

Executive

Local Government finance update

Item 6

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Date: 10 November 2020

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Summary

This report updates the Executive on the latest summary of all funding provided to local government since the start of the COVID-19 pandemic and provides the latest estimate of the financial impact on London local government based on the September MHCLG survey.

It also sets out the financial implications of London moving to Local COVID Alert Level High (Tier 2) and subsequent implementation of a new national 'lockdown' of at least four weeks across England.

The report also provides a summary of initial modelling of the wider potential impact of the second wave of the virus over the second 6 months of the year, finding that a realistic estimate of the additional costs could be in the region of £500-600 million, on top of the £673 million already expected.

Recommendations

The Executive is asked to note the latest information on the financial impact of Covid-19.

Local Government Finance update

Introduction

1. London boroughs have continued to play a central role in the response to both the public health and economic crises caused by COVID-19, but this has come at a significant and growing financial cost.
2. The previous few finance update reports to Leaders' Committee and the Executive have summarised the funding allocated by government and set out the financial impact of the virus as the year has progressed. This report provides the latest estimates as at the end of October, but prior to the latest MHCLG survey returns which are due on 6 November.
3. The report also considers the direct financial implications for London local government of London being moved to tier 2 of the COVID alert tier system on 15 October, and of the second national lockdown announced by the Prime Minister on 31 October, to be implemented for a month from 5 November. Both measures are a consequence of the broader proliferation of the second wave of the virus, the estimated financial impact of which has been modelled and is summarised in the final section of the report, in order to inform the next phase of finance lobbying.

Covid-19 local government funding

4. Since March, around £30 billion of funding has been committed to local areas to support councils, businesses and communities in response to the pandemic. Appendix A provides an updated list of all funding received by local government as a whole and by London local government. Overall, £4.6 billion has been provided in general emergency funding, £2.6 billion in grants targeted for specific purposes; £23 billion in compensation to residents via the hardship fund and businesses via reliefs and grant schemes administered by local government. This includes the new Additional Restrictions Grant, worth £1.1 billion for local authorities (approximately £175 million across London) to provide one-off support to local businesses during the new national lockdown in England, allocated on the basis of £20/capita and). A further £5 billion has been provided in supportive cashflow measures.
5. In terms of direct funding (general and targeted grants), London local government has received around 16% of the total: in line with London's share of the national population. In terms of business support, London local government has received around £4.9 billion (21%) reflecting the scale of London's economy.

General funding

6. Since the start of the pandemic local government has received £4.6 billion in general non-ringfenced funding distributed via four tranches, the latest of which, totalling £919 million, was confirmed by MHCLG on 22 October. Table 1, below, shows London boroughs received £218 million (24%) of the fourth tranche: a significant increase in share from the previous tranches, which averaged 16%. So far, they have received £805 million (17.5%) of the total funding.

Table 1 – COVID-19 - general emergency funding tranches 1 to 4

	London boroughs	England	% share of total
First Tranche	254.2	1,599.9	15.9%
Second Tranche	245.0	1,593.9	15.4%
Third Tranche	87.4	494.0	17.7%
Fourth Tranche	218.0	919.0	23.7%
Total C19 general funding	804.6	4,606.8	17.5%

7. The Government has used a different methodology for each of the tranches. The first used the adult social care relative needs formula (RNF). The second used a simple per capita formula. The third used a new formula developed by MHCLG based on analysis of the first few months of survey data on additional expenditure caused by COVID-19. It uses population, adjusted for deprivation, and an updated area cost adjustment (this is known as the COVID RNF). The latest tranche uses a combination of the COVID RNF and takes account of overall shares of funding to date, as well as factoring in a £100k minimum threshold so that every (non-fire) authority receives at least this amount. Excluding the City of London (which received £100k) allocations across London ranged from £1.5 million to £14.5 million for tranche 4 and range from £11.5 million to £38.1 million in total (again excluding the City of London).

Targeted funding

8. In addition to the general funding, the Government has set out £2.4 billion in specific targeted grants since the start of the pandemic for various different purposes. The table below lists all targeted grants and shows London boroughs have so far received £271 million (11%) of the total. The largest are the two Infection Control Fund grants (totalling £1.1 billion nationally).

