

Date: 24th June 2020

Subject: GMCA & Local Authority Financial Implications of COVID 19

Report of: Councillor David Molyneux, Portfolio Lead for Resources & Investment and Steve Wilson, GMCA Treasurer

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## **PURPOSE OF REPORT**

The purpose of this paper is to update the Combined Authority on the financial implications of COVID 19 for the ten Greater Manchester local authorities. It includes the impact of measures put in place to support residents and businesses through the Covid-19 crisis including the financial implications from both the loss of income and additional expenditure.

The paper also looks at the role of local authorities and the CA in delivering a sustainable recovery from COVID 19 and helping Greater Manchester to *Build back Better*.

It identifies a number of areas where further support is required for Greater Manchester, both in terms of Government funding but also in increased flexibilities and some potential technical changes.

## **RECOMMENDATIONS:**

The GMCA is asked to:

1. Note and comment on the contents of the report.
2. Note the estimated financial impacts of COVID 19 on local authority, GMCA and TFGM budgets.
3. Note the ongoing financial impact of COVID 19 into 2021/22 and beyond.
4. Note the role of local authorities and the GMCA in the work to deliver an economic recovery from COVID 19 across Greater Manchester.
5. Note and support the request for further support for GM authorities in terms of both funding and other measures such as increased local flexibilities.

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<b>TRACKING/PROCESS</b>	
Does this report relate to a major strategic decision, as set out in the GMCA Constitution	No
<b>EXEMPTION FROM CALL IN</b>	
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No

**Risk Management** - N/A

**Legal Considerations** - N/A

**Financial Consequences – Revenue** – these are set out within the report

**Financial Consequences – Capital** - n o n e

**BACKGROUND PAPERS:** COVID 19 Finance update May  
GMCA

## GMCA & Local Authority Financial Implications of COVID 19

### **1. Introduction**

- 1.1 The Impact of COVID 19 across the World has been seismic with the UK facing its biggest challenge since the end of the Second World War.
- 1.2 Greater Manchester faces an even greater challenge with an infection rate and death rate greater than the UK average.
- 1.3 There is significant variation in the impact of the Coronavirus by region. The prevalence of the virus and the impact it has both in terms of health and wellbeing as well as socially and economically varies dependent on the levels of deprivation, the prevalence of underlying conditions as well as factors such as the age profile of the population and the number of care homes in an area. The recent study by Public Health England has also found a disproportionately high death rate from COVID 19 for people with BAME backgrounds.
- 1.4 As of the 8th June 2020 there had been 10,270 diagnosed cases of COVID 19 across the City Region with total deaths from the disease recorded as 1,919.
- 1.5 The role of local government in responding to the challenges presented by COVID 19, alongside local partners such as the NHS, is crucial. The virus has had an immediate impact on the health and wellbeing of our citizens but it has also had a profound impact on the economy of Greater Manchester and the financial sustainability of local institutions including those within the public sector.
- 1.6 This financial impact is against the backdrop of a number of years of budget cuts for Local Government during the period of austerity which follow the 2008 Worldwide economic downturn.
- 1.7 The purpose of this paper is to consider in detail the impact on the financial sustainability of local government across Greater Manchester. This includes the ten GM local authorities but also services provided at a GM wide level through the GMCA including the Fire and Rescue Service and GM transport services such as Buses and Metrolink.
- 1.8 The paper seeks to build up a detailed and comprehensive analysis of the impact on local government finances; looking at the immediate cost of responding to the crisis; the longer term costs of supporting the city region as it moves into recovery phase and the significant loss of revenue streams which would have otherwise sustained local delivery of essential core services.
- 1.9 It examines this financial impact alongside the critical role that local government has played in managing the crisis and crucially the unique role Local Government will play in delivering an effective and sustainable recovery.

## 2. Financial impact on Greater Manchester Authorities

- 2.1 Analysis undertaken by the 10 GM local authorities and the Combined Authority indicate that based on current assumptions the cost of the impact of the virus and the associated actions taken to manage the pandemic will be in the region of £732m by the end of 2020/21 alone. This is made up of additional costs faced in delivering the GM response to the crisis of £236m together with lost revenues of £496m.
- 2.2 Whilst there are a number of assumptions that have to be made in forecasting what the financial impact of the virus will be, it is important to note that this is not a worst-case scenario. Rather it is an estimate of the most likely impact based on current rates of infection and expectations around Lockdown.
- 2.3 The overall impact is summarised in the table below:

***Table 1: Financial Impact of COVID 19 across GM authorities***

Description	Additional Costs (£m's)	Lost Income (£m's)	Total (£m's)	Funding to date (£m's)	Net Costs (£m's)	Potential Reserves (£m's)	Gap after Reserves (£m's)
GM Local Authorities	225	409	634	244	390	92	298
GMCA (Exc Metrolink)	10	31	41	3	38	-	38
Metrolink	-	57	57	25	32	-	32
<b>Total</b>	<b>236</b>	<b>496</b>	<b>732</b>	<b>272</b>	<b>460</b>	<b>92</b>	<b>368</b>

## 3. Key Assumptions

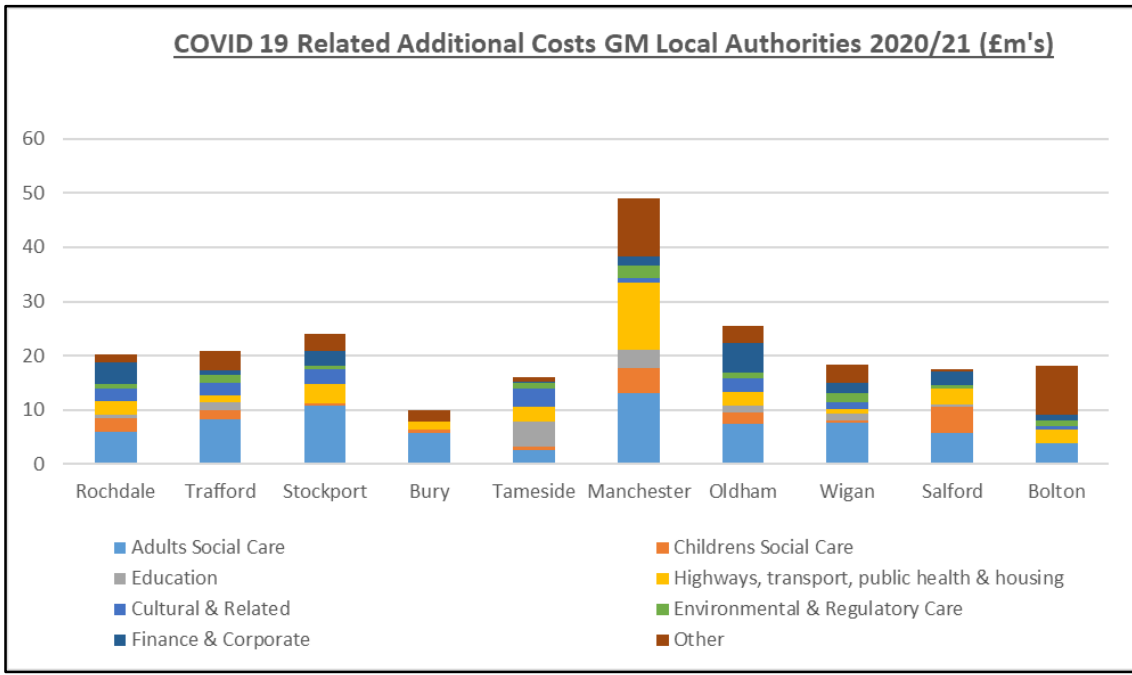
- 3.1 There are a number of key assumptions that have an impact on the expected level of costs. The costs analysed in the table above and considered in more detail below are particularly sensitive to the timing and the nature of the relaxation of lockdown restrictions. The assessment presented is done so on the basis of what is known about the forthcoming changes to lockdown, including the opening of non-essential retail shops from 15th June, as well as an assumption about continued relaxation of rules in the coming months.
- 3.2 It is crucial to note that the additional costs and the lost revenues **do not** assume there will be a second wave of cases or any increases in restrictions because of increased cases or an increased R number.

