

BUDGET UPDATE 2020-21

1. INTRODUCTION

- 1.1 This purpose of this report is to outline the financial risks for the Council in the 2020-21 financial year due to additional costs as a result of the immediate response to the COVID-19 pandemic as well as estimated ongoing additional costs and lost income over the remainder of the financial year.
- 1.2 The report also explores some identified funding options and mitigations to deal with the in-year funding gap and proposes that a Budget Working Group is established to give consideration as to the best way to deal with the estimated in-year funding gap.

2. RECOMMENDATION

- 2.1 The Business Continuity Committee is asked to:
- a) Note the current estimated additional costs as a result of the COVID-19 pandemic across 2020-21 and note the options and mitigations to deal within the in-year funding gap.
 - b) Agree to the establishment of an informal working group and its composition.

3. DETAIL***Background***

- 3.1 The COVID-19 pandemic has required an urgent, multi-agency response at national and local government level. Argyll and Bute Council has been working in partnership with community planning partners and other agencies to respond to the pandemic in Argyll and Bute, to maintain critical front line services and, where possible, to look ahead with a view to service restoration and planning for the future. Dealing with the emergency will have far reaching and potentially significant impact on the Council's finances and resources.
- 3.2 A previous report to the Business Continuity Committee on 14 May 2020 gave an indication of the estimated financial impact of COVID-19 over an assumed 14 week lockdown period to the end of June 2020. The additional estimated costs contained in that report were estimated to be £4.130m over that short period.
- 3.3 The Scottish Government is now beginning the easing of lockdown and it is becoming apparent that there will be further financial pressures over the

course of the year as the Council changes and adapts to some of the measures that will need to be implemented in order to operate safely. The estimated costs over the financial year will far exceed funding provided by the Scottish Government and the Council will have to consider alternative means of mitigating against the additional costs.

- 3.4 The Section 95 Officer has a statutory duty to ensure that the Council operates within available resources and remains financially sound over the short, medium and long term. The current crisis is challenging the ability of the Council to operate within available resources and action requires to be taken in order to secure the financial stability of the Council.

Financial Implications

- 3.5 As previously reported, the additional estimated costs in dealing with COVID-19 to the end of June were estimated to be £4.130m. This estimate focussed on the first 3 months of the financial year, however, focus is now widening to look at the likely financial impact over the full financial year. The first submission of full year estimates was submitted to COSLA on 19 June 2020. Naturally a number of assumptions have been made on costs that will be incurred, the income that will be lost and the pace that the recovery of services will take place. The full year cost at that time was estimated to be £12.176m.
- 3.6 This full year estimate was based on a blended Education approach, however, the Deputy First Minister made an announcement on 23 June and outlined that the new central planning assumption will be that there will be a full return to school in August should the virus continue to be suppressed and it is safe to do so. This approach was confirmed on 30 July and schools will have a full return and therefore the estimated full year cost will be less, which will also include a reduction to the previous school transport estimate. The estimates relating to education and school transport are currently being updated and a verbal update will be given at Committee on 13 August 2020.
- 3.7 The estimated additional costs are summarised below with the more significant costs highlighted :

Mobilisation Costs - £2.245m: This includes the cost of providing ELC for key workers £0.328m, further homeless accommodation £0.732m, providing additional Free School Meal provision and Community Food £0.971m, additional payment for supply teachers £0.100m.

Lost Income: £8.517m: This includes lost income for school food and drink £1.011m, lost income for ferry services £0.344m, lost income in respect of waste collection £1.244m, lost parking fees and parking fines income £0.957, lost piers and harbours income £2.380m, reduced planning fee income £0.602m and this section also includes savings previously agreed not achieved £0.730m.

General Fund Capital £1.325m: There is £0.900m of expenditure that would normally be recharged to capital but as work not completed there will be a

pressure on revenue. There is also an estimated £0.425m contract inflation pressure on the capital programme.

Recovery Costs £2.032m: This includes £1.789m for blended education approach including school transport reconfiguration, £0.193m in respect of Waste services and cost of social distancing and £0.050m in respect of changes required to re-opening buildings and offices.

Reduced Costs £1.943m: There is some reduction in expenditure including lower provision of school meals £0.767m, reduction in travel expenses £0.295m, £0.346m in connection with waste.

