



Covid-19 Financial Update

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1) The Council's Financial Position Pre Covid

The final outturn position at the 31st March 2020 was net expenditure of £800.534m, which represents an in year underspend of £1.741m or 0.22% of the revenue budget.

The most material areas of over and underspend in 2019/20 were as follows:

- Adults Social Care Services - £24.930m overspend primarily as a result of under delivery of savings and financial support being provided to two of the local Clinical Commissioning Groups as referenced in the Money Matters report to cabinet on 6th February 2020
- Treasury Management - £22.888m surplus position primarily through over-achievement of budgeted income principally due to the sale of gilts and bonds.

£151.199m was available in the transitional reserve at the end of 2019/20 for future years. There are current (Non-Covid related) commitments of £1.537m which leaves a forecast of £149.662m available to support any future financial gap and the financial pressures of the pandemic, however if used in this way, the resources will not be available for the council's ongoing plans to transform services and invest in infrastructure.

When Full Council set the budget in February the level of reserves of £151.199m were forecast to be sufficient to deliver the required service transformation and cover the medium term financial strategy period and beyond. The funding gap reported at that time was as per the table below:

Aggregated Funding Gap	2020/21	2021/22	2022/23	2023/24
2020/21 (£m)	-1.358	-1.358	-1.358	-1.358
2021/22 (£m)		8.121	8.121	8.121
2022/23 (£m)			13.563	13.563
2023/24 (£m)				18.076
Total	-1.358	6.763	20.325	38.401
Cumulative Funding Gap	-1.358	5.404	25.730	64.131

In arriving at this reported position it was necessary to make assumptions about future funding levels. During the course of 2019/20 a number of funding scenarios were modelled and the most appropriate scenario selected. There remains significant uncertainty regarding funding levels post 2020/21 with changes to be made in respect of business rates retention, the overall funding formula, the anticipated green paper on adult social care and, of course, the government spending review.

There is now a further level of uncertainty around the full financial impact of COVID-19 and the extent to which government will make good the financial pressures in both 2020/21 and subsequent years. The government's aim to introduce a new fair funding formula and 75% business rates retention has been further delayed by at least a year adding yet more uncertainty in assessing finances in the medium term

2) The Financial Impact of COVID-19 on the 2020/21 Budget

The budget for 2020/21 was set without recourse to reserves and with a healthy level of reserves available to support the current and future financial years, however this was set prior to the impact of COVID-19.

Public services have been at the forefront of the emergency response, including local government. Councils have needed to introduce new services while providing additional financial support to existing service areas, such as adult social care. Local government is still in the process of understanding the short, medium and long terms impact that COVID-19 will have on councils, including the impact on the wider economy and government macro-economic policy.

The government funding provided so far has focussed on alleviating immediate financial pressures created by COVID-19, with ongoing debate on what funding and support the government may provide in relation to ongoing COVID-19 financial pressures. The funding has focussed on COVID-19 related expenditure, and arguably has had less focus on the indirect consequences of the pandemic, in particular lost income and the ability to deliver planned savings. Further work will be required to understand the latent financial impacts on local government and this will be a matter reserved for the Spending Review.

The main mechanism for assessing the immediate financial pressures so far has been a monthly data collection exercise via Ministry of Housing, Communities and Local Government (MHCLG) financial returns. The MHCLG returns collect data on the use of government support funding, key financial pressures (cost and income) and reserves. The purpose of this is to enable MHCLG to obtain a reliable estimate of the financial challenge caused by COVID-19 at a local level.

In assessing the impact on our 2020/21 budget we are forecasting full year pressures in a very uncertain environment. Presently funding received is in excess of the actual expenditure incurred in the current year to date position. Our latest high level view of the full year impact on the current year's budget as captured in the June MHCLG return is for unplanned financial pressures of £100m as a result of 3 main factors:

- 1) The levels of unplanned COVID-19 related costs.
- 2) Planned savings activities delayed due to the prioritisation of COVID-19 response activity.
- 3) Income pressures as a result of lockdown impacting the authority's income generating activities.

As a non-billing authority we do not report forecast collection fund pressures within our monthly returns. The future impact of this pressure is detailed below in the commentary on our June Covid return.

