Agenda Item No 7

DERBYSHIRE COUNTY COUNCIL

I & S RESOURCES COMMITTEE

4 June 2020

Report of the Director of Finance & ICT

UPDATE ON THE FINANCIAL POSITION AND THE COST IMPLICATIONS OF THE CURRENT COVID-19 OUTBREAK

1 Purpose of the Report

To provide members with an update on the current financial position of the Council.

2 Information and Analysis

The Council has nearly completed the work to finalise its accounts for 2019-20. This is expected to show a small overall underspend in line with previous budget monitoring and financial plans. The Council would also expect to report that it has a high degree of confidence that the financial position at the end of 2020-21 would be in line with previously agreed planning and that there is every expectation that compliance with the new CIPFA Financial Management Code and achievement of positive reports from Mazars (the Council's external auditors) would continue. However, Covid-19 has effectively thrown all financial planning into a state of flux and is unlikely to be clear until later in the financial year.

Councils completed their second cost pressure returns to MHCLG on potential costs of Covid-19 on the 15 May 2020. The parameters for the return were to identify costs incurred in April, projected costs in May and estimates for June and July; no costs beyond July were to be included; only the current spike in cases was to be assumed with a tail of cases; County Councils were prevented from including any Council Tax of localised Business Rates effects in their returns.

The Councils run rate of costs, income shortfall and delayed savings continues at around £10m per month, without further Government support we will run out of the funding made available (£37m) in mid-July.

County Councils have submitted a wide variation in funding implications of Covid-19 and Derbyshire's cost projection is currently towards the bottom end of the scale.

There are further risks and uncertainties that have yet to be quantified, these include:

- **Adult Social Care -** The pandemic has seen occupancy levels in the care home sector reduce from the normal 90% to 70%. As a result, the sector has requested that local authorities continue to pay them additional income to put them back in a position as if 90% occupancy rates were being achieved. This would be an additional pressure to the Council over and above those highlighted in this report. Early estimates suggest that the cost of compensating for under occupancy could be at least £5m a month and – the care providers want any payments backdated to the 1 April.

- **Children in Care -** Whilst the figures quoted above assumes that costs will be triggered in the three-month period to the end of June, higher levels of expenditure will be incurred well beyond this timeframe. Evidence from other countries that have relaxed lockdown is that there is a spike in the numbers of children needing the support of social care services, therefore these costs will not be unravelled on 1 July 2020 even if normality is resumed at that date.

  Should the profile of placements change and there is a requirement for the commissioning of more agency residential placements the costs will be significantly higher.

- **Personal Protective Equipment stocks -** Demand is high for equipment at this time, and is expected to continue while ever there is no reliable vaccine or treatment for Covid-19, therefore the Council will continue to purchase large volumes of PPE when opportunities arise in the knowledge that it usage is high and this will not change in the medium term. Any surplus stocks at the end of the pandemic can be sold to the NHS which may result in a loss to the Council or can be retained by the County council for future use. Any such PPE retained can be designated as stock and will not, therefore, be defrayed to budgets until the point at which they are used by the council, subject to the stock not becoming obsolete.

  The Government’s national Clipper scheme is aimed to support organisations across the UK with the procurement of PPE. Notwithstanding the scheme is still to be fully operational.

- **Staffing -** Whilst some staffing costs have been reflected above, costs may increase as redeployment takes effect over the coming months.

- **Savings -** The savings shown in are based on a desktop exercise by departmental managers. Whilst these figures provide a general estimate of savings slippage for 2020-21, further detailed analysis will be required to understand the true extent of the delay. This work will be completed as part of the business as usual budget monitoring activity early in the new financial year.

- **Project Activity -** The Council has a number of ongoing projects and discretionary activity. Pending the Council's response to the pandemic, a number of these actions have been suspended, however, recent weeks have seen a return to business as usual activity. They will be reviewed as the Government's position on funding available to local authorities becomes clearer in the coming weeks.

- **Recovery -** The Council will need to make significant investment if it is to help stimulate the local economy as it emerges from the impact of the pandemic in the coming months. On the 13 May 2020, the Office for National Statistics published figures showing that Gross Domestic Product (GDP) is down by 2% in the three months to the end of March 2020, this being the largest economic decrease in the UK since the financial crash in 2008. GDP fell 5.8% in March compared to the previous month.

  The capital programme will be reviewed which is likely to result in additional borrowing which could lead to an increase in debt repayment and interest charges of up to £5m to support capital projects.

  Budget 2020 announced a third round of the Local Infrastructure Rate, a £1bn pot of discounted lending to support local authorities to deliver infrastructure projects in England. The Local Infrastructure Rate is designed to help incentivise local authorities to construct infrastructure that otherwise would not be affordable. The Government will look favourably on projects where supporting evidence is provided to demonstrate that they can begin quickly once funding is agreed. The bidding round will run from 11 April 2020 – 11 July 2020.

  The Council is developing a Recovery Strategy which will examine how the Council returns to business as usual activity and seeks to adapt its operations to comply with social distancing guidelines. It is anticipated that there will be additional costs associated with recovery which are yet to be costed. A cited example across the sector are the additional costs of home to school transport as the number of passengers on buses and coaches will be limited to abide with social distancing rules. Therefore, additional transport costs will be incurred as additional buses will be needed.

  MHCLG have offered the following informal comments on the funding position:

  - When asked if further funding would be available they referenced the four points made by Robert Jenrick at a recent Housing, Communities and Local Government Committee:
    - Councils will be fully funded where they have been asked to undertake specific things to respond to Covid-19
    - Where councils have made decisions to carry out additional schemes that is their decision and will not be funding
    - Irrecoverable income – which was recognised in the second tranche of funding

- Council Tax and Business Rates income – will look to gather data and take a judgement when the Government has better information.

- Where a Council has made an unwise “commercial investment”, Government will come to a deal with local government but it will be painful
- The Government’s next steps are to come up with a plan which includes reviewing the returns submitted last week, conversations with a number of individual local authorities to be in a position to present advice and information to the Secretary of State in the next couple of weeks.
- It would be helpful if Councils could provide an indication of when they will be taking reports to Council/Committees with their revised budgets with a few bullet points of what the report is likely to advise
- The position is evolving and the Secretary of State needs to approach HM Treasury and demonstrate the financial predicament faced by local authorities
- In relation to the questions regarding reserves in the MHCGL cost data return, the intent was to illustrate that if no further funding was forthcoming local authorities would have to dip into reserves and the implications of doing so
- MHCLG will consider underwriting the loss of council tax and business rates and see this as a better option than providing further funding at this time
- In responding to questions about funding timetables for the next financial year, the Spending Review was planned for July and this would now likely be in the Autumn. It would most probably cover one year.
- Recognition that capital schemes aid recovery and Government is looking at all schemes and new ones. Acknowledged that there was concern about meeting grant conditions and clawback.
- The £600m recently announced to passport to the care sector was going to be subject to terms and conditions. Much yet to be clarified.

3 Financial Considerations

The Council is in a similar position to every other council in that it is reliant on continued further support from Government to meet the costs of Covid-19, without this continued further support every council will have to consider scaling back significantly on other spending areas during the current financial year; redraft medium term financial plans; and re-examine long term reserve levels. The Government have indicated that further resources will be made available where the case is well made, it is therefore important that council’s continue to lobby effectively and explain the funding position proactively.

4 Officer's Recommendation

To note the report.

PETER HANDFORD

Director of Finance & ICT