3.8 The figures above do not include the potential lost income from Council Tax collection. As at the end of June, Council Tax collections were down by 1.56% on collections this time last year which equates to a circa £0.865m reduction in income. Some of this reduction has already been rescheduled to be repaid over the remainder of the year. It is very difficult to estimate what the lost income will be by the end of the year; at this stage it has been estimated that it could be in the region of £0.555m equivalent to a 1% reduction in collections and this will be kept under review.

3.9 The figures above also do not include the estimated additional costs for Social Work Services that are part of the Health and Social Care Partnership (HSCP). The HSCP has been required to contribute to a local mobilisation plan cost return on a regular basis, submitted to Scottish Government through NHS Highland. The next return is due mid-August and the draft estimates as at 24 July total £14.016m for the Partnership of which £7.203m relates to Social Work Services. The Scottish Government has “in principle” approved all mobilisation plans but no individual lines within the plan have been approved. Nationally the Scottish Government funding is short of the total submissions to date, however, the revised returns due mid-August could be less and, of course, actual costs may also prove to be lower. There remains a risk that the HSCP could revert back to the Council to fund some of the additional costs.

Funding Options

3.10 The Scottish Government funding that has been received to date totals £4.413m and is noted below.

- ABC Share of £50m Hardship Fund - £0.895m
- ABC Share of £155m Consequentials - £2.776m
- ABC Share of £30m Food Fund - £0.440m
- Allocation for Registrars of Death - £0.009m
- Additional funding for Scottish Welfare Fund - £0.293m.

The funding in relation to the Scottish Welfare Fund is to be used for that purpose and the additional costs have not been included within the cost template return. For that reason, this funding will not be included within the calculation of the funding gap.

- 3.11 Additional flexibilities have been announced by the Scottish Government in relation to some ring-fenced funding. The flexibility is aimed at assisting Councils in meeting relevant financial impacts of COVID-19. The rules around the application of ring-fenced funding under Early Years Expansion and Attainment Scotland Funding have been relaxed in order that critical childcare can be provided to key workers and other vulnerable groups and in order to support the education, health and wellbeing of children and young people, retaining a focus on children from the most deprived backgrounds. The revenue funding that has not already been committed for staffing and other commitments amounts to £0.616m.
- 3.12 Further funding was been announced in relation to providing Free Schools Meals until 11 August (£12.6m Scotland wide, £0.146m ABC) and Access to Food for the vulnerable until 30 September (£15m Scotland wide, £0.266m ABC). This will be distributed on a ring-fenced grant basis and a final grant claim form will have to be submitted outlining our expenditure before the funding is paid. Our estimated costs included in the cost template for Free School Meals and Access to Food are £0.320m which is under our allocation of funding and, therefore, in calculating the funding gap only £0.320m grant has been estimated.
- 3.13 On 23 June the Deputy First Minister announced £100m of new funding over the next two years to help support the return to school. The Scottish Government has now confirmed the first £50m of funding that is to be used for additional teachers and education support staff. The total funding for Argyll and Bute is £0.748m over 2020-21 and 2021-22. The costs for these additional staff were not included within the cost template and therefore this funding will not be used in the calculation of the funding gap. An initial assessment suggests that the funding should be sufficient for the additional teachers, however, the service have still to finalise what additional support staff are required.
- 3.14 On 2 July the UK Government announced a new support package to help Councils respond to the pandemic:
- Councils in England will now receive a further, un-ringfenced £500 million to respond to spending pressures they are facing. The consequentials for Scotland are £49m and if this is distributed in the same way as the £155m consequentials, our share would be £0.878m.
 - A new scheme to help reimburse lost income during the pandemic and boost cash flow. Where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover them for 75p in every pound lost. The Scottish Government has indicated a willingness to agree a scheme appropriate for Scotland.
- 3.15 On 2 July the Scottish Government issued a circular outlining the allocations of the Scottish Crown Estate Net Revenue Allocations relating to 2018-19 that will be paid in this financial year. The allocation for Argyll and Bute Council is £1.504m and the Fund should be used for coastal community benefit. The Scottish Government have confirmed that there is flexibility in the use of the funding particularly in the light of COVID-19 and therefore it has been

assumed that this funding could be used towards the additional COVID-19 costs.

