



# EXECUTIVE BOARD DECISION

<b>REPORT OF:</b>	Executive Member for Finance and Governance
<b>LEAD OFFICERS:</b>	Director of Finance and Customer Services
<b>DATE:</b>	9 July 2020

<b>PORTFOLIO/S AFFECTED:</b>	All
<b>WARD/S AFFECTED:</b>	All
<b>KEY DECISION:</b>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>

**SUBJECT: COVID-19 FINANCE UPDATE REPORT**

## 1. EXECUTIVE SUMMARY

This report outlines the financial implications for the Council arising from the impact of COVID-19, based on the forecast prepared, and assumptions made, in the third Financial Management Return submitted to MHCLG on 19<sup>th</sup> June 2020, i.e:

- additional expenditure incurred by the Council in providing a response to the crisis across the borough and
- loss of income arising due to the cessation/reduction in the Council's various income generating activities, and the impact on Council Tax and Business Rates as a consequence of the economic downturn

## 2. RECOMMENDATIONS

The Executive Board is asked note the financial implications arising from the COVID-19 pandemic outlined in the report and as included in the third Financial Management Return submitted to MHCLG.

## 3. BACKGROUND

The Council has a statutory requirement to set a balanced budget each year and to review its adequacy of reserves. This report sets out the potential impacts on the delivery of a balanced budget for 2020/21 and the Medium Term Financial Strategy (MTFS).

The 2020/21 Budget and MTFS 2020-2023 approved by Finance Council in February 2020 set a balanced budget for the year based on the assumptions in place at the time. Since that time, the COVID-19 pandemic has created a significant shock to the economy and resulted in significant unplanned expenditure and income losses as set out in the report.

## 4. KEY ISSUES & RISKS

**Government Funding for the COVID-19 Emergency**

To date, Government have announced two tranches of emergency COVID-19 grant funding to Local Government amounting to £3.2 billion, for Blackburn with Darwen this amounts to £9.297 million.

In addition, £1.3bn has been provided directly to CCGs to support the hospital discharge process with local authorities.

The Council has also been awarded £2.2 million from the £500 million Hardship Grant funding to provide further Council Tax relief for vulnerable residents (for which, each working age Local Council Tax Scheme (LCTS) recipient will receive a further discount of £150 or less if the current liability is less) and we have also claimed £0.016 million for costs from the £3.2 million fund to support housing rough sleepers.

The Council has also received funding from the Government for which it acts as conduit for onward payment of the funding through to those for whom it is intended. This funding relates to;

- £1.8 billion of Business Rate Relief, of which BwD has received £16.3 million;
- £12.3 billion of Business Rate Grant support for Small Businesses as well as the Leisure, Hospitality and Leisure sectors, of which the BwD allocation is £46.4 million;
- a further £617 million to provide support to those businesses with ongoing premises costs but who have not met the criteria to qualify for funding through the Government's Business Rates Grants - this is a Discretionary Scheme and each individual council is required to establish their own, individual scheme – of this BwD has received £2.2 million, and finally,
- Care Home Infection Control funding of £600 million of which BwD has been allocated £1.4 million

Further funding available to BwD has included;

- £0.131 million of the £50 million fund to support the re-opening of High Streets safely, this grant will be claimed from Government, in arrears, based on actual expenditure incurred
- £0.385 million through the £225 million emergency active travel fund, comprising both revenue and capital funding.
- £1.4 million of the £300 million additional funding for local authorities to support the new Test and Trace service.

From a cashflow perspective, the Government has provided support through arrangements including;

- an upfront payment of the Business Rates Grant
- the deferral, until July, of £2.6bn in business rates payments due from local to central government
- £850m of existing social care grants paid in advance

## Summary Financial Position 2020/21

Following work to refine both the actual costs incurred, and income lost due to COVID-19 during the period 1<sup>st</sup> April to 19<sup>th</sup> June 2020, and in reviewing and refining assumptions on which the forecasts for these are based for the remainder of the financial year, the third COVID-19 Financial Management Return was submitted to MHCLG on 19<sup>th</sup> June 2020. The return identified a forecast financial gap for 2020/21 of £19.5 mill comprising;

	Actual April 20 £'mill	Actual May 20 £'mill	Actual June 20 £'mill	Forecast July 20 to Mar 21 £'mill	Full Year Forecast 20/21 £'mill
Additional Expenditure	3.1	1.1	0.6	5.0	9.8
Income Loss	3.9	3.4	2.7	8.9	18.9
Less - Govt COVID-19 Funding (tranches 1 & 2)					(9.2)
<b>Financial Gap</b>					<b>19.5 mill</b>

Based on the Revenue Outturn Monitoring Report for 2019/20 (as presented to Executive Board in June) our available reserves to meet the costs of COVID-19, should no further funding from central government funding be made available, are;

<b>RESERVES</b>	<b>£'million</b>	<b>£'million</b>
<b>Unallocated Reserves</b>		<b>7.2</b>
<b>Earmarked Reserves</b>	<b>28.6</b>	
Less Reserves held in relation to schools	(9.1)	
Less - Reserves held in respect of joint arrangements and charitable bodies	(0.4)	
Less - Reserves held for specified purposes (e.g. S106 contributions)	(2.5)	
Less - Amounts already committed in future year budgets/MTFS	(0.3)	
Less - Amounts c/fwd in respect of unspent grants and contributions	(8.0)	
<b>Earmarked Reserves that could be re-designated</b>		<b>8.3</b>
<b>TOTAL COUNCIL RESERVES AVAILABLE</b>		<b>15.5 mill</b>

Assuming a balanced budget across all portfolios in 2020/21, and the re-designation all useable, ear-marked reserves, based on the forecast funding gap of £19.5 million above, based on the forecasted expenditure and loss of income, there would be insufficient reserves to take us through to 31<sup>st</sup> March 2021.

