;
 - An up-front payment of the Revenue Support Grant;
 - To be allowed to defer £2.6 billion in business rates payments to central government until July;
 - £850m of existing social care grants will be paid up front in a move aimed at helping to ease immediate pressures on local authority cash flows;
 - Additional Funding for rough sleeping at £3.2m;
 - A Hardship fund of £500m for those receiving Council Tax Support.
- Via BEIS
 - £12.3 billion of Grant Support to Rural and Small Businesses as well as the Leisure, Hospitality and Leisure sectors to local authorities in England.
- Indirectly by the Health

- The local CCG will pay for temporary additional care capacity in order to free up space in Hospitals

In doing this, Government are recognising that Local Government are best positioned to administer direct help to the Community and business.

MHCLG are investigating, following feedback from Councils and the LGA, the magnitude of additional costs being encountered. They sent out a questionnaire which 320 Councils returned on the 15th April asking Councils to quantify these pressures. The Government have sought information on Council cash flows to the end of June.

4.3 Funding available to Peterborough City Council

Funding can be split into four distinct areas:

- Direct Revenue Funding;
- Business Rates Relief;
- Council Tax Support;
- BEIS Grants to Business.

4.4 Direct Revenue Funding to manage the effects of COVID-19

On the 27th of March we received an initial allocation of £5.364m of funding from MHCLG to cover the additional COVID-19 costs as our allocation of the £1.6b funding announcement. At the same time, the £10m Revenue Support Grant was confirmed to be paid up front for 2020/21.

Following the announcement of an additional £1.6b of funding on the 18th April, the Council have now been allocated £5.634m more.

Other announcements to assist with cash flow including later payment of Business Rates to Central Government and up-front Adult Service and Rough Sleepers Grant.

4.5 Business Rates Relief

For the Business Rates 1 year holiday for Leisure, Retail, Hospitality and applicable Nurseries the Council have sent out updated bills and at the start of the month stopped all Direct Debits to ensure no payments were made. As such with this scheme:

- For Retail/Hospitality/Leisure we had 1,241 businesses available for relief of £36,518,333 and bills have been issued for 100% relief
- For the applicable nurseries we had 29 cases available for relief of £337,656

4.6 Council Tax Support

The Councils proportion of Council Tax Support is £1.6m. A sum of £150 will be allocated to every recipient of Council Tax Support based on the present information on the Council Tax system.

4.7 BEIS Grants

The Council has been allocated £34.5m of BEIS Grant to distribute to business.

As of Sunday 26th April, the Council had paid out more than £21.8 million to 1,768 small and rural businesses and businesses in the retail, hospitality and leisure sectors. Further payments will

continue to be made over the coming days with the majority of these to take place by the end of the month. Businesses who qualify for the grants do not need to do anything as the Council will be contacting them based on information contained on the Business Rates system. Following validation of banking details, the council will pay the money directly into their accounts through BACS payments due to security considerations.

