

BUDGET UPDATE 2020-21

1. INTRODUCTION

- 1.1 This report provides a further update to the report presented to the Business Continuity Committee (BCC) on 13 August 2020 in respect of the current in-year 2020-21 budget position.

2. RECOMMENDATION

- 2.1 It is recommended that Council note the update to the current financial position in 2020-21.

3. DETAIL

- 3.1 A report to the Business Continuity Committee (BCC) on 13 August 2020 highlighted the estimated financial impact of COVID on the Council for financial year 2020-21.
- 3.2 The report outlined an in-year funding shortfall of £4.023m after accounting for additional funding already received, assuming further budget consequentials, the use of this year's crown estate allocation as well as some in-year savings identified by Officers. On the day of the Committee, I advised that the budget gap was likely to reduce to around £3.2m as at the time of writing the report, the estimates were based on a blended education approach and now that schools are back full time, the estimated recovery costs had reduced.
- 3.3 The BCC agreed to establish a cross party informal budget working group to give consideration to the options available to bring the in-year estimates back in line with budget and it was the intention to report back to Council on these options in September.
- 3.4 The budget working group met on 24 August and an update on the estimated costs and budget shortfall was provided to the group. It was noted that a new scheme to help reimburse lost income is being considered by the Scottish Government and in addition COSLA and the Scottish Government are in discussions around a number of other financial flexibilities; both of these issues would assist in bringing the current year back into financial balance. The budget working group agreed that no specific actions were required at this stage and that further clarification on the lost income scheme and other financial flexibilities was required in order to allow full consideration of all options to address the in-year budget gap.
- 3.5 The updated estimated net additional costs are summarised in the table below with the more significant costs highlighted:

Cost Category	Cost (£,000)	Significant Elements
Mobilisation Costs	2,187	Community Food Project (£873k) Homeless Accommodation (£680k) Providing ELC to key workers (£328k) Additional Free School Meals (£92k)
Lost Income	6,872	Piers and Harbours (£2,300k) Waste Collection (£986k) Parking Fees and Fines (£929k) School Food and Drink (£624k) Planning Fees (£560k) Ferry Services (£336k) Previously agreed income savings (£618k)
Savings Not Delivered	112	Previously agreed savings which are not income related
General Fund Capital	1,087	Expenditure normally recharged to capital (£830k) Project contract inflation due to delay (£257k)
Recovery Costs	2,088	Education including additional teachers, transport reconfiguration, cleaning and digital technology (£1.612m) Waste and Environment (£258k) Offices (£119k)
Reduced Costs	(1,692)	Waste Costs including recycling, landfill tax and PPP charges (£540k) Closure of buildings (£296k) Reduced Travel (£295k) Lower Provision of School Meals (£270k)
Loss of Council Tax	555	Equivalent to 1% reduction in collections.
Net Impact	11,209	

3.6 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 return submitted in August estimated additional expenditure of £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. It is my understanding that the funding set aside nationally by the Scottish Government is still around £300m short and therefore a risk remains that the HSCP could refer back to the Council to fund some of the additional costs. The Integrated Joint Board’s (IJB) Head of Finance and Transformation has put together a financial recovery plan assuming that the undelivered savings included within the mobilisation plan may not be fully funded and this

will assist it mitigating any risk that the IJB will refer to the Council for additional funding.

3.7 Monies available to fund the estimated £11.209m gap can be categorised into three pots:

1. Specific SG Funding - Funding provided by the SG specifically for COVID related activity
2. Funding Flexibility - Flexibility provided by SG for funding provided for other ring fenced purposes which the Council may choose to use
3. Potential Alternative Options – Other options identified by Officers for consideration.

Specific SG Funding

3.8 The Scottish Government funding to date totals £6.116m as set out below.

- ABC Share of £50m Hardship Fund - £0.895m
- ABC Share of £155m Consequentials - £2.776m
- ABC Share of £30m Food Fund - £0.440m
- Additional Food Fund - £0.320m (equal to expenditure)
- ABC Share of £49m Consequentials - £0.878m (awaiting circular confirmation)
- Allocation for Registrars of Death - £0.009m
- ABC Share of £50m for cost of additional teachers and education support staff - £0.499m (2020/21 allocation)
- ABC Share of £30m for further cost of additional teachers and education support staff - £0.299m (2020/21 allocation).

