Report to:	**EXECUTIVE CABIMET**
Date:	22 April 2020
Reporting Officer:	Tom Wilkinson, Assistant Director of Finance
Subject:	**INITIAL ASSESSMENT OF THE FINANCIAL RISKS AND IMPACT OF THE COVID 19 PANDEMIC**
Report Summary:	To provide an update to SLT on the currently known financial risks of the COVID-19 pandemic and the actions the Strategic Commission is taking and needs to take to manage its way through the crisis.
Recommendations:	To note the report and agree the approach for approving additional spending and reporting on the financial impacts of business as usual services on the in-year and on- going financial position of the Council and CCG. Members accept the request by Manchester Airport to defer the payment of the bond coupon interest of £1.084m.
Corporate Plan:	Long term financial stability is key to the delivery of the Corporate Plan.
Policy Implications:	Too early to say but likely to have a significant impact on resources.
Financial Implications: (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	There is likely to be a significant financial shock to the Council's current revenue budget, on-going financial sustainability and balance sheet. Whilst Government have stepped in and provided additional funding, this is already insufficient to support the financial impact of the crisis on the Council's finances. The Government have suggested that there could be more funding so it is important that officers work with the Finance team to ensure that all costs are understood and captured to ensure that all costs can be reclaimed from central government. There are also significant risks facing the CCG as NHS England & Improvement endeavour to manage the impact of COVID-19 on the NHS. CCGs are being told what values to pay providers which is based on a month 9 position and included considerable non recurrent funding which the CCG no longer has included within budgets. This is being stringently monitored and the risks highlighted to GM Health and Social Care Partnership.
Legal Implications: (Authorised by the Borough Solicitor)	Local authorities that were already stretched are facing a financial tsunami of reduced income and increased costs. Councils have been planning for the potential economic impacts of Brexit scenarios, with table-top scenario planning of possible outcomes. In the last 18 months alone, we have been activating emergency plans to deal with seasonal flooding, and moorland fires. And now we have coronavirus. The current crisis facing local government in the spread of this disease is unprecedented. Back in December, CIFA published the Resilience Index showing, https://www.cipfa.org/services/financial-resilience-index/financial-resilience that despite many years of financial strain, the majority of local authorities have found ways to maintain resilient positions. But this track record must not lead to complacency by government regarding this new and unprecedented challenge. Cipfa urges the

government not to underestimate the severity of the financial impact this crisis is likely to have, and to be fully aware of the scale of the challenge faced by all public services beyond the NHS. Councils may need to borrow in order to fund services – government should be underwriting what is needed to keep councils solvent

Despite the fact that councils have been able to maintain resilient financial positions amid deep budget cuts, the absence of a long-term funding solution already implied that this position will not be sustainable for the future. But now a financial tsunami of reduced income and increased cost is heading our way. While it's vital that our health service is given everything it needs to fight this disease, we must not forget the crucial role of services like public health, social care and all community services. This may require a temporary or new set of rules for local government finance. Councils may need to borrow in order to fund services – government should be underwriting what is needed to keep councils solvent as it is already doing for businesses and the NHS. In a time of crisis, councils cannot be put in a position where they are at risk of a section 114 notice could be necessary as we are unable to balance the budget as legally required to do so. Clearly public health services in local government have a key role to play, and just two weeks from the end of the financial year they received clarity on their funding for 2020-21. It is also a well-known fact that local government is already struggling under the pressures of social care, with most councils already significantly overspending on budgets due to increasing levels of demand. These pressures exist regardless of the additional strains that will come as a result of the outbreak. Whilst we must do whatever it takes to overcome this challenge. This virus will not respect the boundaries of our silos, and so we must work beyond them. It is key that the allocation of government resources allow us to do this, for the good of all.

Risk Management: Subject of the report.

Access to Information: The background papers relating to this report can be inspected by contacting Tom Wilkinson and Tracey Simpson

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1. BACKGROUND

1.1 The COVID-19 virus outbreak will inevitably place a huge resource burden on the Council, CCG and the community we support. This briefing note outlines some of the key financial issues that are expected to arise as the Council and CCG play their vital roles in protecting the vulnerable and supporting its partners across the borough.