We have to date filed three returns with the pressures reported being refined over the period as underlying activity and demand has been assessed with the pressures reported being:

	Forecast Pressure £m
April	119.650
May	94.723
June	100.029

The breakdown of the latest return as filed with MHCLG in June was as follows:

LCC Covid related estimated additional pressure 2020/21 in (£m):							
Spend							
Service Area	Mar-20 £m	Apr-20 £m	May-20 £m	Jun-20 £m	Full Year £m	Submitted in May	Movement Full Year £m
Adult Social Care	-	3.859	4.944	7.047	50.375	50.390	- 0.015
Childrens Social Care	-	0.208	0.191	0.196	5.284	4.983	0.301
Education	-	0.083	0.167	0.167	5.000	0.500	4.500
Highways and Transport	-	-	-	-	-	2.000	- 2.000
Public Health	-	0.045	-	-	0.045	0.045	-
Environment & regulatory	-	1.383	0.648	0.461	4.127	1.434	2.693
Finance & corporate	0.663	0.254	0.005	- 0.005	0.253	0.254	- 0.000
Other	-	0.912	0.912	0.912	10.480	14.752	- 4.273
Total Estimated Spending Pressure	0.663	6.745	6.866	8.580	75.565	74.359	1.206
Income Loss							
Service Area	Mar-20 £m	Apr-20 £m	May-20 £m	Jun-20 £m	Full Year £m	Submitted in May	Movement Full Year £m
Highways and Transport Sales, Fees & Charges (SFC) - Parking services loss	-	0.103	0.103	0.103	0.747	-	0.747
Highways and Transport Sales, Fees & Charges (SFC) losses - other	-	0.438	0.451	0.451	3.816	5.285	- 1.469
Cultural & Related (SFC) - Recreation and sport losses	-	-	-	-	-	-	-
Cultural & Related (SFC) losses - other	-	0.226	0.345	0.345	2.214	2.138	0.076
Planning & Development SFC losses	-	-	-	-	-	-	-
Other SFC income losses	-	-	-	-	-	-	-
10 - Other income losses	0.679	3.909	4.524	4.246	17.686	22.384	- 4.698
Total Income Losses	0.679	4.676	5.422	5.144	24.464	29.808	- 5.343
Total Estimated Financial Impact Full Year	1.342	11.420	12.289	13.724	100.029	104.166	- 4.137

The content and information requirement has been refined twice with new information being requested. This has made comparison between returns difficult. At the time of writing we are awaiting the July data collection template which is to be submitted by 31 July, but it is expected to have significant changes to it.

The most significant pressures forecast in the June return are forecast to relate to:

- Additional demand for adult social care services of £24.582m. This is the forecast full year impact of pent up demand and reflects predicted pressure as service users recommence accessing services. During lockdown and consequent social distancing requirements, we have seen reduced demand across many adult social care services. It is expected that additional demand will arise for both adult social care and mental health services in the near future including the impact of accelerated frailty on a number of service users. There is also an expectation and a provision within this forecast of additional costs arising as a result of rapid discharge from hospital. This has led to service users being placed in health commissioned short term residential care placements which due to the disruption of Covid and the reduced ability to assess and move to more appropriate care packages, is likely to lead to long term residential care.
- Emergency assistance payments in support of the adult social care provider market forecast of £16.762m.
- The provision of personal protective equipment and the creation of sufficient stocks to deliver resilience in the case of another spike of £6.200m.
- Work force costs including the creation of an auxiliary workforce to support the adult social care market of £3.031m.
- Additional demand for children's social care services of £4.767m.

- An expected pressure of £5.000m to support social distancing measure for home to school transport in the new school term.
- Delayed agreed savings plans of £10.263m.
- Lost income of £24.464m from a range of services including school support services, school catering, libraries, bus income and bus station departure charges, school bus passes and workshop income, as well as the revenue impacts of delayed capital schemes to which a level of revenue expenditure would normally be charged.
- A number of smaller amounts of expenditure including the creation of a temporary mortuary, the adaptations required to our operational estate and the impact on waste disposal costs account for the balance of cost pressures.

The assumptions and forecasts that underpin this assessment are very high level and are a snapshot at a point in time - they are not of the same accuracy that we would normally expect to find in a medium term financial strategy (MTFS). The process of assessment will need to be constantly updated as more information becomes available and in light of changing circumstances and assumptions based on the progress of the infection, the government's response and all of the other factors that influence the overall position.

The current assessment of impact disclosed to MHCLG does not assume a second spike of the virus and there is no collection fund impact reflected within our return as MHCLG directed that the full impact including in relation to the precepting authorities has to be included in the collection authority returns i.e. the district councils.

On the latest information we have from districts in their June returns, we have estimated that the impact to LCC as a result of deficits on the collection fund is in the region of £30m. This would ordinarily represent a funding pressure in 2021/22 with the agreed precept being paid in full during the current financial year. Government have indicated that they will allow the impact of this pressure to be spread over 3 financial years 2021/22-2023/24, and therefore this will lead to a current forecast pressure of £10m in each of those financial years.