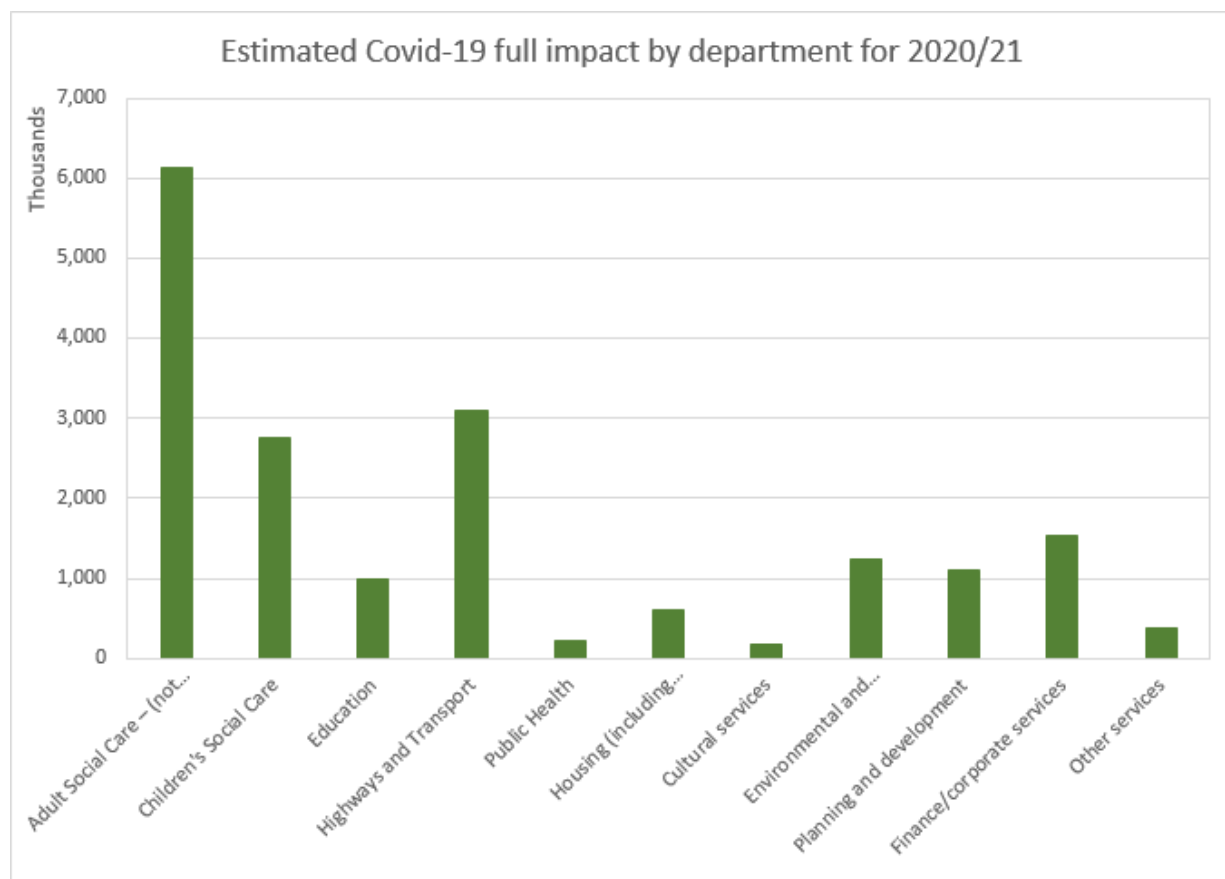
BEIS are publishing on a weekly basis the delivery of these grants to businesses. They are expecting that at least 90% of these grants will be made by the 30th April.