## 4. Analysis of Additional Local Authority Costs

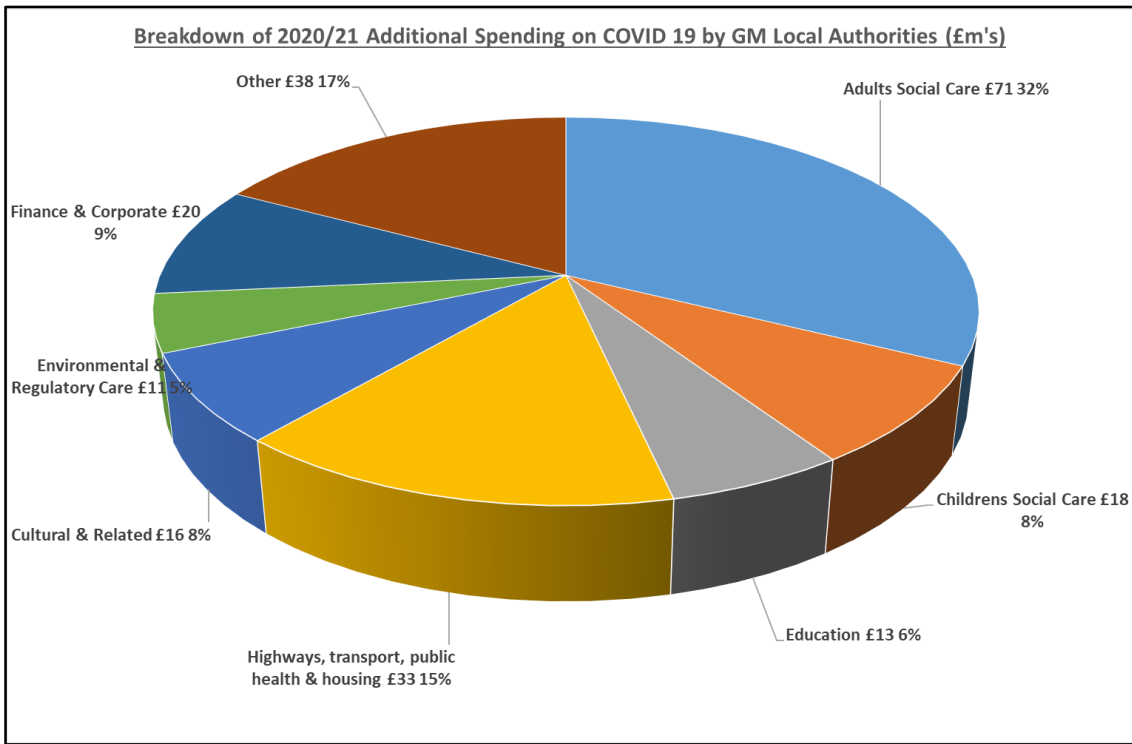
- 4.1 The ten local authorities across Greater Manchester have estimated that they will face additional costs by March 2021 of £225m.
- 4.2 These are the costs of providing an immediate response to the crisis and the ongoing support provided through many of the councils' services.

4.3 The impact is broken down by each of the 10 districts and by spend area in figure 1 and then the combined cost across Greater Manchester is shown by spend area in figure 2.

**Figure 1: Analysis of Additional Costs by GM Local Authority**



**Figure 2: Share of Additional Costs by Spending Area**



4.4 This analysis shows that whilst the largest impact falls against adults and children's social care, totaling 40% of overall costs, there are additional costs across a wide range of public services.

#### **i) Adult's Social Care**

Spending on Adult Social Care accounts for 32% of spending pressures. This is split between supporting the Adult Social Care market and other Adult Social Care costs. In total, the additional costs are £71m. The impact of austerity on council funding against a backdrop of an ageing population, means that the budget position within adult social care prior to COVID 19 was already challenging. An ambitious programme of transformation has been undertaken within adult social care across GM as part of a commitment to whole system reform and integration. However, delivery has been constrained by funding availability. For 2019/20, GM Councils were required to support £86m of additional expenditure over budget in Adults and Children services through use of reserves and non-recurrent funding.

COVID 19 has added significant cost pressures to the challenge within adult social care – now and potentially longer-term. Pressures include:

- Support for additional provider delivery costs - required to prevent provider failure in an already fragile care market.
- The direct purchase and distribution of personal protective equipment to ensure the safety of residents and the wider care workforce.
- Increased demand for care and support.
- Reduction in charging income i.e. day support,
- Impact on savings and transformation programmes – including embedding of an asset-based approach to deliver improved outcomes from services at reduced costs, with a further circa £16m planned for 20/21.

Continuation of unfunded COVID 19 costs added to future demand pressures and the impact of a rise in the living wage, risks the ability of local authorities to adequately resource adult social care into the future. As a pre-requisite component of a sustainable health and care system, this could have significant impact on the demand for, and cost of, NHS services.

The pandemic has exposed and increased the fragility of an already vulnerable adult social care system, being underpinned in-part by temporary grants i.e. the Improved Better Care Fund, Winter Pressures and Social Grant – currently confirmed to the end of 2020/21. There is evident requirement for additional and sustainable funding into councils to support adult social care, including investment to enable accelerated transformation.

The pandemic has re-highlighted the need for a radically different and reformed model of support at scale. The GM Living Well at Home programme makes the case for investment and change targeted at independence and choice, built around a stronger and more resilient health and care workforce.

The total additional investment in adult social care by the Greater Manchester Local Authorities has been offset by a contribution from local CCGs to support the discharge of patients from hospital to ensure capacity was available for COVID 19 admissions.

#### **ii) Children's Services**

Children's social care services account for 8% of the total additional GM COVID 19 costs in 2020/21 at £18m. Greater Manchester Councils continue to have a high number of children in care. Since the COVID crisis and lock down there has been an increase in looked after children despite a reduction in the number of referrals into the social care system. This is of concern along with national concerns around the issues of Children Sexual Exploitation and domestic abuse during lockdown. There is also a concern that once children return to school and are more visible to agencies there will be a further increase in referrals and children entering the social care system. Coupled with this, efforts to return looked after children to their Districts, develop in house provision and edge of care services have also been delayed due to the coved restrictions, making it harder to exit children from the system.

#### **iii) Education**

Education (non-delegated budgets) accounts for 6% of the costs (£13m). Education has been impacted by schools not buying back services from local authorities. The timing of the lockdown at the start of the financial year has meant that a number of schools have not bought into to LA delivered traded services resulting in an income shortfall. In addition, pressures continue around the vulnerable children who require home to school transport. Social distancing and the continued attendance of those pupils at specialist settings has put further pressure on an already pressured budget.

#### **iv) Public Health**

There are also significant costs for public health services, this includes working with the social care sector to ensure the correct use and provision of PPE as well as other infection control input into services especially social care. The total expected to be invested in public health across GM to support management of the COVID 19 pandemic is £18.5m.