The County Council Network and Society of County Treasurers commissioned an analysis of the Covid Related financial pressures being reported by county councils. The highlights from this analysis and most significant for Lancashire showed that:

- a) Cost pressures within Adult Social Care services constitute over 50% of all cost pressures. Our returns have been consistent with this view to date.
- b) Cost pressures from within Children Social Care services represent 9.1% of all cost pressures. To date we have forecast below this at around 5% of additional costs in the absence of key evidence of pent up demand or cost pressures. This assessment of pressure is a judgement call which has been shared with the service and is made in the absence of predictable current demand information while expecting negative impacts for a number of children and young people as a result of lockdown.
- c) Cost pressures from within Education services of which Home to School transport is the biggest contributor represent 5.3% of all cost pressures. At 5% we are broadly in line with the average for all county council's
- d) Cost pressures from within other services represent 20.1% of all cost pressures. This section includes the impact of delayed savings activity as the most significant (73%) amongst other items. We are reporting a 10% forecast pressure as a result of delayed savings.

- e) The total value of lost service level income in 2020/21 was reported as £454m at an average of £12m per county authority. Our projections are for a loss of £24m of income for 2020/21.

3) Government Support for budget pressures 2020/21

In response to the crisis the government has provided a number of streams of additional funding to local government to support some of the pressures that are being forecast. The government has so far awarded £65m in unringfenced emergency grants to the council to help with the financial pressures, and some ringfenced grants in support of specific activity around infection control, track and trace and emergency assistance for the most vulnerable in society. The ringfenced grants are not incorporated within our cost pressures return as they are assumed to be fully committed for the purposes they have been awarded.

Despite these grants which have been a welcome response, it has become clear the government will not meet the full costs of the Covid-19 crisis. The deductions from the reimbursement of income losses is an example of this. Government have been clear that local authorities should bear some of the consequences of their commercial strategies in which there were always accepted risks. However the forecast will necessarily change as the impacts of policy on home to school transport and as the post lockdown level of demand for services become clearer.

Local Authority	First Tranche of Covid-19 Funding	Second Tranche of Covid-19 Funding	Third Tranche of Covid-19 Funding	Total Covid-19 Additional Funding
	£m	£m	£m	£m
Covid Emergency Funding				
Total England	1,600.000	1,594.000	494.000	3,688.000
Lancashire	35.296	21.405	8.285	64.986
Infection Control				
Total England				600.000
Lancashire				16.197
Track and Trace				
Total England				300.000
Lancashire				6.367
Emergency Assistance Grant				
Total England				63.000
Lancashire				1.453
Income Guarantee				Per Guidance
Total funding granted to LCC				89.003

Before taking into account the currently estimated £30m impact of collection fund pressure detailed above, the current forecast financial impact on the 2020/21 revenue budget is made up of both additional forecast expenditure and potential shortfalls in income. We have now

been clearly advised that the emergency funding provided (£65m to date) is to cover additional expenditure pressures and a separate scheme has been introduced to compensate councils for income losses. We have forecast additional expenditure of £75.565m in the June MHCLG return against which we have received £64.986m of emergency funding and which therefore leaves a shortfall on expenditure of £10.579m. In addition we have estimated a loss of income of £24.464m which will be partially covered by the income guarantee scheme but at the time of writing we are awaiting further detailed guidance as to its operation, particularly with regard to the interpretation of internal charges to capital projects. The general principles of the income guarantee are that the first 5% of any shortfall of income against budget is to be absorbed by the authority after which central government will make good 75p in the pound. In addition to be eligible for funding the following criteria are to be applied:

- The loss must arise from transactional income from customer and client receipts (excluding rents and investment income) which is generated from the delivery of services which were budgeted for in 2020/21
- As a result of COVID-19, and consequent reductions in economic activity, these income sources have been unavoidably lost and won't be recovered in this financial year.
- Compensation should be based on net losses, where a local authority has been able to reduce expenditure, or has received other compensation, only the residual loss would be compensated for.

Should all our forecast income losses be eligible for reimbursement this would enable recovery of £17.431m of the £24.464m to be recovered. However we are concerned that £7.240m may not meet the criteria for funding which would reduce our recoverable income loss value to £12.272m.

Taken together the shortfall of funding to cover expenditure and income could therefore fall between £17.612m and £22.771m depending on the how the income scheme is applied.

4) Q1 Forecast Overview

Forecasting in the current climate is challenging as while the financial impact of the Covid crisis, is the biggest single factor impacting on our financial performance this year, there remain other factors of uncertainty in our forecast which will be kept under review as we progress through the year.

Despite the current assessment of our Covid 2020/21 financial pressures it is clear that there are opportunities to offset some of these. Our Q1 overall forecast at the time of writing is not fully complete and will be reported in detail to September Cabinet. At this point in the financial year we have limited activity to forecast from, however demand on adult social care is lower than budgeted, due to a number of factors including lockdown, social distancing measures and the impact of the acute health centre commissioning some residential placements as part of NHS funded scheme to create capacity in hospitals in support of the crisis. Longer term, we do not expect these factors to drive permanent reductions and expect a drift back up in demand as a new normal settles post Covid.