Table 2 – COVID-19 – specific targeted grants received by local government since March

	London boroughs	England	% share
Infection Control Fund (tranche 1)	50.7	600.0	8.5%
Infection Control Fund (tranche 2)	56.9	546.0	10.4%
Contain Outbreak Management Fund*	27.1	465.0	5.8%
Test and Trace	60.2	300.0	20.1%
Active Travel Fund	20.0	221.6	9.0%
Next Steps Accommodation Programme	23.0	91.5	25.1%
Welfare support funding	10.1	63.0	16.1%
Reopening High Streets Safely	8.0	50.1	16.0%
Test and trace support grants	8.4	50.0	16.8%
LA compliance & Enforcement grant	5.3	30.0	17.7%
Rough Sleeping Fund	0.9	3.2	26.6%
Total targeted grant funding	270.6	2,420.4	11.2%

* At the time of drafting, London boroughs had received £3/head for being in tier 2 of the £465m that had been set aside nationally.

Sales, Fees & Charges compensation scheme

- In addition, in July, the Government set out a compensation scheme for lost sales, fees and charges (SF&C), covering 75% of remaining losses once the first 5% of budgeted SF&C income has been forgone, to be signed off by S.151 officers. The first returns were submitted at the start of October and show that £125 million (53%) of the losses London boroughs reported from April to July will be compensated. There will be two further rounds of compensation covering the following two four-month periods. London boroughs overall are forecasting £439 million in SF&C losses over 2020-21 (at September), meaning that if 53% continued to be compensated, the overall loss would be £206 million, with £233 million compensated in 2020-21.

The latest financial impact – September MHCLG survey

- MHCLG has now undertaken six monthly surveys from April to September to gauge the scale of the financial impact of COVID-19 on local government. A seventh survey is due for completion by 6th November.
- The September survey showed the financial impact of COVID-19 across London boroughs in 2020-21 was still forecast to be **£2 billion** (in line with the August and July surveys), with an estimated **£1.1 billion in lost income** and **£952 million in additional expenditure** (see Table 3 below). Taking into account the £1.3 billion of funding received by London boroughs (£805 million in general emergency funding, £271 million in targeted

grants, and the estimated SF&C compensation for the whole year £233 million), leaves an **estimated funding gap of £724 million** for the year as a whole.

Table 3 – C19 financial impact on London boroughs 2020-21 – Sept 2020 summary

	Estimated impact April to September (£m)	Estimated impact 2020-21 (£m)
Additional expenditure - ASC	205	306
Additional expenditure - Unachieved savings	99	149
Additional expenditure - All other	285	497
TOTAL ESTIMATED ADDITIONAL SPENDING	589	952
Reduced income - Sales, fees and charges	318	439
Reduced income - Council Tax (local share)	197	241
Reduced income - NNDR losses (local share)	146	221
Reduced income - HRA	48	76
Reduced income - Commercial Income	38	52
Reduced income - Other	23	49
TOTAL ESTIMATED INCOME LOSS	770	1,080
TOTAL ESTIMATED FINANCIAL IMPACT	1,359	2,032
Total general emergency funding	-805	-805
Total targeted grants	-271	-271
SF&C compensation	-160	-233
TOTAL ESTIMATED FUNDING GAP	124	724

NB – SF&C compensation based on estimates for first 6 months and year as a whole

12. The impact to date - over the first six months of the year from April to September – is estimated to be almost **£1.4 billion**, with £770 million in lost income and £589 million in additional expenditure. Taking account of the general and specific grants received so far, and the estimated SF&C compensation for the first six months of the year, leaves **an estimated shortfall of £124 million**.
13. However, it should be noted that these estimates were submitted before the end of September, before the second wave of the virus had begun to have a big impact, and the introduction of the restrictions relating to the new COVID alert tier system. It is not known what assumptions boroughs were making in their estimates for the year as a whole regarding the scale of the second wave but, given the consistency of estimates since July, it is unlikely that many were building in significant further costs and losses of income resulting from a second wave, and likely that most were simply assuming ongoing impacts of the first wave.
14. Subtracting the figure for the first 6 months (£1.4 billion) and the estimate for the year as a whole (£2 billion), suggests boroughs were estimating an impact of almost **£673 million**

in the second 6 months of the year from October to March. This can be seen as the baseline position prior to any further assumptions being made about the scale of the second wave of COVID-19, and before the tier system and the second lockdown were implemented.

