

COVID-19 FINANCIAL POSITION

1. EXECUTIVE SUMMARY

- 1.1 This paper provides an update on the projected impact of the COVID pandemic on the Council's revenue budget in 2021-22 and 2022-23, comments on the estimated financial increases being experienced in relation to capital projects, outlines the remaining COVID funding and updates Members on the most recent developments in respect of the loans fund principal repayment holiday and service concessions financial flexibilities.

2. DETAIL

- 2.1 A detailed report was presented to the Policy and Resources Committee on 14 October 2021 and a further update presented to the Policy and Resources Committee on 9 December 2021. This report provides further update and seeks approval for the 2022-23 revenue cost pressures to be funded and a provision to be created for future capital cost increases.

Revenue Estimates

- 2.2 In January, officers revisited their estimates of the 2021-22 pressures to reflect the most up to date actuals and based on this the 2021-22 revenue cost pressures have reduced by £0.116m from £2.933m to £2.817m. The changes are summarised within Appendix 1 and Members are asked to approve these cost changes. The final year position will not be known until the end of the financial year and the position will be reported to Members then.
- 2.3 After much negotiation SJC staff and Chief Officers pay award was settled and it was to be backdated by an extra three months to January 2021. Additional funding was made available by the Scottish Government from COVID monies, which has been accounted for within the current financial year, however, the one-off element (January 2021-March 2021) creates a one-off pressure amounting to £0.372m and it is recommended that this is met from the COVID funds as part of the reason for the extended back pay was in recognition of the additional work that staff had undertaken during COVID.
- 2.4 The overall change to the revenue pressures for 2021-22 is an increased pressure of £0.256m (£0.116m reduction para 2.2. and £0.372m increase para 2.3).
- 2.5 Officers have also revisited their estimates for 2022-23 following the relaxation of some of the restrictions in January and the estimated cost pressures have

reduced by £0.236m from £0.649m to £0.413m. Appendix 2 to this report provides further detail on the 2022-23 estimated revenue cost pressures and Members are asked to approve these as part of the 2022-23 budget to be funded from the available COVID funding.

Capital Estimates

- 2.6 As previously reported to Committee we are experiencing increases in prices for capital works due to issues such as disruptions to the supply chain for both labour and materials and longer lead times in relation to the construction sector and material availability. At the Policy and Resources Committee in October 2021, Members agreed to allocate £2.646m to the current year's capital programme which fully utilised the provision that had been set aside for capital contract increases.
- 2.7 It is estimated that the pressures will continue for the projects within the capital programme in 2022-23 and possibly beyond (time will tell when and if capital costs will normalise to pre-covid levels). It is difficult to accurately quantify what is required but it is considered prudent to set aside at least £3m of the available COVID-19 funding for capital contract increases and a report will be brought back to committee during 2022-23 with estimates of where this is needed.

Updated Summary of Available COVID Funding

- 2.8 The table below provides an update on the available COVID funding following the proposals outlined in this report. The provision for capital contract increases has been funded by transferring funding from the revenue pressures in 2021-22 that is no longer required and reducing the amount in the revenue pressures beyond 2021-22. This leaves £0.999m for future years revenue pressures, £1.872m of recovery and renewal fund and a further £1.066m of carried forward funding that has yet to be allocated.

| | As at November 2021 £000 | Proposed Revenue Changes £000 | Proposed Capital Changes £000 | Available £000 |
|--|-----------------------------------|--|--|-------------------|
| 2021-22 Revenue Cost Pressures (includes pay award) | 2,168 | (256) | (1,912) | 0 |
| COVID Cost Pressures Beyond 2021/22 | 1,851 | 236 | (1,088) | 999 |
| Provision for Capital Contract Increases | 0 | 0 | 3,000 | 3,000 |
| Recovery and Renewal Fund | 1,982 | (110)* | 0 | 1,872 |
| Unallocated COVID funding (originally cfwd from 2021-22) | 1,066 | 0 | 0 | 1,066 |
| Total | 7,067 | (130) | 0 | 6,937 |

*£0.110m agreed at P&R Committee on 9 December 2021 to aid the delivery of critical areas of the Recovery Strategy and Action Plan.