### **Local Investment Case Study – Community Hubs in Bury**

*A key part of Bury Council's COVID 19 emergency response has been the establishment of five Community Hubs to provide the infrastructure to support vulnerable people. The initial priority was to support those who are classed as extremely clinically vulnerable (shielded) for a period of 12 weeks. The Hubs follow the footprint of the existing health and social care Integrated Neighbourhood Teams (INTs), with a remit to provide support for extremely vulnerable people who have no natural support from friends, family or neighbours with local volunteers to do shopping, collect medication and offer a befriending service. That remit has since expanded to the sub shielded group of socially vulnerable people who are self-isolating, are over 70 or need support from other services that the hubs can link them to e.g. food banks, welfare advice, community mental health support. A comprehensive operational model that flows from the Contact Centre to hubs to volunteers, supported by the corporate data team, has led to a seamless approach to emergency provision.*

*The Hubs will provide support any returning travellers to Bury who may need to be quarantined and to people who need to self-isolate as part of the Test, Track, Trace, Isolate Policy which may increase demand for the hubs' services.*

*Each hub has a named lead officer - employees temporarily redeployed to the COVID 19 response. Alongside the lead are a number of other staff from non-priority 1 services who have also been temporarily redeployed. A total of 150 staff have been temporarily redeployed to the hubs. Contact with the hubs is through a central number, 9am-5pm seven days a week. Outside of these hours, calls are monitored by the Council's Emergency Control Room.*

*To date the Community Hubs have:*

- *received over 2267 calls;*
- *provided direct support to 1361 residents*
- *of which 715 received shielded support*
- *engaged more than 800 volunteers providing support to vulnerable people*
- *dealt with over 1650 food shopping and medication collection tasks by volunteers*
- *distributed in excess of 440 emergency food parcels via Porchbox.*

*Community Hubs have been rolled out across all the GM local authority areas.*

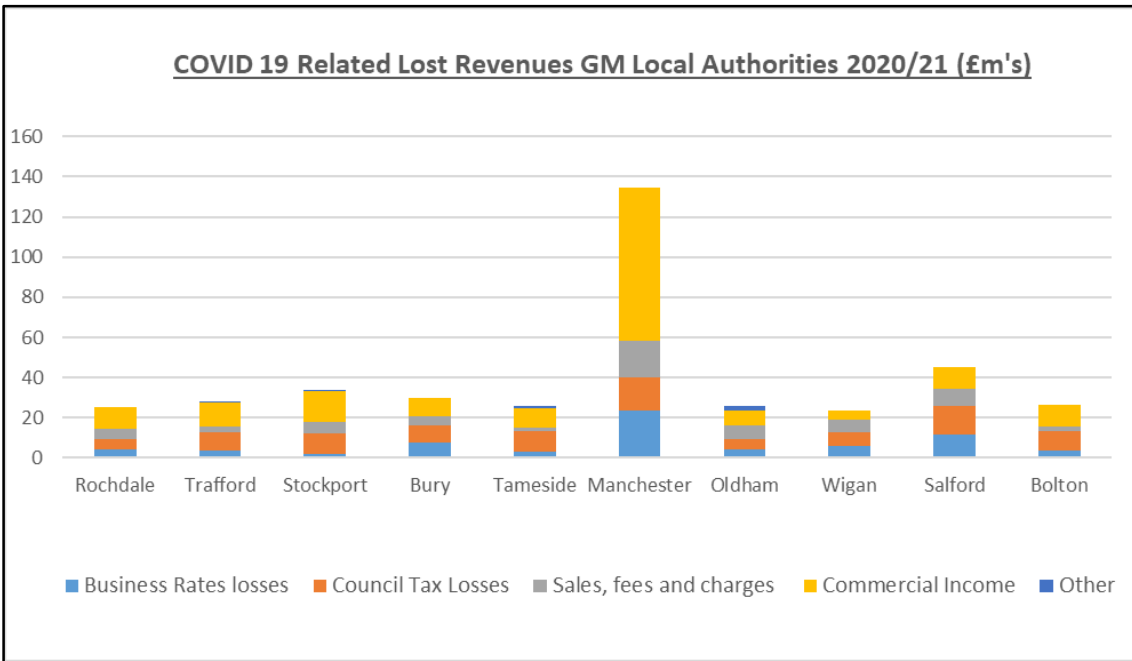
## **5. Analysis of Income Losses by Local Authorities**

- 5.1 Local authorities across Greater Manchester have estimated that they will face significant losses in revenues in 2020/21 and beyond. The shortfall in income against the expected levels have a direct impact on the services the councils are able to afford.
- 5.2 The income councils receive come in a number of different forms and it is important to understand each of these in a little more detail, especially the income received outside of business rates and council tax.

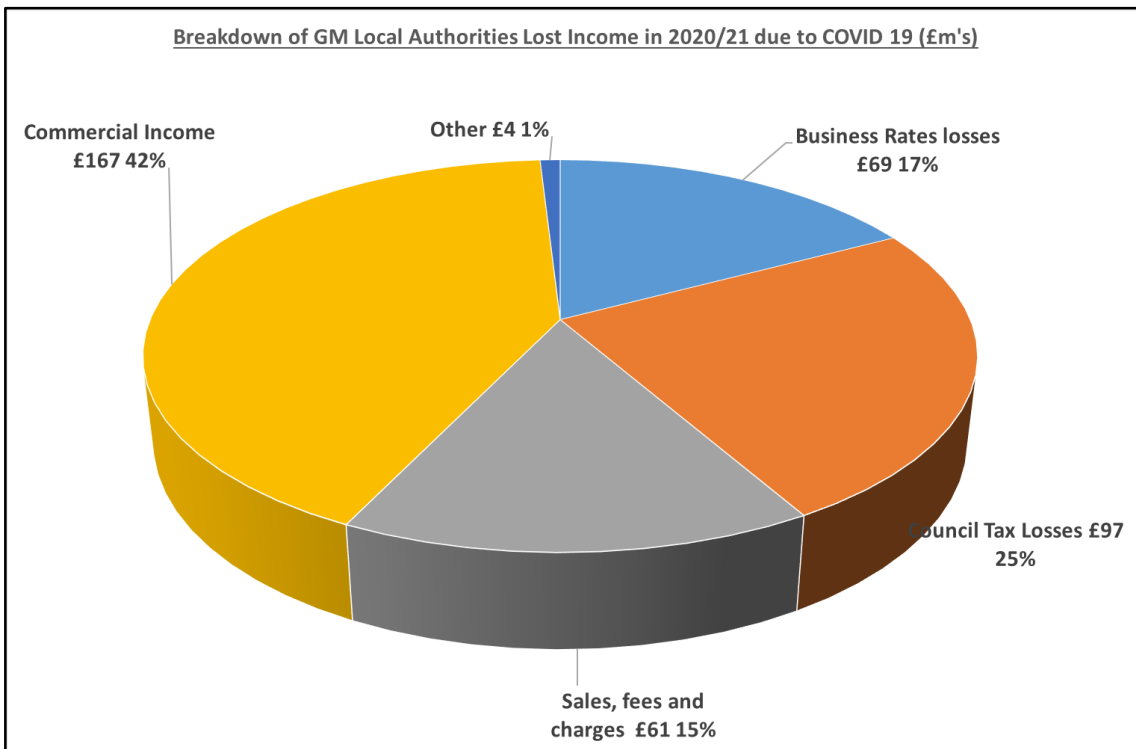


5.3 The overall impact by local authority of this lost income is shown in figure three with the split by income type across GM as a whole shown in figure four.