1.2 The Council set its 2020/21 budget on 25 February 2020 and the CCG followed soon after once the financial planning guidance had been received and fully clarified. Both organisations' budgets were set before the scale of the COVID-19 pandemic was known. The budgets were set against a background of the Council struggling to contain its costs in relation to Children's Services and the recognition that it needed to invest in the growth of the borough; and the CCG having to deliver a £12.5m QIPP target whilst managing an underlying financial deficit of £9m.

1.3 It is clear from the outbreak of COVID-19 in the UK that the impact it is having on the Council and CCG being able to maintain existing key services, cope with the additional demands placed on it because of the virus, and deal with staffing shortfalls due to self-isolation, it is placing a huge strain on services already under pressure following years of austerity.

1.4 So the Strategic Commission was already facing a number of key financial risks prior to the COVID-19 crisis but the risk environment has now significantly deteriorated further.

2. KEY RISKS ALREADY IN THE BUDGET

2.1 The budget process in the Council did not produce any meaningful efficiencies from services and therefore relied on a number of corporate financing initiatives, including budgeting for the full estimated dividend from Manchester Airport Group, an increase in the vacancy factor and targets around increasing fees and charges income.

2.2 The budget also drew on £12.4m of reserves to allow services the time to turn around areas of pressures. These areas were broadly, Children's Services placement costs, Children's Services prevention work (which was to be later mainstreamed and funded from reduced placement costs), shortfalls on car parking and markets income. Each of these services required on-going development work to have the impact of allowing demand to be taken out of the systems and additional income generated.

2.3 There was additional investment around the IT and Growth Directorate Services, to invest in IT equipment, software and capacity and to develop strategically important sites for housing and business development, including key Town Centre masterplans.

2.4 A summary of the areas supported from reserves can be found in **Appendix 1**. A delay in delivering the projects that the reserves were funding is likely to mean more reserves will be required in future years, placing pressure on already depleting resources.

2.5 Although the CCG delivered its QIPP target of £11m in 2019-20, the majority (£6.5m ie. 59% of core allocations) was as a result of non-recurrent means and therefore added considerable additional pressure to 2020-21. The QIPP target for 2020-21 is £12.5m (3.2% of CCG core and running cost allocations) and £3m of this target has no schemes in place to deliver these savings.

3. NEW FINANCIAL RISKS CAUSED BY COVID-19

3.1 There are a number of specific risks that have arisen caused by COVID-19, these are summarised individually together with the 2020/21 financial impact and the on-going impact if known or relevant. CCGs are being asked to submit a separate return to NHS England & Improvement detailing the costs incurred as at the 15 March 2020 and the forecast costs anticipated by the 31 March 2020. Health care Providers are also being asked to complete a similar return. There is a lack of clarity regarding the process for managing, collecting and reporting the different costs in the health system and urgent guidance and clarity is being sought.

3.2 The largest risk to the Council is around loss of income that is used to fund services. Core grant funding has been significantly reduced in the years of austerity with the Council becoming increasingly reliant on its own resources. The COVID-19 crisis, will result in some additional costs as demands increase within the system, but the largest long term risk to the Council is around its income base.

3.3 Specific risks identified to date for the Council are as follows:

Investment Income

3.4 In addition to the use of reserves to balance the budget, the Council also reduced its contingencies by budgeting for all its expected investment income, in particular from its investments in Manchester Airport. The dramatic reduction in passenger numbers and flights caused by international and national travel bans mean that it is highly likely that the Airport Group will be unwilling to pay its dividend for 2020/21 and a number of future years until trading recovers.

3.5 The reduction in interest rates to 0.1% means that the Council's treasury management income budget of £630k per annum will not all be achieved. To mitigate risk we have moved to make more liquid investments so that cash is at hand and therefore more secure, but this also has the knock on effect of reducing the level of return.

3.6 All in all it is likely that the financial impact on the Council's strategic investments is in the region of £9.5m.

3.7 As equity holders in Manchester Airport Group, our investment in the asset could also be at risk, which may need protecting by a further equity investment. This will further drain cash resources. Please note this is only speculation at the moment.

3.8 The Airport has requested the deferment of the bond interest due to be paid on 31 March 2020 to conserve cash. This can be accrued for, whereas the loss of dividend income cannot.