- 2.9 Members are reminded that the available funding of £6.937m is from agreeing to take the loans funds principal repayment holiday estimated to be £5.400m with the remaining £1.537m from Scottish Government COVID grants. The principal repayment holiday must be repaid over the next 20 years.

Update on Financial Flexibilities

- 2.10 The Cabinet Secretary for Finance and the Economy agreed that the loans fund principal repayment holiday could now be used in 2022-23 (the previous agreement was for 2020-21 or 2021-22) – it can only be used once. The regulations are in the process of being updated and will require Scottish Government approval which should be a matter of course, although there is minimal risk that the regulations are not agreed. As the Council do not need the cash in 2021-22 due to COVID grants remaining, the loans fund principal repayment holiday can be exercised in 2022-23 instead of 2021-22 as originally planned. This will be beneficial as the repayments on the holiday will not commence until 2023-24 and the previous budget outlook assumed that these would commence in 2022-23. The revenue budget outlook has been updated for this re-profiling.
- 2.11 The Directors of Finance Group continue to work on securing the service concession flexibility and have written to the Cabinet Secretary for Finance and the Economy to ensure complete alignment on what is required. Ms Forbes was of the view that she had indeed provided what had been asked for, but from a Local Government perspective what is currently on offer limits considerably the resources available for many councils. Within the letter, Directors of Finance make it clear that they are not looking for an option to simply maximise the value of the benefit but for better alignment between the consumption of the assets acquired via service concession and the charges to revenue accounts over the life of the asset. Their professional opinion is that a change to accounting practice, to be in alignment with the 2016 regulations, would ensure greater consistency and at the same time allow prudent decisions to be taken over the profiling of debt charges using the asset life approach. The Cabinet Secretary for Finance and the Economy wrote to COSLA on 27 January 2022 to confirm the additional £120m of funding and in that letter noted that she has written to the CIPFA LASAAC Board to seek their view on the request for further flexibility in the accounting treatment of service concessions and to do so swiftly. We still await the outcome but it is looking likely that we should reach a conclusion in the near future. If there is a positive outcome which results in a one-off retrospective gain, it would remove the need to exercise the principal repayment holiday and therefore reducing the pressure on the revenue budget over the next 20 years to repay the holiday.

3. CONCLUSION

- 3.1 This report provides an update on the COVID funding position and

recommends that Council approve the changes to the 2021-22 revenue pressures, approve the 2022-23 revenue cost pressures and set aside a provision of £3m towards capital contract increases.

- 3.2 Remaining in the COVID earmarking is £6.937m as follows:
- COVID revenue pressures for future years £0.999m
 - Provision for Capital Contract increases £3.000m
 - Recovery and Renewal Fund £1.872m
 - Unallocated Amount £1.066m

4. IMPLICATIONS

- 4.1 Policy – No specific policy implications in relation to this paper however any future budget decisions may affect policy.
- 4.2 Financial – The report outlines the current financial position in respect of the Council's available COVID funding.
- 4.3 Legal - None
- 4.4 HR - None
- 4.4 Fairer Scotland Duty - None
- 4.5.1 Equalities – None
- 4.5.2 Socio-Economic Duty – None
- 4.5.3 Islands Duty – None
- 4.6 Climate Change - None
- 4.7 Risk – None
- 4.8 Customer Service - None

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10 February 2022

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Appendix 1 – Changes to Estimated 2021/22 COVID Revenue Cost Pressure
Appendix 2 – 2022-23 COVID Cost Pressures