Funding Flexibility

3.9 Additional flexibilities have been announced by the Scottish Government in relation to some ring-fenced funding. Whilst there is flexibility to utilise this funding it must be redeployed to the best support the education and care of children and young people during the response to the coronavirus pandemic, providing targeted support for the most vulnerable children and families. The funding not already committed is noted below:

- Early Years – £0.350m
- Pupil Equity Fund - £0.266m

Potential Alternative Options

3.10 The 13 August BCC report identified the possibility of being able to flexibly use the 2020-21 Scottish Crown Estate allocation, announced on 2 July, to assist with the in-year pressure and the report also identified three other potential options to reduce the funding gap. These totalled £2.774m and are noted below, however, we have now been advised that HMRC have now revisited their original decision in respect of the anticipated VAT reimbursement option and have deemed that we are no longer due this reimbursement.

- Crown Estates – £1.504m
- VAT reimbursement – £0.570m (no longer an option)
- Loans Fund - £0.300m
- Savings on Severance Costs – £0.400m.

Possible Lost Income Scheme

- 3.11 As noted above a new scheme to help reimburse lost income during the pandemic and boost cash flow has been launched in England and the Scottish Government have committed to a similar scheme in Scotland. All councils were asked to complete a lost income submission that Scottish Government had requested via COSLA. This has been submitted to Scottish Government but at the time of writing, COSLA have not seen sight of any draft guidance.
- 3.12 The scheme in England reimburses 75p in every pound of planned income that councils have lost from sales, fees and charges, not including the first 5%. Our total lost income in our draft COSLA submission is £6.872m. If an identical scheme was rolled out in Scotland the maximum we may receive is £4.897m based on current estimates. A note of caution needs to be applied to this as for the Council to receive a further £4.897m would require significant Scotland wide additional funding. The consequential associated with the scheme are, at this point, believed to be around £90m but this cannot be confirmed until all claims under the English scheme are made and this will not be until next May. If £90m was distributed based on actuals, the Council share would be between £1.5m and £1.6m.

Fiscal Flexibilities

- 3.13 COSLA has been working constructively with Scottish Government officials in relation to a range of fiscal flexibilities, providing options for councils to use to address significant pressures. There are now four options that are on the table. COSLA had hoped for formal approval by Scottish Ministers but Scottish Ministers now wish to undertake “due diligence” and make a joint approach to Treasury in relation to the proposals. At the time of writing this report, COSLA had received no update from Scottish Government.
- 3.14 The four options being considered are:

Option	Detail
Flexibility to use existing capital grant to fund revenue costs	Capital Fund - traditionally this is funded by capital receipts and revenue contributions to capital, that are held in the Capital Fund until required to finance a capital project or to repay debt. Dispensation is requested through Statutory Guidance to allow Councils to place capital receipts in a ‘Capital Grants and Unapplied Capital Receipts Account’ and then used to finance COVID expenditure. Due to COVID it is not anticipated that receipts will be high in 2020/21, therefore the “ask” is for flexibility over two financial years.