Financial implications of moving to tier 2 and the national lockdown

15. Prior to the recent announcement of a second national 'lockdown' from 5 November, the Government had introduced a three-tiered COVID alert system on 12 October to help manage the rise in cases of COVID-19 in local areas. London moved from tier 1 (medium) to tier 2 (high) on 15 October. The consequences for local areas of the restrictions on residents and businesses that come with each of the tiers within the system are, primarily, economic. There are also, however, direct financial implications for local authority spending and some indirect implications with regard to lost income.
16. On 19 October the DHSC confirmed the Contain and Management Outbreak Fund (CMOF) of £1/capita for authorities in tier 1; £3/capita for those in tier 2; and £8/capita for those in tier 3 (the funding is incremental, not additional). As set out in Table 2 above, London boroughs received around £27.1 million based on the £3/capita allocations for being in tier 2.
17. DHSC confirmed that funding for authorities in tier 2 is specifically to fund the following activities (the full list of activities intended to be funded under tier 3 is at Appendix B):
 - Targeted testing for hard-to-reach groups out of scope of other testing programmes.
 - Additional contact tracing.
 - Enhanced communication and marketing e.g. towards hard-to-reach groups and other localised messaging.
 - Delivery of essentials for those in self-isolation.
 - Targeted interventions for specific sections of the local community and workplaces.
 - Harnessing capacity within local sectors (voluntary, academic, commercial).
 - Extension/introduction of specialist support (behavioural science, bespoke comms).
 - Additional resource for compliance with, and enforcement of, restrictions and guidance

18. An initial assessment of the potential cost implications associated with these activities suggested it would be likely that the £3/capita funding would fall short of the direct costs boroughs faced as a result of the change in status from tier 1 to tier 2. There are also likely to be further direct expenditure implications for boroughs, beyond the list covered by the COMF; for example, an increase in the need for local welfare provision, likely to be required to support residents affected by the underlying economic impact of moving to tier 2. There will of course also be a negative impact on council income from business rates and from council tax (if residents are struggling financially) and on local SF&C income (for example through reduced parking income linked to reduced footfall).
19. The new four-week national lockdown will exacerbate these financial implications. The tier system will be superseded in England and it is not yet clear whether it will continue after the lockdown, or which tier London would be placed in at that point. The Secretary of State for Housing, Communities and Local Government confirmed to council leaders and chief executives in a webinar on 1 November that local authorities will receive funding during the lockdown of £8/capita (the level previously awarded to areas in tier 3). While funding has not been allocated at the time of drafting, it is expected that London boroughs will receive a further £45.2 million, on top of the tier 2 funding already received, bringing the total to £72.3 million.
20. Further funding will also be made available under a new local shielding framework, with areas receiving £14.65 per clinically extremely vulnerable (CEV) person to ensure they have access to essential supplies. London boroughs will receive £4.7 million based on 324,000 shielding cases in London
21. However, it is extremely difficult to disaggregate the impact on council income resulting from London being classified as tier 2, or indeed the imminent lockdown, from the underlying impact of the first wave and broader ongoing impact of the second wave of COVID-19. Rather than focusing on the specific shortfalls in funding resulting from the tier system and the lockdown, it is proposed to focus broader finance lobbying messages on the overall ongoing shortfall in funding resulting from the first and second waves of the virus.

The potential costs of the second wave

22. London Councils has undertaken some initial modelling of the potential additional costs and income losses that may result from the second wave of COVID-19 on London local government in the second half of the financial year using the data collected in the MHCLG

surveys for the first half of the year. This goes beyond the specific requirements associated with movements between tiers of restriction and takes account of the latest national lockdown announcement.