**Figure 4: Analysis of Reduced Revenue by GM Local Authority**



**Figure 4: Share of Lost Revenue by Spending Area**



### **i) Business Rates cash receipt losses (net of Relief)**

Business rates losses are expected to be significant across Greater Manchester as businesses struggle to meet their obligations and as more businesses fail to survive the COVID 19 related downturn. Whilst losses across GM are significant for the 20/21 financial year at £69m, this is a net impact after being mitigated this year by the leisure and retail rates reliefs given to businesses that were forced to close during lockdown and for which the Councils were compensated in full. Whilst these reliefs are welcomed, unless they are applied again for 21/22 the GM Councils can expect further losses as retailers struggle to survive.

### **ii) Council tax receipt losses**

Lost council tax revenues represent 25% of the expected overall loss in revenues at £97m. Across GM authorities, Councils' budgets are underpinned by a substantial amount of locally raised income, of which council tax makes up a significant proportion. Most metropolitan districts are circa 49% reliant on council tax income (based on net expenditure after grants inside AEF) and, in some GM authorities, this is as high as 67%

There are two main reasons that COVID 19 will impact council tax receipts:

- People's incomes and livelihoods have been adversely affected by COVID 19, leading to sharp increases in the numbers eligible for council tax support. This is likely to be further exacerbated when furloughing and other government schemes come to an end. This income loss will be significant and irrecoverable, and it is likely to take several years before numbers return to pre-COVID 19 levels.
- We are also seeing material reductions in council tax collection rates as people struggle to cover their bills and defer or default on payments. Some of this might ultimately be recoverable (i.e. a cashflow issue) but it's also inevitable that a sizable proportion will be irrecoverable.

### **iii) Sales, fees and charges**

The GM authorities are also suffering the loss of a number of fees and charges normally collected for the provision of council services. Because the cost of the services is largely fixed, for example staffing, the loss of income cannot be mitigated by a reduction in costs. This includes areas such as highways income, parking fees, planning charges and fees for leisure services. The loss of sales, fees and charges income across the ten GM authorities totals £61m and makes up 15% of the total lost revenue.

### **iv) Commercial Income**

Greater Manchester local authorities, along with councils across the country, make investments from which an income stream is derived. The lost commercial income as a result of the impact of the coronavirus pandemic is £167m and represents 42% of the overall lost revenue.

Commercial investments by local authorities can be a controversial subject and there has been criticism of some of the investments made by some authorities as speculative and potential unwise use of public funds.

It is important to understand the nature of the investments made across Greater Manchester by the councils. The investments made are neither speculative nor could they be considered unwise. These investments relate to the strategic development of local places and are part of wider regeneration and economic development strategies.

Catalytic or transformational projects within Greater Manchester will generally require significant enabling investment to secure the land and create the development platform, indeed this will be even more important to stimulate the economy post COVID 19.

These investments will include:

- Strategic acquisitions of property to support regeneration and/or development outcomes. This could include acquisition of relocation property for tenants, sites for future commercial development. Early acquisition of tenanted investment property within an intervention area.
- Investment into economic or socially important physical assets within the administrative area
- Site Remediation and Facilitation works.
- Green/Blue, Physical and Social Infrastructure<sup>1</sup>.
- Zero Carbon intervention.
- Placemaking
- Any physical development to support Council objectives, including operational property, housing (market and social), employment, leisure, cultural, etc etc
- Enhancement/strengthening of an existing asset providing that asset or asset base is within [adjacent to] boundary of the administrative area.
- Investment into commercial enterprise to support innovation and development.
- Investment decisions should continue to be within the administrative area unless there is an exceptional portfolio level rationale for supporting existing assets/commercial investments/businesses within the administrative area.

Whilst the additional income generated from the 'commercial activities' has supported both the capacity to deliver the approach outlined above and front line service delivery, this has been done in a careful and planned way.

The most significant element of the lost commercial income relates to the investment made by all ten GM authorities in the Manchester Airport Group (see case study below).

### **Commercial Investment Case Study 1**

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## **Manchester Airport Group**

*COVID 19 has had a rapid and severe impact on the aviation industry, including Manchester Airport Holdings Limited (MAG). As a result MAG's revenue and profit performance has been significantly impacted. There is currently no industry wide support package in place for the aviation industry. Manchester Airport is an important strategic and economic asset for Greater Manchester, playing a vital economic role in the region and providing jobs for 20,000 people on site and a further 25,000 indirectly. The Greater Manchester authorities play a key role in formulating the strategic direction of the Airport, including promoting wider regeneration, social value principles and influencing their response to government priorities and policy objectives in particular on economic, employment and environmental issues.*

*The anticipated income lost from MAG to GM local authorities totals over £100m from dividends alone. The most severely affected Council, with a 35% equity stake, is Manchester Council (MCC). It is worth noting MCC have always taken a very prudent view on how investment income is used with the majority of the dividend income being used a year in arrears to provide a cushion for economic shocks. The scale of the impact of COVID 19 is unprecedented and the financial impact of the loss of at least two years dividend cannot be sustained without a significant impact on the Council's budget position. There is now the combined impact for the GM local authorities and MCC in particular, of the loss of income and due to the lack of a support package from Government, the need to step in, along with the private sector investment partner, to fill this gap and provide significant additional shareholder support.*

*It is worth noting that this support is entirely consistent with the draft 'PWL B' guidelines and with the GM Authorities desire to continue to support/investment in local airport infrastructure has a direct positive impact on the local economy. Whilst one of the drivers for the investment is to protect the local authority equity stake and future yield, the Airport is an asset of major strategic importance to Greater Manchester with a key role in the economic growth and underpinning infrastructure development of the region.*

## **Commercial Investment Case Study 2**

### **Manchester Central**

*Manchester Central is a wholly owned joint venture that was originally established by GM authorities to convert a disused station into a convention centre as major driver of regeneration delivering jobs in the conference and hospitality sector. Local Authority investment enabled the redevelopment and was structured through share capital and loans. This led to the creation of a highly successful conference venue, which has hosted many political party conferences and provides a profit rental to Manchester City Council of c£1.2m per annum. At present over 75% of Manchester Central staff are furloughed due to the loss of conferences and events, and the key question is around how quickly businesses will begin to organise large conferences. The venue is currently the Nightingale Hospital and discussions are currently ongoing with NHSE regarding the terms of occupation for its potential use as a hospital is extended beyond July. The profit rental will not be paid in 2020/21 and is likely to be less in 2021/22.*