Income from Trading

3.9 The Council raises £34m a year from a wide range of fees and charges it levies across a wide variety of services (there are over 1,000 different fees and charges levied). Table 1 shows the breakdown of fees and charges income raised by Directorate and the main source of income.

Table 1 – Fees and Charges Income by Directorate

Service	Income (£)	Main Sources of Income
Adults	-15,304,120	Residents Care Fees; Homecare Fees
Capital Financing	-447,500	Airport Rent
CDC	-473,810	Pensions Recharges
Children's	-1,150,610	Traded Services; Recoupment, PCN's

Finance and IT	-97,600	Traded Services; Recoupment
Growth	-5,075,420	Rental Income; Planning and Building Control Fees
Governance	-1,914,170	Court Summons; Registrars Fees; Schools Trading for HR & Payroll
Ops and Neighbourhoods	-9,590,540	Car Parks; Market Income; Bereavement Fees; Engineers
Quality and Safeguarding	-32,750	Traded Schools
Grand Total	**-34,086,520**	

3.10 Further work needs to be undertaken to understand the impact on the fees and charges budget of the COVID 19 crisis. It is likely that we will see pressure on rental incomes, room hire, car park income, market traders income and court summons as these are likely to be relaxed. For each 10% reduction in trading there will be a £3.4m impact on the budget.

3.11 Already a number of councils in the area have suspended the collection of car park income; this is following a dramatic reduction in the number of residents and commuters using the parking services on offer. The closure of the markets will also mean the Council being unable to charge the rental fees at risk of causing long term damage to the markets business.

Council Tax Collection

3.12 It is expect that some residents will have difficulty in being able to pay their Council Tax and face economic hardship. The Government have already announced a £500m hardship fund, although the detail is light, it is likely to help the Council pay more out under its Council Tax Support Scheme and hardship fund.

3.13 The Government has taken the unprecedented steps to protect workers' salaries and this may mitigate some of the worst impact on Council tax collection, but there will be workers, including the self-employed who may fall between the gaps. It is therefore expected that collection rates will suffer. For every 1% reduction in the collection rate, the collection fund will lose £950k. A 10% reduction would mean a £9.5m shortfall in revenue funding for the Council.

Business Rates Income

3.14 The Government have announced a number of reliefs in its budget and subsequent support for businesses. The full details of all of the packages are still being developed, but any support will be funded by the Government and therefore minimising the impact on Local Government. Even with the level of business rates support that have been announced, businesses could still go out of business and therefore reduce the long term income available.

Looked After Children – Placements Budgets

3.15 The budget provided for £5m of reserves support whilst the Directorate worked on implementing measures to reduce the number of children coming into care. Numbers have remained fairly stable now for the last 8 months at around 700 children in care. We have seen an increase in the costs driven by the placement mix and if the current cohort were to remain in care for the whole of 2020/21, it is likely that there would be an overspend against the budget of around £2m.

3.16 Clearly this is a complex area and it is difficult to predict what the impacts of social isolation/distancing, school closures and employment uncertainty will have on our most vulnerable families. It would not be unrealistic to assume that the progress in reduction of the number of Looked After Children will take longer than assumed when setting the budget, placing further financial pressure on the Council.

3.17 The numbers of looked after children have started to increase after 2 weeks of the tighter restrictions and the closure of schools. As at Friday 27 March 2020 there were 704 children in care, with a further 10 cases due to be placed over the coming week.

3.18 The demands placed on the service is also meaning that the 7 point turnaround plan is either not being implemented or taking longer to implement because of the restrictions that are now in place. This will have an impact on the budget for the 2020/21 financial year, but also future years budgets has the turnaround takes longer.

Education

3.19 Schools are committed to staying open throughout the Easter holidays to support vulnerable children and those of key workers. There will be additional costs from this and although they are expected to be funded by the DfE, there are few details at this stage and it is likely that the Council will have to cash flow these services. Similarly, schools' are required to provide free school meals to those eligible children. There has been limited take up of this offer on the first day of schools being closed and schools are going to find it difficult to meet their statutory obligations in a cost effective way.