Appendix 1- Changes to Estimated 2021/22 COVID Revenue Cost Pressure

| Service | Description | 2021/22 Revenue Estimate (Dec P&R) (£,000) | Reason for Change Between December P&R and February P&R | 2021/22 Revenue Estimate (Feb P&R) (£,000) | Improvement (£'000) |
|--|---|--|--|--|---------------------|
| LOST INCOME | | | | | |
| Piers & Harbours | Reduced berthing and passenger dues and fish landings | 884 | Projections updated to reflect actual income levels as at end of December. Income has reduced due to difficulties in CalMac's ability to crew vessels which resulted in a reduced timetable which in turn impacted the income collected. | 1,144 | (260) |
| Income from school food and drinks | Reduced school meal income | 416 | Uptake has increased over recent months | 260 | 156 |
| Council Tax | Increased Council Tax collection | 220 | Increase in total net billed due to a 2.05% growth in the number of Band D equivalent dwellings compared to previous years. | 0 | 220 |
| CHANGE IN LOST INCOME ESTIMATE | | | | | 116 |
| Proposal to fund one-off back pay from January 2021 to March 2021 | | | | | (372) |
| TOTAL CHANGE IN LOST INCOME ESTIMATE | | | | | (256) |

Appendix 2 – Estimated 2022/23 COVID Revenue Cost Pressure

| Service | Description | 2022/23 Forecast (£,000) | Rationale for 2022/23 Forecast |
|--------------------------|--|--------------------------|--|
| LOST INCOME | | | |
| Registrars | Restricted registrar services and fees not increased | 41 | NRS fees not increasing |
| Commercial Services | Reduced events and income from Kilmory Canteen and HLCC Café | 178 | Assumption that lost income from canteens in 2022/23 will be 70% of the 2021/22 lost income (£158k) as number of staff working in offices gradually increases. Although events income is expected to pick up over the remainder of 21/22 and into 22/23, full recovery is not expected and it is projected there will be 20k of lost income at HLCC. |
| TOTAL LOST INCOME | | 219 | |
| Commercial Services | Reduced catering purchases within schools and for cafes and events | (73) | Assumption that catering purchases will increase as number of staff working in offices gradually increases and also events catering expected to pick up over the remainder of 21/22 and into 22/23 as restrictions have been lifted however full recovery not expected. |
| Council Wide | Additional PPE | 12 | Majority of PPE required in 2022/23 expected to be in education (see separate line) This is PPE for amenity services - Assumption that following the lifting of social distancing enhanced PPE and sanitiser costs will reduce as the year progresses. |
| Pupil Transport | Additional cleaning of home to school transport vehicles | 140 | Uncertain until new school term starts. No. of routes multiplied by school days x £12 (1 hour of time of a driver) |

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|--------------------------------|--|--------------|---|
| Council Wide | Central Repairs | 141 | Expectation that central repair costs will reduce in 2022/23 as markets stabilise and tender prices decrease |
| Council Wide | Net of identified pressures under £100k | 114 | Various items - i.e. School lets, stadium lets, pest control, refuse collection van costs |
| TOTAL OTHER COSTS | | 334 | |
| Education | Additional cleaning costs and PPE | 314 | Assumed enhanced cleaning continues at same level and same PPE costs as 2021/22 |
| Education | Reconfiguration Costs (school ventilation, heating storage containers) | 100 | Additional ventilation requirement extended - minor reduction in forecast costs |
| Education | Additional staffing costs | 350 | Additional newly qualified teachers/supply teachers and support staff and Teachers PEF - costed until June 2022 |
| TOTAL EDUCATION COSTS | | 764 | |
| SUB-TOTAL | | 1,317 | |
| Education – Additional Funding | | (50) | Additional Funding Received from Scottish Government for COVID issues relating to Education. |
| Education – Earmarked Reserves | | (854) | Funded from COVID funding received in 2020-21 and carried forward as earmarked reserves for education. |
| GRAND TOTAL | | 413 | |