3.16 A letter was sent to the COSLA President from the Cabinet Secretary for Finance on 26 May 2020 to advise of the distribution of the £155m consequentials. In that letter it said that “we have now allocated all the additional consequentials at our disposal and more”. It went on to say that “we will of course make further representation to UK Government on the need for further funding and flexibility.....however, my sense is that the provision of further resources will be limited”. It has to be taken from this letter, that we cannot assume that Local Authorities will receive much further funding and it is therefore important the Council explore further options to meet the funding gap.

3.17 As of the time of writing, officers have identified three areas to contribute towards the funding gap as noted below:

- KPMG were pursuing a VAT claim in relation to the provision of sports related services for the pre 1990 periods. HMRC accepted the claim and set this out in an approval letter on 11 May 2020, with the repayment less expenses being in the region of £0.570m. We were then advised in early July that HMRC may revisit their decision following review of similar claims by other local authorities. It is hoped that they stand by their original assessment and we will get the repayment. This is a one-off amount that will be received in financial year 2020-21.
- At the end of 2019-20, it was reported that the treasury team had been successful in investing the Council’s cash balances and received a return over and above budget. There was also slippage in the capital programme which meant that the cost of borrowing was lower. Based on the current investments and further slippage in the capital programme due to COVID-19, it is anticipated that there could be further surplus in the loans fund in 2020-21. A prudent estimate at this stage would be circa £0.300m.
- The Council set aside £0.600m from reserves to fund the 2020-21 redundancies. Some of these redundancies were provided for as part of the year end position in 2019-20, however, as the Council had an overall underspend, there was no requirement to draw down the funding. Some costs of redundancies were also no longer required as staff were successfully redeployed into an alternative position. It is estimated that £0.400m of this earmarking is no longer required in 2020-21 and could be freed up to support the additional COVID-19 costs.

3.18 Officers arranged a meeting with Transport Scotland on 21 July to discuss options around an annual fixed charge for 2020-21 and this would be based on average income over the last two to three years, uplifted for inflation and adjusted for prudential borrowing increases. An annual fixed charge would

mean that our income is fixed recognising that costs do not necessarily reduce if berthings don't happen. Transport Scotland have asked us to provide some further detail which officers are currently pulling together, however, did indicate that there is currently not any available monies. Officers will continue to pursue this avenue.

- 3.19 Officers have carried out a review of all earmarked balances to identify potential resources that could be released to contribute to the funding gap. The detail of the balances that could be un-earmarked will be submitted to the working group (see paragraph 3.24).
- 3.20 The unallocated General Fund balance as at 31 March 2020 was £1.326m and this could be used, however, as Section 95 Officer, I would recommend this shouldn't be used in light of the financial risk that the HSCP overspend and seek additional funding from the Council.
- 3.21 As part of the 2020-21 budget set on 27 February, Council agreed a number of new areas of investment and also didn't accept some of the saving options. As a result of COVID-19, the new areas of investment haven't been spent yet, indeed some were planned to be spent over more than one year. Council could re-visit these and also the savings options not accepted, in light of the new estimated financial position. Information will be submitted to the working group for consideration.
- 3.22 The funding options identified to date are summarised in the table below and there remains an estimated in-year funding shortfall of £4.023m.

	£000	£000
Estimate of Additional Costs (para 3.7 & 3.8))		
Mobilisation Costs	2,245	
Lost Income	8,517	
General Fund Capital	1,325	
Recovery Costs	2,032	
Reduced Costs	(1,943)	
Loss of Council Tax Income	555	
Total NEW Additional Costs		12,731
Scottish Government Funding:		
Hardship Fund	895	
£155m Budget Consequentials	2,776	
Food Fund	440	
Registrars of Death	9	
Additional Food Fund (equal to expenditure)	320	
£50m Budget Consequentials	878	
Crown Estate Funding	1,504	
		6,822
Flexibility Within Early Years and		

Attainment:		
Early Years	350	
PEF	266	
		616
In-Year Savings Identified:		
VAT Reimbursement	570	
Loans Fund Investment Income	300	
Saving on Severance Costs	400	
		1,270
Total Funding Options Identified		8,708
Estimated In-Year Funding Shortfall		4,023