## **6. Local Authority COVID 19 Funding from Central Government**

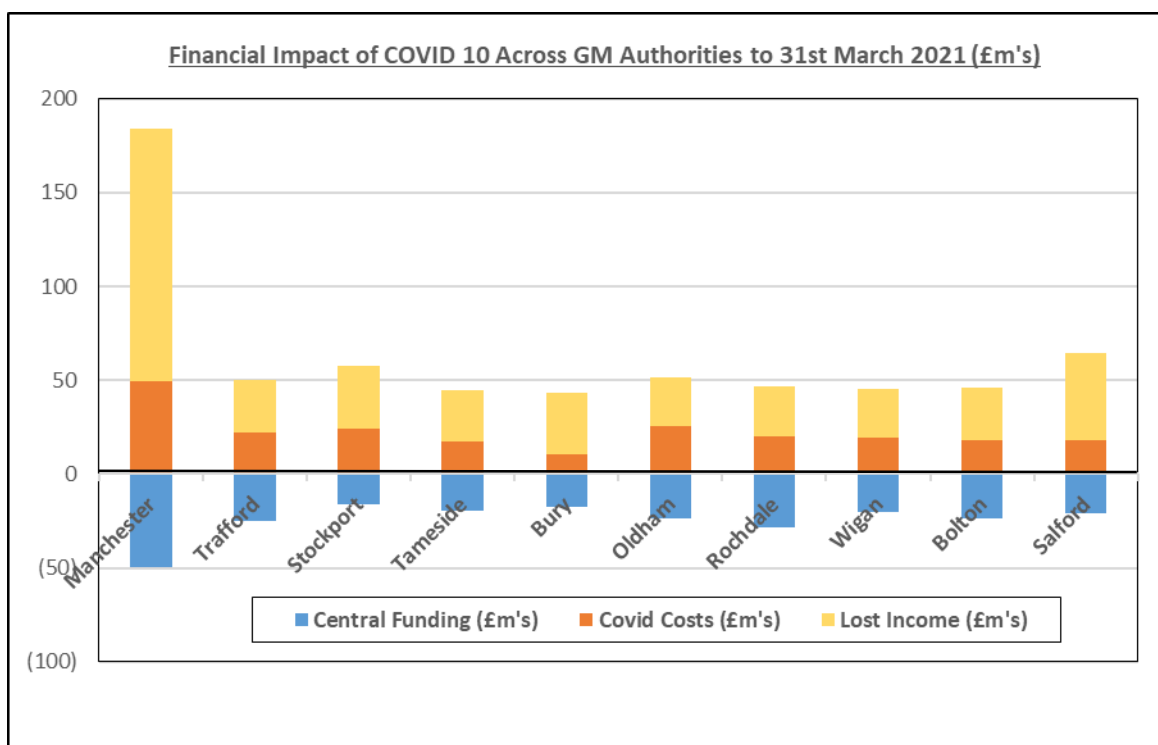
- 6.1 Central Government has, through the Ministry of Housing, Communities and Local Government, provided two tranches of funding for councils across England.
- 6.2 The two allocations are detailed in table 2 below together with allocations to fund the track and trace process and to support the management of infection control in care homes:

**Table 2: Government Allocations**

Description	Allocations (£m's)						
	Tranche 1	Tranche 2	Total	Track and Trace	Infection Control	Hardship Grants	Overall Total
<b>National Funding</b>	<b>1,600.00</b>	<b>1,600.00</b>	<b>3,200.00</b>	<b>300.00</b>	<b>600.00</b>	<b>500.00</b>	<b>4,600.00</b>
Manchester	18.59	15.17	33.76	4.84	3.34	7.46	49.40
Bolton	9.25	7.86	17.11	1.99	2.30	3.46	24.86
Bury	5.36	5.25	10.62	1.08	2.40	1.89	15.98
Tameside	7.68	6.23	13.91	1.42	2.13	2.16	19.62
Trafford	6.12	6.54	12.66	1.16	2.27	1.56	17.65
Stockport	8.28	8.05	16.33	1.47	3.11	2.46	23.37
Wigan	10.47	9.00	19.47	2.39	2.94	3.51	28.31
Rochdale	7.50	6.12	13.62	1.59	2.16	3.06	20.43
Salford	8.91	7.14	16.05	1.98	1.94	3.58	23.55
Oldham	7.64	6.53	14.17	1.56	2.32	3.02	21.06
<b>GM Total</b>	<b>89.79</b>	<b>77.89</b>	<b>167.68</b>	<b>19.48</b>	<b>24.91</b>	<b>32.15</b>	<b>244.21</b>

- 6.3 Greater Manchester was allocated a larger proportion of the first wave of local Authority COVID funding as the first tranche was largely based on adult social care weighting factors which includes a weighting to deprivation. The second tranche was based more of overall population levels.
- 6.4 The funding provided of £244m reduces the impact on the GM local authorities from £634m to £390m but this still leaves a significant gap in each authority as shown in the chart below:

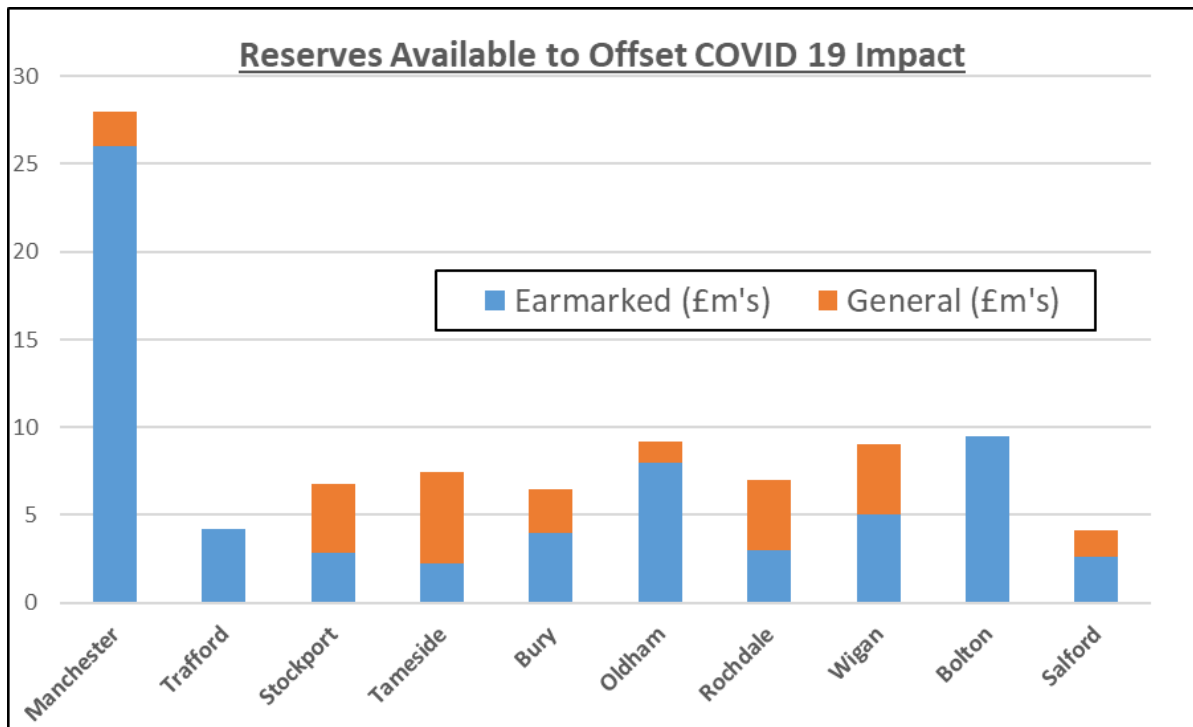
**Figure 5: Financial Impact and Government Funding Across GM Authorities**



## 7. Reserves Funding from Local Authorities

- 7.1 Local Authorities were asked, in their COVID cost returns to MHCLG, to estimate the amount of reserves available to support the financial pressures faced in 2020/21.
- 7.2 GM authorities identified a total of £92m funding from reserves which could support the short term financial position. This came from a variety of both earmarked and general reserves including for example insurance reserves and smoothing reserves to manage the impact of volatility in the level of dividend payment from the Manchester Airport Group.
- 7.3 Local authorities understand that some of these reserves are held for the unprecedented events which have sadly become a reality in 2020.
- 7.4 However, the position on reserves is different across the different GM authorities and regardless of the short term benefit from their use, the majority of reserves, including all general reserves will have to be “topped up” for 2021/22 if section 151 officers are going to certify them as sufficient for the council’s requirements.
- 7.5 Council reserves can therefore be part of the short-term management solution but are neither a long term nor a permanent solution to the financial challenges councils face.
- 7.6 The table below shows the split of the £92m across the 10 authorities and between earmarked and general. The application of these reserves would reduce the impact in 2020/21 to £298m across the 10 councils.