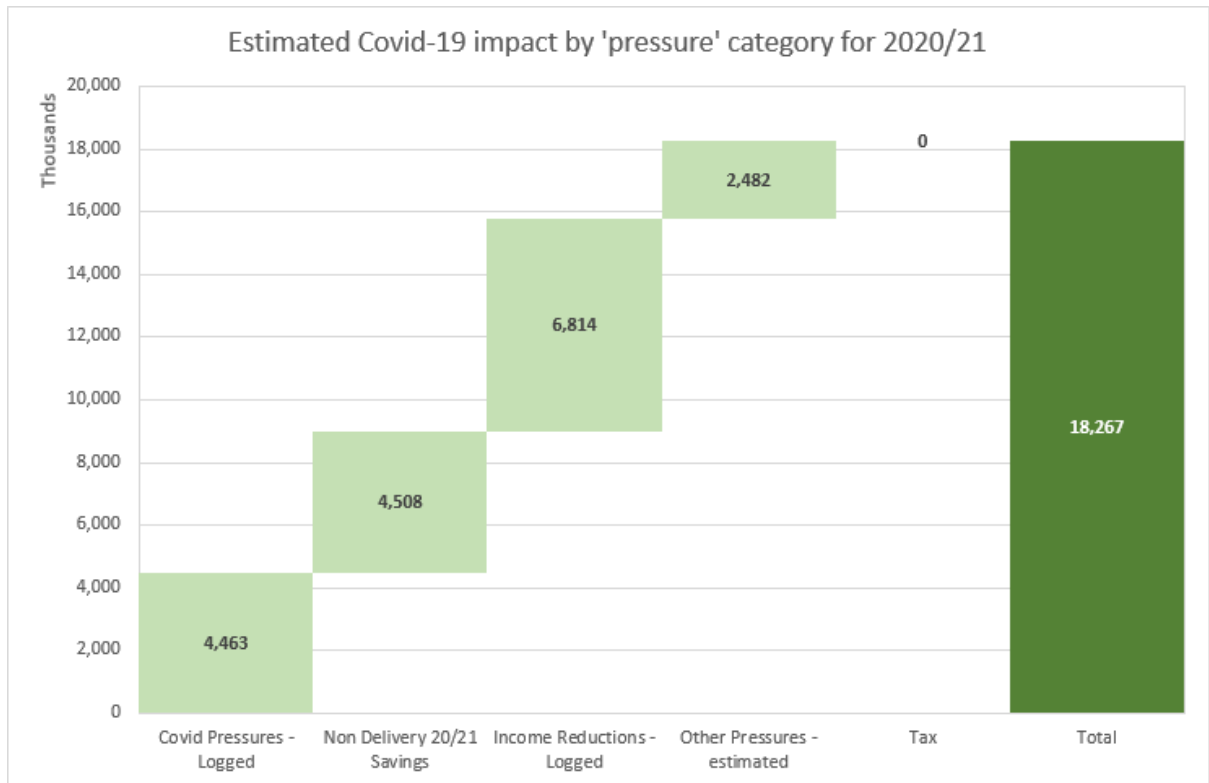
4.8 Cost Impact on the City Council

The Council is now incurring significant additional costs due to the COVID-19 emergency. Presently this amounts to £18.3m. As with the rest of Local Government, it has prioritised services, with staff delivering non-priority services being transferred to a Central hub in order to help deal with the emergency. Local Government is not expected to Furlough its staff but instead reallocate in order to help the community which is what the Council is doing. Additional Council revenue costs fall into three distinct categories:

- Direct COVID Costs;
- Non delivery of 20/21 savings plans;
- Reductions in Council Income.

These additional costs, reduced income levels, and undeliverable savings and their main constituents are set out in the following sections. The revenue impacts of reduced collection of Council Tax and Business Rates are dealt with separately. The following tables set out how the additional costs are split by department and type - and exclude Council Tax and Business Rates.





4.9 **Direct COVID Costs**

The Councils Direct Covid expenditure amounts to an additional estimated £7.0m of expenditure. It is made up of expenditure already captured on the Councils systems attributable to COVID 19 as well as future costs that have been estimated by Service Departments. The main items are listed below:

- 10% increase to Care contracts - £2.5m;
- £3/hr increase to Homecare contract rates - £1m;
- Support for Temporary Accommodation - £0.5m;
- Additional Childrens Placement Costs - £0.5m;
- Additional Staff costs (over and above normal salaries) - £0.5m;
- Schools Service lost income - £0.5m;
- Setup costs for Temporary Mortuary - £0.3m;
- PPE Equipment £0.2m.

4.10 **Non delivery of 20/21 savings plans due to COVID-19**

Over £4.5m of savings initiatives will either be delayed or will not be able to be implemented this year due to additional demands on services due to COVID-19. The main items are detailed below:

- With additional demand in care we will not be able to implement all the £1.7m care package rationalisation although by following the revised working practices this pressure has been reduced to £1.2m;
- HR controls savings of £1.1m cannot be delivered as staff linked to this have been redeployed to the Hub and this resource is expected to be required;
- Business Support savings will be delayed 3 months costing £0.5m as above;
- Given social distancing, it will be highly unlikely that we will be able to let out more space at Sand Martin House this year - £0.5m;

- We have been instructed to pay Home to School transport providers on current terms - £0.3m cost.