	<p>Use of Capital Grant for revenue purposes- The Scottish Government provides General Capital Grant to fund capital expenditure, some £468m in 2020/21. Proposed that £156m (£468m x 4/12) is set aside to partly address COVID by allowing a third of this year's Capital Grant allocation to be transferred to Revenue. This reflects delays in capital expenditure over the first four months of 2020-21 whilst the construction industry was on hold. The ask is only for 2020-21 capital grant.</p> <p><i>ABC Position: It is unlikely that the Council would want to take advantage of either of these options as at this current time, the capital programme could be underfunded in 2021-22 and 2022-23 if the settlement is similar to the settlement received in 2020-21.</i></p>
Business Grant Underspend	<p>It would appear that there is very limited scope for surplus, which at the very most, could be around £100m Scotland wide but a reconciliation is still to be done at council level and civil servants have suggested it could be significantly lower.</p>
Loans Fund Principal Repayment Holiday	<p>The proposal is to defer principal repayments for one year and extend the period over which debt is repaid by adding the deferred payment to the end of the life of the Loans Fund advance. Ideally, the ability to defer could be used by councils in either 2020-21 or 2021-22 as part of financial strategies. The most recent discussions suggest that the deferral could be permitted if repaid within 20 years rather than adding to the end of the life of the Loans Fund advance.</p> <p><i>ABC Position: The principal repayments are circa £4.8m which could be deferred. Depending on when this would need to be repaid there is a potential that it would create a cost pressure in future years.</i></p>
Service Concessions	<p>For PPP/PFI contracts, write the debt, based on depreciation, over the life of the asset rather than the contract period. Based on 2018-19 Councils paid £348.6m in principal and interest repayments and this proposal potentially halves the annual payments for the remainder of the life of the asset. There is also a significant potential one-off "saving" achieved through restating the value of the asset depending on the life of the asset. This reflects an overpayment of depreciation to date. Again ideally, this flexibility could be used by councils in either 2020-21 or 2021-22. This is very similar to the loans fund review.</p> <p><i>ABC Position: This is a complex issue to be assessed and officers are working through the modelling and will advise Members of the financial implications in due course.</i></p>

Updated Estimated Budget Gap

3.15 The table below provides the latest estimated shortfall and it can be seen that the current estimated shortfall before considering the use of potential alternative options is £4.477m which reduces to £2.273m if the other options are taken in full.

	£000	£000
Estimate of Additional Costs (para 3.5)		
Mobilisation Costs	2,187	
Lost Income	6,872	
Savings Not Delivered	112	
General Fund Capital	1,087	
Recovery Costs	2,088	
Reduced Costs	(1,692)	
Loss of Council Tax Income	555	
Total Additional Costs		11,209
Scottish Government Funding (para 3.8)		
Hardship Fund	895	
£155m Budget Consequentials	2,776	
Food Fund	440	
Additional Food Fund (equal to expenditure)	320	
£49m Consequentials	878	
Registrars of Death	9	
Share of £50m for education staff	499	
Share of £30m for education staff	299	
Total Scottish Government Funding		6,116
Funding Flexibility (para 3.9)		
Early Years	350	
PEF	266	
Total Funding Flexibility		616
Estimated shortfall before applying other options		4,477
Potential Alternative Options (para 3.10)		
Crown Estate Funding	1,504	
Loans Fund	300	
Saving on Severance Costs	400	
Total Potential Alternative Options		2,204
Estimated shortfall after applying other options		2,273

Next Steps

- 3.16 As noted in paragraph 3.4, the budget working group agreed at their meeting on 24 August that no specific actions were required at this stage and that further clarification on the lost income scheme and other financial flexibilities was required in order to allow full consideration of all options to address the in-year budget gap.
- 3.17 It is almost certain that the Council will receive additional funding in relation to the income scheme, the unknown is how much will be received. It is hoped that there will be sufficient additional funding to meet the estimated gap and ideally sufficient to meet the gap without the need to utilise the Crown Estate monies as the Council had previously agreed that this funding would be used to support coastal defences and flood works, projects currently underway or in development that are experiencing funding pressures or other liabilities affecting council infrastructure.
- 3.18 It is also likely that some of the flexibilities as outlined in paragraph 3.14 will be agreed and this will provide the Council with other options to consider, some of which may be better to be considered for financial year 2021-22 which will continue to be extremely challenging and likely to have additional pressures as a result of COVID.
- 3.19 The unallocated General Fund balance as 31 March 2020 was £1.326m and it is recommended that this isn't used towards the budget gap in light of the financial risk that the HSCP could seek additional funding from the Council.

4. CONCLUSION

- 4.1 The updated estimated net additional costs as a result of COVID-19 amount to £11.209m. The current estimated shortfall before considering the use of potential alternative options is £4.477m which reduces to £2.273m if the other options are taken in full.
- 4.2 It is likely that the estimated in-year funding gap in 2020-21 can be met from further additional funding from the Scottish Government income scheme, in addition to applying the options as outlined in the fiscal flexibilities paragraph, if approval is gained from Treasury.

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
- 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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9 September 2020

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