**Figure 6: Reserves available across GM Authorities**



## 8. Council Finances and Section 114 of the Local Government Act

- 8.1 Councils have a legal requirement to deliver a balanced budget. If spending is likely to exceed the available resources for a council the officer charged with responsibility for the effective financial management of the council, the so-called section 151 officer, must issue a notice under the relevant section of the Local Government Act, section 114.
- 8.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued modified guidance to council CFOs to allow councils under budgetary pressure due to COVID-19 the time and space to explore alternatives to freezing spending via a section 114 notice.
- 8.3 The guidance recognises these are extraordinary times and business as usual rules will not work. Indeed the usual mitigating actions required to balance a council's book following the issuing of a section 114 notice would damage the coronavirus response required by Government from local authorities.
- 8.4 The temporary modifications to guidance proposed by CIPFA would mean that it should not normally be necessary for S.114 notices to be issued while informal discussions with government are in progress.
- 8.5 The institute is proposing two specific modifications:

- At the earliest possible stage a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming S.114 requirement.
- The CFO should communicate the potential unbalanced budget position due to COVID-19 to MHCLG at the same time as providing a potential S.114 scenario report to the council executive (cabinet) and the external auditor.

## 9. Greater Manchester Combined Authority (GMCA) & Transport for Greater Manchester (TFGM)

- 9.1 As table 1 showed this financial impact across local government in GM is not limited to the ten local authorities. The services provided across GM by the Combined Authority and Transport for Greater Manchester have also been impacted on by the virus and have also incurred additional costs as well as suffering reduced income.
- 9.2 The total additional costs incurred across GMCA and TFGM excluding Metrolink services which we will deal with separately are estimated to total £10.21m for 2020/21 with a further impact from a reduction in income of £30.50m for the same period, a total impact of £40.71m.
- 9.3 The GM Fire and Rescue service (GMFRS) has received allocations of £2.672m as part of the MHCLG funding of £3.2bn which reduces the overall impact for the pan GM services to £38.04

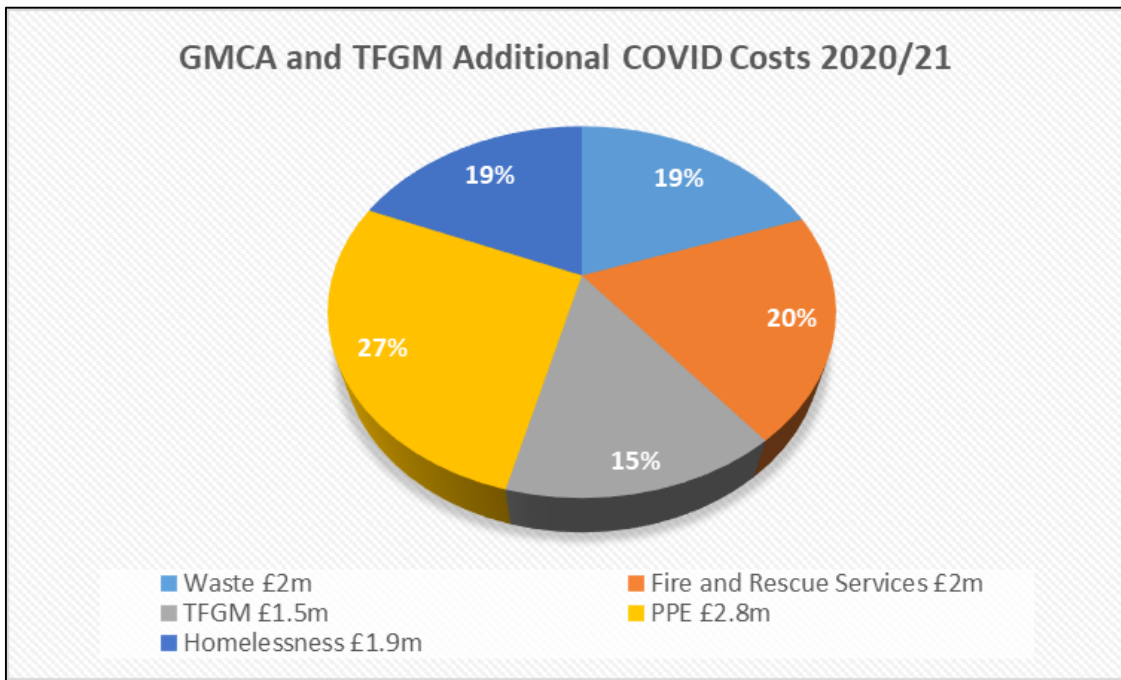
***Table 3: GMCA and TFGM Financial Impact 2020/21***

Description	Additional Costs (£m)	Reduced Revenue (£m)	Total Impact (£m)	Funding (£m)	Net Impact (£m)
Waste	2.00	0.00	2.00		2.00
TFGM	1.50	6.50	8.00		8.00
Fire & Rescue	2.01	0.00	2.01	2.67	(0.66)
Other GMCA inc PPE & Homeless	4.70	24.00	28.70		28.70
<b>Total</b>	<b>10.21</b>	<b>30.50</b>	<b>40.71</b>	<b>2.67</b>	<b>38.04</b>

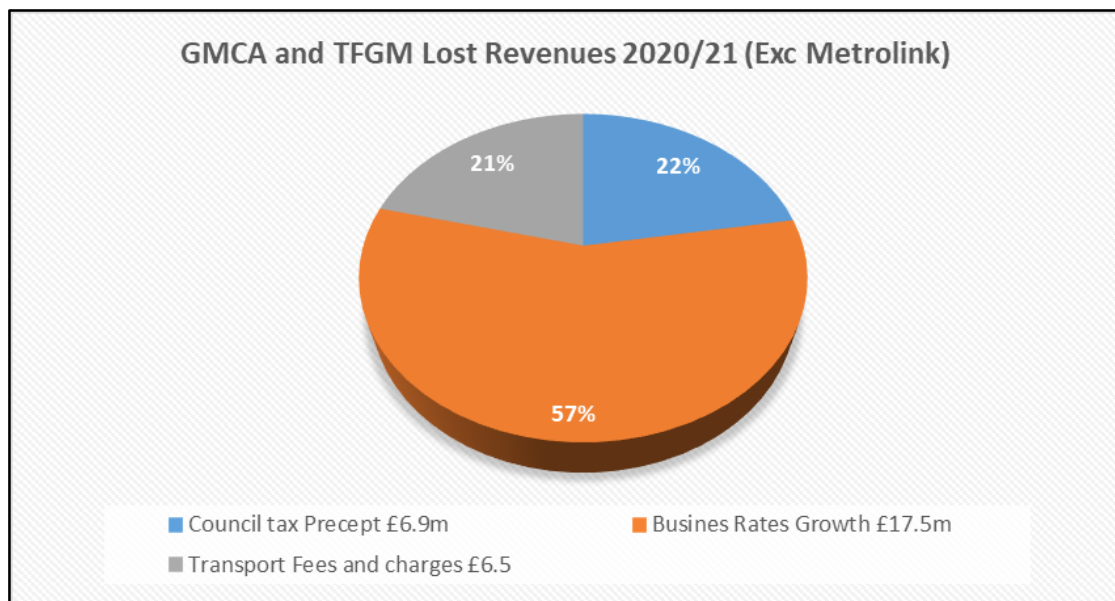
- 9.4 The breakdown of costs and lost income is shown in figure 6 and figure 7 below.