3.23 There are other options that are being explored by COSLA in order to create the opportunity to, in effect, spread the additional costs of COVID-19 over a number of years. The following requests were made to the Cabinet Secretary for Finance on 26 June and at the time of writing there has been no feedback on the requests:

- Council Tax legislation be amended to allow for financial deficit, attributed to COVID-19 to be repaid over a period of time in excess of one year.
- Local Authorities are granted approval to borrow to finance (up to) the full revenue cost of COVID-19. The borrowing would be made during 2020-21 and would therefore avoid any difficulty over the year-end position. A minimum repayment period of 20 years is requested. COSLA would also look for Scottish Government annual revenue support to meet these additional costs.
- Interest repayments on Local Authority Debt are deferred by 12 months, and effectively extend the repayment period by the same, effectively an interest holiday.
- A year long break from principal repayments of PWLB loans to provide Local Authorities with greater flexibility around their treasury management and defer an element of new borrowing to finance maturing debt.
- Scottish Government provides Capital Grant to fund capital expenditure and that flexibility is granted to allow revenue costs associated with COVID-19 to be met from this Capital Grant.
- The underspend on the business support grants scheme is made available to Local Authorities to support flexible, place-based local economic recovery.

Process and Timetable

3.24 There are a number of decisions that will be required by Council to deal with the estimated in-year funding shortfall and it is proposed that an informal working group is established with 6 Members from the administration and 3 Members from the opposition, in total 9 Members. The terms of reference for this working group would be to consider option to address the in-year budget gap in 2020-21 with the work of the informal group used to inform a report to Committee later in the year.

3.25 It is also suggested that two Members seminars are scheduled to ensure that all Members are advised of the position and options prior to the decision at Committee.

3.26 The proposed timetable is outlined in the table below.

Date	Event	Purpose
10 August 2020	Members Seminar	To present the report to all Members ahead of BCC on 13 August.
13 August 2020	Business Continuity Committee virtual meeting	Report on Budget Update 2020-21 and agreement on Budget Working Group
24 August 2020	Informal Working Group virtual meeting	Initial meeting to discuss options and seek clarity from Officers
7 September 2020	Informal Working Group virtual meeting	Second meeting to finalise options being considered.
14 September 2020	Members Seminar	To advise all Members of current position and options.
24 September 2020	Council Meeting or Business Continuity Committee virtual meeting	Agreement on options to fund the additional costs due to COVID-19

3.27 Officers will continue to refine the total estimated cost of COVID-19 over the coming months as more information becomes available/clearer on the easing of lockdown, however, some of the full year cost will still be based on assumptions and estimates to the end of the year.

4. CONCLUSION

4.1 The scale of the financial challenge as a result of the immediate response to the COVID-19 pandemic as well as the additional costs as a result of the move from lockdown into recovery are significant for the Council. The additional costs are currently estimated to be in the region of £12.7m over financial year 2020-21 and this position will be continue to be closely evaluated and monitored throughout the remainder of the year.

4.2 This report outlines a number of funding options in order to ensure that the Council remains financially sound. It is proposed that Members give consideration to the options contained in this report, as well as others options not currently identified, with a view to a future report being brought forward to Council for agreement on how the additional costs as a result of the COVID-19 pandemic will be funded.

5. IMPLICATIONS

- 5.1 Policy – None from this report but potential to have policy implications depending on options agreed to balance the budget.
- 5.2 Financial – This report outlines the estimated in-year budget gap as a result of COVID-19 and measures to deal with the gap.
- 5.3 Legal – None at this stage.
- 5.4 HR – None at this stage.
- 5.5 Fairer Scotland Duty:
 - 5.5.1 Equalities – None at this stage.
 - 5.5.2 Socio-Economic Duty – None at this stage.
 - 5.5.3 Islands Duty – None at this stage.
- 5.6 Risk – There is a risk that the cost of COVID-19 is challenging the ability of the Council to operate within available resources.
- 5.7 Customer Service – None.

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31 July 2020

Gary Mulvaney: Policy Lead for Financial Services and Major Projects