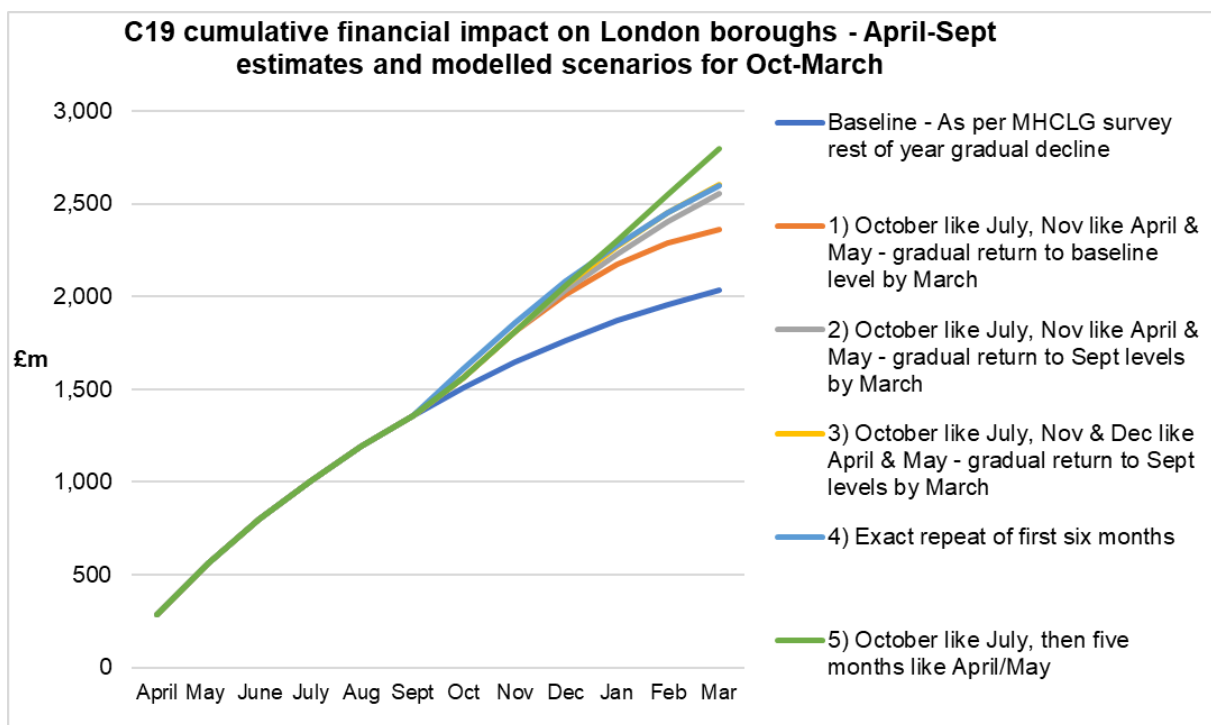
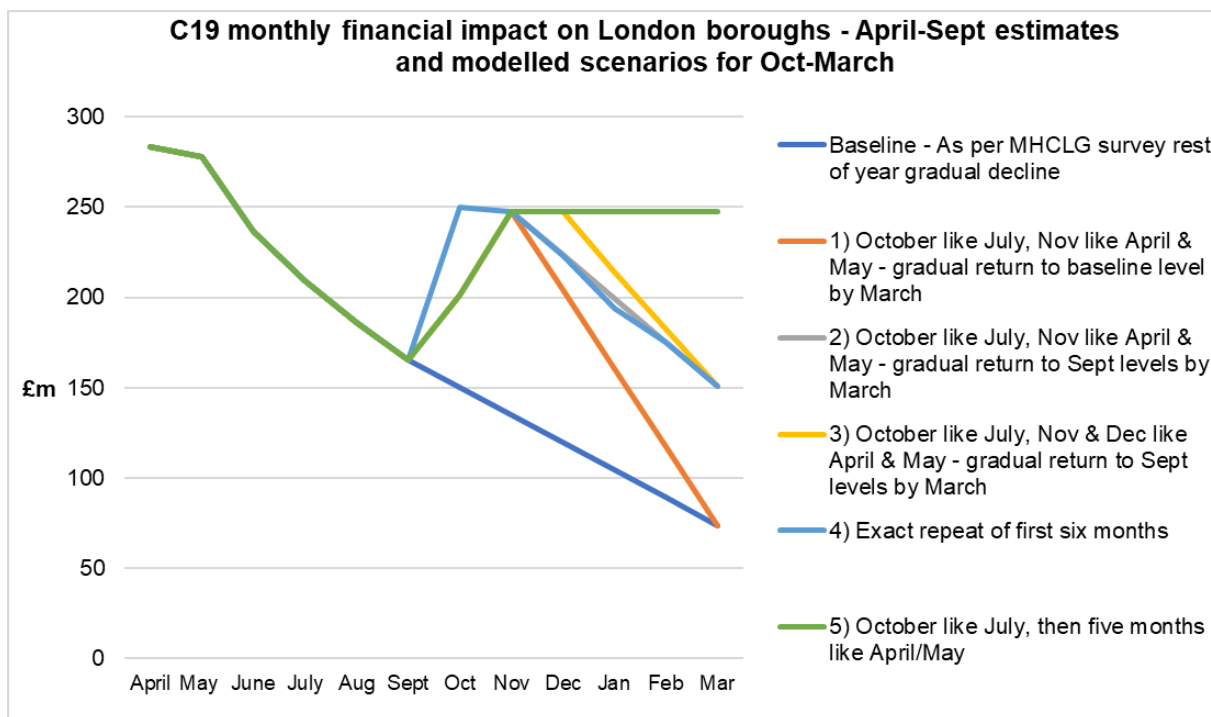
23. The overarching approach was to model several scenarios based on the impact in previous months, applying those scenarios to all income lines, but only to certain expenditure lines (collected in the MHCLG monthly surveys) that are likely to be affected. This list was discussed and refined with help from London treasurers. Those thought to be particularly affected by a second wave include:

- Adult Social care - additional demand
- Adult Social Care - supporting the market
- Children Social Care - other
- Public Health - Testing contact tracing and outbreak planning
- Housing - homelessness services
- Housing - rough sleeping
- Cultural & related - Sports, leisure and community facilities
- Environment & regulatory - cremation, cemetery and mortuary services
- Finance & corporate - other
- Other - shielding
- Other - PPE (non-Adult Social Care)

24. As set out in paragraph 14, the underlying baseline assumption takes the £673 million estimated impact for the remaining 6 months that boroughs were estimating in September and assumes a gradual even monthly decline between October and March. A number of other scenarios were modelled, with the following five representing the range from best case to worst case:

- 1) The impact in October is the same as July; the impact in November is the same as the average in April and May, before a gradual return to the baseline level by March.
- 2) The impact in November is the same as the average in April and May, before a gradual return to the September level by March.
- 3) The impact in November *and December* is the same as the average in April and May, before a gradual return to the September level by March.
- 4) The impact is an exact repeat of first six months
- 5) The impact in October is the same as July; followed by five months like April and May.

25. The first chart below shows the monthly change in financial impact for each of the five scenarios compared with the dark blue baseline, and the fan chart that follows shows the cumulative effect on the total impact for 2020-21 as a whole.



26. The worst-case scenario would add an **additional £767 million** to the baseline position, meaning an **overall impact of £2.8 billion** for the year overall compared to £2 billion. The

scenario with the lowest impact would mean an **additional £333 million** of financial pressure and a **total impact of £2.4 billion** over 2020-21. The table below shows all five scenarios and the final column shows the impact on the estimated funding gap.

27. The baseline funding gap has been adjusted (from £724 million to £674 million) to reflect the additional £45 million London boroughs are expected to receive in COMF funding and the new funding to support people who are CEV (set out in paragraphs 19 and 20). All scenarios have taken into account this funding plus the estimated impact on SF&C compensation. The results show a remaining funding gap ranging from the baseline £679 million to £1.3 billion under scenario 5.

Table 4 – Impact of second wave on London local government – summary of initial

	Impact April-Sept	Total 2020-21 (Sept estimate)	Implied impact Oct-March	Additional pressure	Estimated funding	Implied Gap
Baseline - As per MHCLG survey rest of year gradual decline	1,359	2,032	673	0	1,358	674
1) October like July, Nov like April & May - gradual return to baseline level by March	1,359	2,365	1,006	333	1,431	934
2) October like July, Nov like April & May - gradual return to Sept levels by March	1,359	2,558	1,199	526	1,460	1,098
3) October like July, Nov & Dec like April & May - gradual return to Sept levels by March	1,359	2,604	1,245	572	1,471	1,130
4) Exact repeat of first six months	1,359	2,601	1,242	569	1,462	1,139
5) October like July, then five months like April/May	1,359	2,799	1,440	767	1,516	1,259

28. Given the scale of the escalating second wave, it seems unlikely that the level of impact will return to the previous baseline estimate by March (scenario 1). Much will depend on whether the national lockdown extends beyond one month, and what restrictions may replace it. However, at this stage, based on the modelling, the most realistic estimates for the additional cost of the second wave would be **between £500-600 million** (scenarios 2-4), which would mean a funding gap of £1.1 billion in 2020-21 if no further funding is provided.