***Figure 7: GMCA and TFGM Additional Costs 2020/21***





**Figure 8: GMCA and TFGM Lost Revenues**



**i) Waste**

The GM waste disposal service has suffered through increased levels of residual waste and reduced recycling together with delays in delivering service improvements. This is estimated to cost £2m for the financial year.

**ii) GMFRS**

The Fire and rescue service have faced increased costs totaling £2.012m including staff overtime, support for additional GM services and purchase of PPE

**iii) PPE**

Additional personal and protective equipment has been purchased to support a variety of GM wide services. This highly collaborative approach to managing scarce PPE resources across GM has been identified as best practice through the COVID 19 crisis

**iv) Homelessness**

GM invested £1.9m in hotel accommodation to support the “everybody in” policy to facilitate social distancing amongst those rough sleeping. This funding was on top of and complimentary to significant investment from the ten GM districts.

**v) Other TfGM net income impacts**

TfGM is experiencing significant reductions in its non-grant income streams and increases in costs due to COVID 19 that are expected to impact the budget for the current year and into subsequent years. This includes fare income on some bus services, departure charges and other commercial income. There are also a number of areas of increased costs for TfGM.

In addition; and in response to COVID 19, Government introduced emergency funding arrangements to support bus operators via payments through the Coronavirus Commercial Bus Services Support Grant (CBSSG). Two tranches of CBSSG funding have been announced to date. This support has totalled c. £3.5 million per month for GM bus operators with the second tranche covering the period until early August.

As part of these arrangements Local Transport Authorities, including GMCA, have been expected to continue to make payments to operators for subsidised services and concessionary fare reimbursement at pre Covid rates. This has meant paying for some concessionary passengers who, because of COVID 19, are not travelling; and paying for some socially necessary bus services, including school services, that, because of COVID-19, are not being provided fully. Whilst this does not represent a net increase in costs, it does prevent any savings accruing to offset the costs described above.

Despite the gradual easing of the lockdown, bus revenues and patronage are unlikely to return to their pre-COVID-19 levels in the short or medium term; and there will therefore be a requirement for continuing, likely significant, public sector financial support in GM and elsewhere, from a combination of both local and national funds.

In addition to funding, GM also need the coordinating powers to plan and influence transport provision, in accordance with GM’s needs, during recovery in order to ensure that bus funding can be better directed to support local needs.

## **10. Metrolink (GM Light Rail/Tram System)**

- 10.1 Following lockdown, Metrolink patronage reduced significantly and subsequently 'stabilised' at approximately 5% of pre COVID 19 levels. The reduction in patronage at this level continued through to late May, with volumes now increasing back to c 10% - 15% of budgeted levels following the 'easing' of Lockdown restrictions.
- 10.2 During Lockdown, the significantly reduced levels of farebox revenues resulted in monthly deficits (after financing costs) of c.£5.3 million, compared to the budgeted break-even position, after financing costs. For the period to 8th June 2020, this position was mitigated, in part, through an £11.6 million grant from DfT which funded c. £4 million (around 73%) of this monthly deficit position.
- 10.3 On 23rd May DfT announced an additional £13.3 million of financial support for the period from 12 May to 3 August 2020. This resulted in total grant funding of £24.97 million phased across the 20 week period to 3 August. Based on current and forecast volumes and the revised operating patterns, the DfT funding package will result in a forecast deficit, compared to budget, for the period to 3 August of £1.8m.
- 10.4 There is still a great deal of uncertainty as to how public transport provision will, and will be expected to, recover over the coming months. However, the current sensitivity analysis projects that, without any further government support, we can expect to experience further deficits of between £30 million to £40 million (or potentially higher) for the remainder of the financial year (from early August 2020 to 31 March 2021). This forecast includes the current cost estimate of operating an increased frequency and the additional costs of managing the network as ridership increases; but does not include any material cost of enforcing social distancing. Discussions are continuing with DfT regarding the position beyond 4<sup>th</sup> August 2020.
- 10.5 The overall impact on the Metrolink financial position in 2020/21 is shown in table 4 below, this is before any, currently unquantified, 'exceptional' costs to manage social distancing are included':

**Table 4: GMCA and TFGM Net Revenue Shortfall (Current forecast)**

Description	Amount (£m's)
Reduced Net Revenues to 4 <sup>th</sup> Aug 2020	26.70
DFT Funding	24.97
Net Position to 4 <sup>th</sup> Aug 2020	1.73
Reduced Net Revenue - Aug 2020 - Mar 2021	30.00*
<b>Total</b>	<b>31.73</b>

\*- Could be as high as £40m

## 11. Potential Impact Beyond 2020/21 and Financial Legacy

11.1 This Paper focuses on the financial impact of COVID 19 in 2020/21. It is clear however that there will be a significant ongoing financial impact both in terms of continued higher costs and an ongoing continued suppression of income.

11.2 Whilst it is too early to present estimates of the ongoing impact and there are currently too many unknown variables, the impact is likely to be felt in the following areas.

- Reduced council tax base and lower levels of growth
- Reduced business rates base and lower future growth
- Suppressed levels of income from a variety of sources
- Increased demands on social care, public health and other council budgets
- Increased cost of ensuring financially stable social care market
- Shift back to private vehicle use reducing income across public transport
- Impact of social distancing on efficiency and capacity of council services

11.3 This is by no means an exhaustive list and will add up to significant ongoing costs. Any move towards reductions in government funding such as a reduced revenue support grant would have a compounding impact on these issue

## 12. Local Government and the Economic Recovery - Impact on Capital Programmes, Regeneration and Employment

12.1 For the humanitarian, economic and financial recovery from COVID 19 to be effective local Government will have to be at the heart of local plans.

12.2 Local government play a unique role in local place based delivery of economic regeneration and development and across GM the 10 local authorities and the combined authority have a track record of working collaboratively to deliver growth and prosperity.

12.3 The successful delivery of schemes such as the Metrolink expansions including the second city crossing and most recently the Trafford Park line, together with deliver of other major infrastructure programmes like the Manchester Airport Relief Road show GM can deliver

major schemes on time and on budget. GM recently passed the latest 5 year gateway review on the gainshare/earnback funding mechanism showing the delivery of tangible major schemes ahead of all other combined authorities.

- 12.4 In addition the GM Housing Investment Fund (HIF) has committed £466m to schemes to date, supporting the construction of 6,343 new homes.
- 12.5 GM has drawn up an ambitious infrastructure plan which would see the potential for multi billion pound investment across major transport schemes, infrastructure schemes including the recovery of brownfield sites to facilitate further housing (A consistent “Brownfield First” approach protecting greenbelt), business and retail development, and investment in decarbonising the public estate across Greater Manchester.
- 12.6 Conversations are ongoing with government about the funding of the Greater Manchester Infrastructure Programme (GMIP) as well as other “shovel ready” schemes which will deliver on the Government’s own objectives.
- 12.7 The local authorities and the Combined Authority can only deliver these schemes and the associated benefits to employment and economic growth, if it is on a sound financial footing. It is essential for recovery that councils and the GMCA are able to play a full role across all its facets.