Active Tameside

3.20 The Council has contract with Active Tameside to operate leisure services from the Council owned assets. It pays an annual management fee of £1.1m, from which it repays £780k per annum of prudential borrowing. Active Tameside turns over c£10m per annum, and closure of its sites means that it is no longer viable, as it is not generating income.

3.21 Whilst Active Tameside thought they had adequate business disruption insurance, their insurance company is contesting the claim and this is likely to end up in court.

3.22 There is already governance in place to pay the annual management fee up front. Active Tameside has requested the delay to the repayment of the prudential borrowing that is due and if this is approved they will have sufficient cash to last until the end of June 2020. They have put all employees who are unable to work onto the Furlough scheme in which the government will reimburse 80% of wages.

3.23 The insolvency of Active Tameside would mean that if the Council wanted to continue to operate its leisure facilities after the crisis is over then it would have to either continue to support Active Tameside through an enhanced management fee, or allow them to become insolvent and bring the service back in house.

Adult Social Care

3.24 There will be undoubted pressure on social care as the NHS seeks to free up as many hospital beds as possible. However, lockdown in care homes to prevent infection may leave some providers vulnerable and unable to replace residents who have left or died. The Council is seeking to continue to fund such places in order to keep suppliers viable for the long term needs of residents. There are no figures as yet as to the size of this impact, but it is expected that this can be charged against the funding available to assist with hospital discharges.

Non delivery/delay of planned savings

3.25 There are a number of savings projects that are expected to be delivered during the financial year to contribute to the balancing of the budget. As staff are reprioritised it is possible that some of these savings will not be realised in line with the budgeted plans. An assessment of all savings needs to be made to establish the likely financial impact during the year. The non-delivery of the savings will impact on the level of reserves that will be required to be used during the year.

Pensions Guarantor for Admitted Bodies

3.26 The pension fund has warned that some schools and academies may be restricting payments to their sub-contractors because of the enforced closures, some of whom employ staff who are in the LGPS. By restricting payments it could destabilise the supply chain and result in significant pension strain staff if they are made redundant and over 55. This will ultimately result in a liability for the Council. Work needs to take place to ascertain these schools and their suppliers.

4. GOVERNMENT FUNDING

4.1 The Government was quick to announce direct support to Local Government in the form of a £2.9bn announcement to be paid in the new financial year. This is split into two parts:

a) £1.6bn – unringfenced grant (Tameside to receive £7.675m) to cover costs such as:
   i. Increased demand and costs of adult social care
   ii. Increased demand and costs of providing children's social acre
   iii. Additional support for homeless and rough sleepers
   iv. Support those at higher risk of illness from COVID 19
   v. Meeting pressures across other services including reduction in income

b) £1.3bn – to the NHS via CCGs to support enhanced discharge arrangements. This will include providing free out-of-hospital care and support to people discharged from hospital or who would otherwise be admitted into it, for a limited time. This will remove barriers to discharge and transfer between health and social care, and get people out of hospital quicker and back into their homes, community settings or care settings.

4.2 There have been no direct allocations announced yet, but if allocated in a similar way to the £1.6bn, Tameside and Glossop CCG would expect to receive around £6.2m. The guidance at this stage suggests that this will be for community services and not for acute providers, who will be supported separately. The method of receiving this funding is equally unclear at this stage and clarity is being sought.

4.3 This initial funding support, whilst welcomed is insufficient to cover the costs and loss of income that is already known from the COVID19 closedown.

5. SUPPORTING BUSINESSES

5.1 In this rapidly changing situation there are a number of guidance notes from central Government. The Council has moved to immediate payment of its suppliers on the receipt of valid invoices. The CCG routinely pays immediately on presentation of a validated invoice so there is minimal detrimental impact on suppliers.

5.2 For those suppliers in contracts with the Council for the provision of services, there is guidance and advice from government which emphasises that if they are suffering cash flow problems then the council can pay on account, in exchange for an open book accounting approach to support. This should include the Council having evidence that payments are being passed down through the supply chain.

5.3 All suppliers have been written to and asked to contact their contract manager and/or the specific covidsupplier.relief@tameside.gov.uk email address so that wherever possible support can be provided through enhanced cash flow and alternative working arrangements.