29. In the lead up to the Spending Review, due on 25 November, and local government finance settlement in December, it is proposed to continue to highlight to government not only the shortfall in funding received so far, and pre-existing shortfall of £724 million, but

the worsening outlook resulting from the second wave of the virus, which could add a further £500-600 million and lead to a £1.1 billion shortfall over the financial year.

Recommendations

30. The Executive is asked to note the latest information on the financial impact of COVID-19.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix A – All funding measures announced since the start of COVID-19

All funding measures confirmed since the start of COVID-19

	Date	Type of funding	England	London Boroughs	% share
C-19 Business Rates reliefs	11-Mar	Compensation	10,130.7	3,040.0	30.0%
Rough Sleeping Fund	16-Mar	Targeted	3.2	0.9	26.6%
Hardship Fund	24-Mar	Compensation	500.0	89.5	17.9%
Emergency funding (tranche 1)	27-Mar	General	1,600.0	254.2	15.9%
Business Grants Fund	01-Apr	Compensation	11,010.2	1,607.7	14.6%
Emergency funding (tranche 2)	28-Apr	General	1,594.0	245.0	15.4%
Discretionary Business Grants Fund	01-May	Compensation	616.7	83.1	13.5%
Infection control fund (tranche 1)	15-May	Targeted	600.0	50.7	8.5%
Active Travel Fund	23-May	Targeted	221.6	20.0	9.0%
Reopening High Streets Safely	24-May	Targeted	50.1	8.0	16.0%
Test and Trace	10-Jun	Targeted	300.0	60.2	20.1%
Welfare support funding	11-Jun	Targeted	63.0	10.1	16.1%
Emergency funding (tranche 3)	11-Jul	General	494.0	87.4	17.7%
Local Lockdown Grant Fund	09-Sep	Compensation	TBC	TBC	TBC
Next Steps Accommodation Programme	17-Sep	Targeted	91.5	23.0	25.1%
Infection control fund (tranche 2)	01-Oct	Targeted	546.0	56.9	10.4%
Test and trace support grants	06-Oct	Targeted	50.0	8.4	16.8%
LA compliance & Enforcement grant	08-Oct	Targeted	30.0	5.3	17.7%
Emergency funding (tranche 4)	22-Oct	General	919.0	218.0	23.7%
Contain Outbreak Management Fund*	23-Oct	Targeted	465.0	72.3	15.5%
Additional Restrictions Grant*	31-Oct	Compensation	1,100.0	175.0	15.9%
Funding for clinically extremely vulnerable*	31-Oct	Targeted	32.8	4.7	14.3%

General	4,607.00	804.60	17.5%
Targeted	2,453.20	320.50	13.1%
Compensation	23,357.60	4,995.30	21.4%
Total	30,417.80	6,120.40	20.1%

*NB – At the time of drafting, these grants had not yet been received and London figures are provisional.

Appendix B – The Contain Outbreak Management Fund

On 19th October the DHSC wrote to all Local Authority Chief Executives confirming funding the Contain and Management Outbreak Fund (CMOF) of £1/capita for authorities in tier 1; £3/capita for those in tier 2; and £8/capita for those in tier 3 (the funding is incremental, not additional). The letter confirms that financial support for Local Authorities at tier 2 is to fund the following activities:

- Targeted testing for hard-to-reach groups out of scope of other testing programmes.
- Additional contact tracing.
- Enhanced communication and marketing e.g. towards hard-to-reach groups and other localised messaging.
- Delivery of essentials for those in self-isolation.
- Targeted interventions for specific sections of the local community and workplaces.
- Harnessing capacity within local sectors (voluntary, academic, commercial).
- Extension/introduction of specialist support (behavioural science, bespoke comms).
- Additional resource for compliance with, and enforcement of, restrictions and guidance

The letter also stipulates that financial support for Local Authorities in tier 3 has a broader scope, to support local economies and public health, stating that it expects this to include activities such as (this list is not exhaustive):

- Measures to support the continued functioning of commercial areas and their compliance with public health guidance.
- Funding Military Aid to the Civil Authorities (marginal costs only).
- Targeted support for school/university outbreaks.
- Community-based support for those disproportionately impacted such as the BAME population.
- Support for engagement and analysis of regional areas to assess and learn from local initiatives.
- Providing initial support, as needed, to vulnerable people classed as Clinically Extremely Vulnerable who are following tier 3 guidance.
- Support for rough sleepers