4.11 **Reductions in Council Income due to COVID-19**

The Council have significant external non Tax/Government income. Excluding the Schools and Housing Benefit Grants this amounts to over £70M per annum. The commercial elements of this are affected straight away putting an estimated £6.8m of income at risk. The main items are:

- 40% reduction in Highways and Environment Income - £2m;
- Clare Lodge – not currently at budgeted capacity - £1.3m;
- 40% Reduction in Planning Income - £1m;
- No parking income for 3 months and at 50% level for a further 2 months - £1.0m;
- 50% of Property rents for the first 3 months not delivered- £0.5m;
- 25% reduction in licensing Income £0.3m.

In addition to this we are:

- Not using Courts and Recovery Action for unpaid debt for the next 2 months;
- Removing Taxi Licence costs for 3 Months.

4.12 **Other**

At the moment the Council's capital programme is at a reduced level. Restrictions have been put on both Highways and Property construction and maintenance due to Social Distancing. We are still evaluating the impact of removing these restrictions by the end of June. This may have a positive budget benefit.

4.13 **Reporting**

We have an initial estimate of COVID-19 Spending.

Ongoing weekly monitoring of Actual vs Plan is in place:

- Weekly reporting to Gold JMT Group and then to Cabinet as part of this Report;
- We are ensuring that PO's are set up and approved via business cases for the remainder of the expenditure during the year (Non COVID-19).

4.14 **Tax Collection**

As has been set out in 4.2 to 4.7, the Government have significant reliefs in place for Businesses which the Council has implemented. However, despite this the Council this year will still collect:

- £91m of Council Tax;
- £67m of Business Rates.

A significant issue for the Council is likely to be non-payment and until the end of April, where we can compare payments this year against last year, we will not have a clear view of what these levels will be. Clearly COVID-19 may have a significant effect on this.

As an assumption, the Council has modelled the effect of a 10% reduction across the year and further 10% deferment over the remainder of the financial year.

A 10% reduction in payments has the following effect:

- Council Tax - £9.1m per year, £750k per month;
- Business Rates - £6.7m per year, £550k per month.

The reduction/deferment could be potentially significant and affect all collection authorities. It is an area where lobbying of Central Government is required – once we know the reductions in collection rates.

4.15 2020/2021 Budget Impact

We have been given initial allocations of £11.0m for COVID-19 expenditure. However, our estimated additional expenditure of £18.4m is likely to exceed these combined amounts. This can be summarised in the following table:

	Income £m	Expenditure £m	Balance £m
Direct Covid Expenditure		7.0	7.0
Non delivery of 20/21 savings Items		4.5	11.5
Reduction of Commercial Income		6.8	18.3
Funded By			
Existing Government COVID-19 Grant	(5.3)		13.0
Additional Government funding (18/4) allocations confirmed on 28th April	(5.7)		7.3
Deficit			7.3
Available Reserves and Additional S31 Grant	(13.9)		(6.6)
Amount left in Reserves	(6.6)		

The present position would put considerable pressure on available reserves. This would result in additional risk if further pressures/issues arise during the year. Even assuming additional funding, delivering service as usual and implementing transformation in 20/21 and 21/22 is likely to prove challenging.

Presently, this does not account for any short-term funding issues caused by the non-payment of Council Tax and Business Rates. This will be updated once April payments have been reviewed, when a complete view of the Councils cash position can be taken.

The Council have formed a Recovery Group who will assess how quickly the different phases of recovery from COVID-19 can take place and the implications on services

4.16 2021/2022 Budget Impact

With present estimated funding arrangement, the Council will move into 2021/22 with only £6.6m in usable reserves.

The Council has a projected deficit position of £14.5m. Significant work was undertaken by Services in February and March before the COVID-19 emergency on options to close this gap via a set of “lean reviews”. The data from these reviews will be assessed to determine the likely short and medium term changes.