In addition to current lower than budgeted demand levels, we have some benefits from the current remote working arrangements with costs such as building occupancy, printing and mileage being reduced. We also have significant treasury management gains which are helping to mitigate some of the forecast pressures. The expectation is that the Q1 forecast will show a small deficit although the impact of pent up demand cannot be assessed with any

certainty at the moment and volatility in actual demand could lead to a significant variance from the currently forecast level as time goes by.

At the time of writing, the Q1 forecast is being finalised but a summary of how the draft overspend has arisen is as follows, with the Covid pressures being largely offset by treasury management gains:

	£m
Forecast Covid Expenditure	75.565
Covid Expenditure Funding	-64.986
Forecast Lost Income Covid	24.464
Forecast Income Support	-12.441
Net cost of covid	22.602
Q1 Forecast cost adjustments	1.072
Q1 Forecast treasury management gains	-19.937
Q1 Net forecast variance	3.737

With reserves of £151m there are sufficient reserves in place for the current financial year and there is no need for consideration of an emergency budget at this stage, however any use of reserves to address unplanned deficits will limit our investment choices in the future, particularly in respect of proposed service transformation and infrastructure investments.

5) Longer term impacts of Covid and the potential impact on the MTFS

We now know that there will be an impact to our financial position as a result of the crisis beyond the current financial year. The significant shortfall on collection fund income being an example. There are also likely to be ongoing financial pressures as a result of other factors and the most material elements are shown below with a forecast of the potential financial impact in future years and which would represent an additional pressure to the last reported MTFS position if additional funding is not made available. These impacts are early estimates that are expected to be subject to significant variation as we progress through the year:

Potential Impact	2021-22 £m	2022-23 £m	2023-24 £m
In-year Budget gap at February 2020 Full Council	6.763	13.563	18.076
3 year recovery of forecast collection fund deficit	13.750		
Assume a 0% tax base increase for 1 year	9.010	0.335	0.348
Assume no uplift in NNDR local share and top up for 1 year	0.374	-2.312	-1.595
Adult Services - 1% increase in price for 1 year	4.379	4.830	3.852
Children's Services additional 5% demand for placements for 1 year	6.701	-3.067	-3.303
Adult Services - demand	3.578	-3.578	
Total potential in year impacts	37.792	-3.792	-0.698
In-year change to MTFS gap	44.555	9.771	17.378

The aggregated effect of the above assumptions and effect on the transitional reserve are as per the following tables, The Aggregated funding gap for the 3 years to 2023/24 could potentially rise from £65.491m which was reported at February Council to £170.583m. As a result without high level intervention via the spending review or further efficiencies and savings being identified reserves would be depleted during the 2023/24 financial year

Aggregated Funding Gap

	2021-22 £m	2022-23 £m	2023-24 £m
2021/22 (£m)	44.555	44.555	44.555
2022/23 (£m)		9.771	9.771
2023/24 (£m)			17.378
Total	44.555	54.325	71.703

Effect on Transitional Reserve

	2021-22 £m	2022-23 £m	2023-24 £m
Forecast Opening Balance	146.261	101.463	47.137
Gap funding	44.555	54.325	71.703
Commitments	0.244	0.000	0.000
Forecast Closing balance	101.463	47.137	-24.566

All of the above are high level assumptions at the moment and are likely to fluctuate as new information becomes available. In particular the collection fund forecast impact is subject to variability on districts approach to assessing losses in 2020/21.

Beyond 2021/22 the uncertainty around these estimates increases and as a result we will continually monitor and update our MTFs to reflect updated estimates. The above impacts would indicate a potential significant budgetary gap for 2021/22 before any future support from HMG.

On the 21st July the chancellor launched the 2020 Comprehensive Spending Review (CSR) and is requesting any written representations by 24 September before being published in the autumn and will set out the government's spending plans for the parliament. Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period.

Given the impact COVID-19 has had on the economy, the Chancellor was clear there will need to be tough choices in other areas of spending at the review. As part of their preparations for the CSR departments have been asked to identify opportunities to reprioritise and deliver savings.

6) Next Steps

Without significant high level intervention as a result of the comprehensive spending review the pressures noted above suggest that service costs will need to be significantly reduced to meet the potential funding gap for 2021/22 and beyond.

To address the forecast pressure officers, working with our national organisations, particularly in adults and children's services which are the most significant areas of financial pressure due to the increasing demand and cost of services going forward, will develop an evidence base and narrative to influence the forthcoming Comprehensive Spending Review for which submissions will be accepted up until 24th September 2020.

As part of the monthly reporting cycle and alongside our budget monitoring activity we will continue to report to the ministry of housing communities and local government to help inform and influence the spending review.

We will also look to maximise efficiencies across services and commence work to identify potential savings should a poor settlement arise.