The forecast is based on knowledge of the current position and will undoubtedly fluctuate as we continue to revise our assumptions and assessments as further information becomes available. During this time the Council will continue to engage in an ongoing dialogue with MHCLG and through the various local government forums such as the Local Government Association (LGA) and SIGOMA (Special Interest Group of Metropolitan Areas) to lobby for additional funding and support, as well as submitting the required monthly COVID-19 Financial Management returns to ensure government is aware of the financial impacts we are working to address.

### **Impact on the Medium Term Financial Strategy (MTFS)**

The overall impact on the MTFS will be determined by:

- The level of the final additional costs and income losses arising from COVID-19 that occur in 2020/21;
- The level of further MHCLG financial support that is provided to address the financial pressures faced by the sector;
- The ongoing financial pressures resulting from decisions made in response to the pandemic
- The impact on Council Tax and Business Rates in both the current year and in 2021/22.

At this point in the financial year, financial impact on the longer term MTFS is difficult to quantify with any firm degree of accuracy as much is dependent on the impact of the easing of lockdown measures in terms of both the virus (i.e. a second spike), and the economy.

### **Next Steps**

As already set out above, the financial forecast identifies a significant risk to the financial viability and sustainability of the Council. The forecast budget gap of £19.5 million for 20/21 (based on the third Financial Management return to MHCLG) would require the Council to utilise not only all of its Unallocated Reserve, but also the Earmarked Reserves held for Discretionary purposes, before the end of the 2020/21 financial year (assuming these can be re-designated to address the immediate financial challenge posed); this would still leave a budget gap of £4.0 million.

We are not the only authority facing significant financial difficulties as a result of the pandemic and as noted above, we are continuing ongoing discussions with government, as well as supporting the lobbying by the LGA, SIGOMA and other local authority representative bodies, to convey to government the dire financial position that local authorities now find themselves in. In this we are clear in expressing the urgent need for further in-year funding, as well as an overall plan for Local Government to ensure ongoing financial sustainability in moving into recovery from the crisis. We understand MHCLG and Treasury are considering a further funding package but at the time of writing the quantum and any allocation methodology for this is unknown.

Whilst the report sets out and focuses on the financial impact of COVID-19 on the Council, there may be some positive budget variances that we can take into consideration to assist in offsetting the additional costs and loss of income, such as a reduction in recruitment, the costs avoided as activities/services have been reduced or stopped. Although it is too early in the financial year to quantify the positive impact of this, conversely it may well be that;

- if faced with a second spike, we re-enter more stringent lockdown measures, our un-budgeted emergency responses are invoked again and our income generating operations are forced to close once more
- the economic recovery of our residents and businesses is worse than forecast thereby increasing costs and reducing income further
- as we emerge from lockdown, we may well see a spike in the costs of social care in both adults and children's services as the full impact on families and individuals during lockdown becomes more evident

We will continue to monitor and estimate the costs and savings associated with this over the coming months, in the meantime we will put in place arrangements to scrutinise all existing expenditure plans and Executive Members and their Directors will work to develop potential savings options for consideration.

## **5. POLICY IMPLICATIONS**

The impact of COVID-19 has impacted on the wider delivery of frontline services. The financial impact remains under consideration to assess how the Council can deliver both its statutory and priority services.

## **6. FINANCIAL IMPLICATIONS**

The significant financial implications are in the report above.

The full impact of these cannot be quantified at this point in time but the ability of the Council to deliver a balanced budget in 2020/21 remains uncertain. In the longer term, the most significant uncertainty is the impact of the pandemic on Council Tax and Business Rates income. This, combined with the additional costs and local income losses incurred, and their impact on reserve levels, will be significant.

Based on the financial forecast, in 20/21 the ability to deliver the budget will almost certainly depend on provision of further funding from central government, however beyond this, the impact is likely to be even more significant in 2021/22 when the wider economic picture becomes clearer and the expected collection fund losses from the current year need to be funded.

The longer term outlook will be influenced by the ongoing review of financing in the sector. This has been deferred to 2021/22 at the earliest so there remains significant uncertainty in the deliverability of the Council's current MTFs. The Council continues to liaise with Government to develop a mutual understanding of the issues to enable appropriate actions to be taken by both.

## **7. LEGAL IMPLICATIONS**

The Council has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

Published decision notices for Urgent Executive Decisions made by Officers under Delegated Authority in response to the COVID-19 pandemic, including those made under Emergency Powers under the Council's Scheme of Delegation to Officers, are available online. The use of Emergency Powers remains a last resort based on the criteria prescribed by in the Constitution and, where possible taken in consultation with the Leader and the relevant Executive Member, with reporting to the Executive Board meeting and publication of decision notices to ensure openness and transparency.

The use of the Emergency Powers is likely to reduce as we move out of the 'Response' phase into 'Recovery' and return to normal decision making. However, there may still be occasions where due to time limitations, Emergency Powers may still need to be exercised to ensure effective and efficient provision of services. In such cases Officers will continue to engage with the Leader and Executive Members.

## 8. RESOURCE IMPLICATIONS

There are no specific resource implications arising from the report

## 9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1  Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2  In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3  In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

## 10. CONSULTATIONS

The budget planning governance structure includes involvement and consultation with Council Officers, Directors and Executive Members.

## 11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

## 12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting.

**VERSION:** v1.0

**CONTACT OFFICER:** Louise Mattinson

**DATE:** 29<sup>th</sup> June 2020

**BACKGROUND PAPER:**

2020/21 Budget and Medium Term Financial Strategy approved at Finance Council (February 2020)

MHCLG funding announcements