In addition, we have highlighted in Sections 4.10 and 4.11 that we have £6.8m of commercial income at risk in 2020/21 and £4.5m of 2020/21 savings plans. Further analysis now needs to take place, based on previous recession information on how quickly these can be mitigated.

During a recession there is traditionally more pressure on Council Services and as such these demands will need to be assessed.

The key questions the Council needs to answer are:

- How does it make savings in 2020/2021 to transfer more money into reserves;
- How does it move forward with the 2021/2022 MTFS when we are potentially moving into a recession, have uncertainty on the effects of COVID-19 on the economy and our services, and have the requirement of building reserves to a more realistic level?

Possible options to move to a more balanced position include (to be fully assessed before the end of June):

- Extending the controls now in place to even more severe levels;
- Review Service specifications;
- Review services that have been put on hold due to COVID-19 and assess if/when they are going to be reopened/resumed;
- Learn from new ways of working due to COVID-19;
- Validation of the Lean Review Final Report;
- Application of service models that convert more spending from Revenue to Capital;

4.17 **Engagement with Government**

The Council continues to use all resources available to ensure its message is understood. This includes:

- Updating MP's on Peterborough's financial and operational issues;
- Communications through the present COVID-19 support structure;
- Existing routes through the LGA;
- Use of contacts the Council has with MHCLG.

5. **CONSULTATION**

5.1 This report is the first in a series of financial monitoring reports for the 2020/21 financial year which come to every Cabinet meeting. It is based on budgets agreed as part of the 2020/21 MTFS but now is taking account of pressures and additional funding due to the COVID-19 Emergency.

5.2 Operational updates on COVID-19 are part of an additional report to this Cabinet meeting.

6. **ANTICIPATED OUTCOMES OR IMPACT**

6.1 That Cabinet consider on a monthly basis the financial implications of COVID-19 on the Council in the short, medium and long term and:

- notes the significant financial implications that COVID-19 is having on the Council, including the current estimated cost of £18.3m in 2020/21 which exceeds the current £11.0m of funding made available from Government (£5.3m originally and £5.7m on the 18th April);
- notes the likely ongoing financial implications in future years, and that current savings plans must continue to be delivered where possible to prevent further deterioration in the financial position;
- notes the lobbying already underway with Government over the financial position;
- notes the financial packages being delivered by the Council and approves the proposed financial support to communities; and

- notes the arrangement in place with the Cambridgeshire and Peterborough Combined Commissioning Group for people coming out of hospital and into care.

7. REASON FOR THE RECOMMENDATION

- 7.1 The requirement to monitor Council spending and ensure that effective control mechanisms are in place to fund and report on emergency situations.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 None

9. IMPLICATIONS

Financial Implications

- 9.1 This whole report summarised the Councils immediate financial position due to COVID-19. Section 4 sets out in detail the financial implications in terms of the revenue budget, tax collection and the impact on both 2020/21 and 2021/22.

Legal Implications

- 9.2 In this current emergency, the general laws still apply unless there are special legislative measures to take account of the factors which may or will have an effect on the Council and its duties, powers and obligations. The key provisions at time of writing are the Coronavirus Act 2020 and corresponding statutory instruments which address specific issues connected with the challenges that the pandemic presents rather than matters of finance and procurement. The current situation has led to the need to purchase additional supplies and services with heavy competition and the Council's existing suppliers and service providers are also facing issues of pressure on supply chains and staffing matters of availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained. The Cabinet Office has produced Procurement Policy Notes (PPN) to set the direction of how to manage its procurement and contracts. The Council as a contracting authority will need to ensure that it observes the guidance within the PPN in practice to ensure that the grant conditions are complied with.

Equalities Implications

- 9.3 There are no equalities implications arising from the recommendations in the report.

Carbon Impact Assessment

- 9.5 Carbon Impact is only temporary in nature but as the attached form sets out is measurable.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 2020/21 MFTS
COVID-19 Guidance from Government Departments

11. APPENDICES

- 11.1 None

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