5.4 The Council will follow government guidance on the business rates support and reliefs along with the potential cash-flowing of these refunds.

6. NEXT STEPS

6.1 Many services will already be facing additional costs as they enact their business continuity plans. With most people who can already work from home now doing this, additional IT resilience has been put in place with quick upgrades to capacity and other technological solutions to ensure all staff can work from home wherever possible.

6.2 In the short term most services have reprioritised and covered gaps, but as the pandemic grows this will become less sustainable and it is likely that additional resources will be required.

6.3 Whilst these are unprecedented times and actions often need to be taken quickly, this is the largest financial risk ever faced collectively by the Strategic Commission and it is important that we retain control of the finances so that we can maximise the impact and value from every pound of spending and minimise the financial impact whilst supporting our most vulnerable.

6.4 The financial pressures and risks will fall into 4 main areas:

a) New Costs as a direct result of the COVID 19 pandemic – such as purchase of PPE, IT upgrades, etc
b) Additional demand into our existing systems and the pressure on prices we have to pay
c) Loss of income due to the lockdown and social isolation measures
d) The delay to the delivery of savings plans – thus impacting on our longer term financial position

6.5 Each Directorate has a new COVID–19 cost centre set up for it to capture the direct new costs of the pandemic. All new spending decisions need to be recorded so that members and the public are sighted as to the decisions that have been made. Directorates are urged to work closely with their finance teams to assess the requirements and impacts on funding. Financial Management are maintaining a record of the additional burden caused by the COVID19 crisis, and it is expected that Directorates work with Finance to ascertain these costs and pressures.

6.6 The additional funding will be pooled and held centrally for the use of the Strategic Commission with decisions to allocate made speedily following SLT discussions.

6.7 There will also be some expenditure that will not be incurred as a virtue of the crisis, for example, events have been cancelled, staff mileage and travel costs are likely to be lower, less printing will be incurred, training courses will not be taking place, less may be spent on home to school transport etc. It is important that we capture these and centralise alongside the central government funding so all resources can be mobilised to deal with the crisis.

7. RECOMMENDATIONS

7.1 As set out on the front of the report.

APPENDIX 1

Use of Reserves to Balance 2020/21 Budget	£000	Comment
ICFT Support Functions - Non Recurrent	113	Will be delayed/deferred/cancelled
Car park income	710	Income likely to be reduced further significantly as trade slows and homeworking takes place
Car park income	-260	Income likely to be reduced further significantly as trade slows and homeworking takes place
Events & Tour of Britain	66	Cancelled
Events & Tour of Britain	74	Cancelled
Market ground income	267	Traders in further distress
Market ground income	0	
Stalybridge Town Centre Challenge	75	Could be delayed/postponed - economic impact?
Rent Free Period for Tenants in Tameside One	317	Happening
Bus Reform	1,450	May be delayed as resources diverted
Local Plan exc staffing	48	Could be delayed - but will be required in the future
Investment in strategies including SAMP, Inclusive Growth, Investment- site specific including Ashton Moss and St Petersfield , Green	300	Could be delayed - but will be required in the future
Housing Delivery/marketing	50	Could be delayed - but will be required in the future
Godley Green - planning	500	Could be delayed - but will be required in the future
St Petersfield - business rates and investment potential	150	Could be delayed - but will be required in the future
Trans Pennine upgrade Mottram by pass impact report	75	Could be delayed - but will be required in the future
Town Centre Masterplans(A-U-L, S'bridge, Droylsden, Hyde)	200	Could be delayed - but will be required in the future
Ashton Moss master plan	250	Could be delayed - but will be required in the future
Selective Licensing	172	Likely to be delayed
Selective Licensing	-112	Likely to be delayed
7 Sustainability Projects	2,200	Will costs still be incurred?
7 Sustainability Projects - CCG contribution	-300	Will costs still be incurred?
Childcare legal fees	500	Directly related to number of children take into care and issue proceedings in court will increase with increase demand.
Regional Adoption Agency - Inter Authority Fees	300	Likely to be impacted
Systems Investment / Liquid Logic	250	Could be delayed - but will be required in the future
Children's Placements costs	5,000	Will this be enough?
Total	**12,395**	