### **13. Building Back Better**

- 13.1 Local and regional government also have a crucial role in delivering a recovery that takes advance of the opportunities for working differently in many areas of the economy and society. This includes:
  - Creating a sustainable and effective market for care services
  - Driving further integration of health and care provision
  - The delivery of radical digital solutions that don’t just apply new technologies but challenge previous approaches, cultures and service design
  - Delivering an increase in partnership and collaborative working between the public and private sector
  - An opportunity to accelerate the work to tackle climate change and deliver on the clean air agenda
- 13.2 Civic and public leadership will be essential in delivering a recovery which is both strong and agile, responding to the ongoing management of the COVID crisis which will remain with us for some time to come.
- 13.3 This leadership will need be combined with a supportive approach to community resilience, proper recognition of the role of the VSCE sector, inclusive employment in the public services and putting social value at the heart of public sector procurement.

## **14. Further Support for the Greater Manchester Financial Position**

14.1 It is recognised that support for the local authorities across GM and for GMCA will come in a number of forms and that the public bodies across GM should work together to ensure all opportunities are maximised in seeking to recover from the financial impact of the COVID 19 pandemic.

14.2 Clearly Local Authorities are seeking compensation for all the additional costs incurred and loss of income. However, it is recognised that the support to local authorities is likely to be a blend of measures which recognise the direct financial costs and loss of fees and charges due to COVID-19, the indirect impact such as the challenges in delivering planned transformation and savings and the impact on the Council's resource base and commercial income.

14.3 As well as direct financial support that recognises the costs and loss of income this could include:

- Greater certainty on the future financial position (accepting the constraints of the Spending Review process). This should include early confirmation of the plans for the New Homes Bonus as well as confirmation of roll forward of core funding and grants to give local authorities a basis upon which to plan.
- A range of measures to help the local authority manage the time limited financial impacts on for example the Collection Fund alongside other measures such as tightening the business rates safety net during this period.
- Confirmation of the position for the business rates reset and for the continuation of the 100% business rates pilot during this period. Given the deferral of Fairer Funding it is vital that the GM local authorities and the combined authority can capture any growth achieved during this period. We have already seen from the pilot so far the benefit of work undertaken across the 10 local authority areas to invest this funding both individually and collectively to support local growth strategies and in turn increase the business rates base across the city region.
- Measures to help sustain cash flow and the capital programme which will be important to the recovery plans. This should include early announcement of capital grants where possible to enable capital projects to progress, retention of full Right to Buy receipts to invest in housing and the removal on restrictions for their use, the ability to capitalise costs associated with developing the capital programme during the recovery period which would otherwise fall on revenue and consideration of bringing forward the reduction in PWLB rates for schemes that will support the economic recovery.
- Specific support related to the financial position of Manchester Airport and the aviation industry

14.4 Given the high levels of risk and uncertainty the planned Spending Review will be important in determining the future needs and resource envelope for local government. However, given the severity of the position the sector cannot afford to wait until the Finance Settlement in December to understand what the resources for 2021/22 will be.

14.5 Some of the measures that would assist with the financial position include:

- Providing certainty for planning: Confirming a further roll forward of core funding and grants for 2021/22 to provide a basis on which authorities can plan, given Fairer Funding and Business Rates reforms have been deferred.
- Early confirmation of the plans for New Homes Bonus.
- Protecting the resource base (Business Rates and Council Tax): Business rate bases will contract further with an increasing number of businesses likely to go into liquidation, an increase in the bad debt position and a growing number of appeals and claims for relief. Potential measures could include tightening the safety net to cover 100% of reductions and reflect the growth achieved since the last reset; and extending EZs and ADZs for a minimum of five years [taking into account the likely downward impact on the economy.
- Confirmation that the business rates reset is deferred along with the financial funding reforms and continuation of the 100% business rates pilot during this period – given the deferral on the fair funding review this vital source of funding for the GM local authorities and the combined authority must be extended for 2021/22. We have already seen from the pilot so far the benefit of work undertaken across the 10 local authority areas to invest this funding both individually and collectively to support local growth strategies and in turn increase the business rates base across the city region.
- The Council Tax position is facing the combined impact of: increasing numbers of people requiring Council Tax Support; a reduction in collection rates; and a slow-down/reversal of growth in the council tax base. Consideration should be given to how cash flow support for the Collection Fund position could be provided until the position recovers or to enable local authorities to have a longer period, for example five years, in which to bring the Collection Fund back into balance.
- Full recognition of new burdens: There will be additional responsibilities such as sustaining resilience measures, contact tracing and PPE and increasing costs in areas such as Social Care and homelessness that will continue beyond the lockdown period, including the need to stabilise the care market. These will require funding
- Measures to sustain local authority capital investment and economic recovery planning: further measures to sustain capital investment could be considered including:
  - Freeze Right to Buy Receipts for 3 years or waiving the restrictions on their use;
  - The ability to capitalise certain costs associated with recovery work (noting that this only a limited part of the solution and would require freedoms from current technical finance restrictions such as MRP) and providing flexibility to allow the capitalisation of costs relating to the capital programme which have been incurred due to COVID-19 and would ordinarily be classed as revenue;

- Early payment of capital grants to support cash flow; providing extensions to existing grant conditions e.g. where grant has to be spent by a certain date; and a clear timetable for future capital grant schemes in areas such as schools and transport to allow for decisions to be made now on projects which otherwise might need to be cancelled;
  - Consideration of bringing forward a reduction in PWLB rates, linked to the government cost of borrowing, where local authorities need to unwind internal borrowing to support their cash flow and for planned capital schemes and investments that are not purely for yield.
  - Consideration of a one year MRP holiday which would support the revenue position in 2021/22 when the financial impact is at its greatest
- Flexibilities in the rules around existing funding streams which would allow GM to work with Government to create significant local investment potential to help drive economic recovery and to “Build Back Better” in line with GMs longer term ambition to build a more inclusive, greener and productive economy.
  - A commitment to roll out the UK Shared Prosperity Fund, recognising the needs of cities and city regions and considering wider investment packages that would support developing public transport infrastructure and recyclable investment funds.
  - A specific discussion about the impact that the C-19 impact on Manchester Airport and the Aviation Industry has had on the financial position of the City Council and to a lesser extent, the other District Councils within GM.

## **15. Conclusions**

- 15.1 The impact of the COVID 19 global pandemic on the residents, business and public authorities of Greater Manchester has been simply enormous.
- 15.2 The impact across the conurbation has been felt disproportionately here compared with other parts of the country with the prevalence of the virus and the mortality rates influenced by age, deprivation and other demographics.
- 15.3 The financial impact on the ten local authorities of Greater Manchester and Greater Manchester Combined Authority has been equally significant with an expected impact in 2020/21 alone of £732m with funding from government announce so far of £272m.
- 15.4 The impact of these financial losses after the long period of austerity will, without further funding and other flexibilities, leave councils facing huge financial challenges.
- 15.5 Those challenges come at a time when the role of councils and public services in supporting the recovery from COVID and helping the region build back better is critical

## **16. Recommendations**

- 17.1 The GMCA is asked to:



1. Note and comment on the contents of the report.
2. Note the estimated financial impacts of COVID 19 on local authority, GMCA and TFGM budgets.
3. Note the ongoing financial impact of COVID 19 into 2021/22 and beyond.
4. Note the role of local authorities and the GMCA in the work to deliver an economic recovery from COVID 19 across Greater Manchester.
5. Note and support the request for further support for GM authorities in terms of both funding and other measures such as increased local flexibilities.