Midlothian Council
Tuesday 29 June 2021

COVID-19 Financial Update

Report by Gary Fairley, Chief Officer Corporate Solutions
Report for Noting

1 Recommendations

a) Note the update provided in section 4 of funding provided by the Scottish Government to support local government's response to the COVID-19 pandemic.

b) Note the current position in respect of Financial Flexibilities provided in section 5.

c) Note the update provided in section 6 of the additional expenditure and loss of income experienced by the Council as a consequence of the pandemic.

2 Purpose of Report/Executive Summary

2.1 The report provides an update specifically on the financial and funding aspects arising from the COVID-19 pandemic and complements the Financial Monitoring reports also on today's agenda. The financial impact of the pandemic continues in the current financial year and as such the position remains fluid as the impact and consequences of the pandemic both for Council services and for communities across Midlothian continue to evolve.

2.2 The financial and economic consequences of the pandemic are significant with unprecedented financial interventions made by national governments to support the immediate COVID-19 response, the economy and businesses and the recovery phase.

Date: 17 June 2021
Report Contact:
Gary Fairley, Chief Officer Corporate Solutions
gary.fairley@midlothian.gov.uk 0131 271 3110

3 Background

3.1 The Council was last provided with an update on the financial impact of the pandemic on 23 February 2021 since which time the pandemic has continued to impact significantly on the delivery of Council services and that of partners with the continued mobilisation of a significant range of additional support services and financial interventions for communities and businesses across Midlothian.

3.2 This report provides a further update of the financial and funding aspects arising from the COVID-19 pandemic for financial year 2020/21. Furthermore the unprecedented negative economic impact across the UK and Scotland arising from the necessary restrictions imposed by the public health measures taken to manage the pandemic will push the medium to longer term outlook for the economy and public finances in both the UK and Scotland once again into a new period of unchartered and unprecedented territory. This coming at a time when the long-term influence of the 2008 financial crisis on public finances was reducing in scale and influence.

4 Funding

4.1 During the year the majority of funding for Local Government was provided for specific purposes in support of businesses, individuals and families and therefore was not resources that could be utilised to alleviate service pressures as a result of responding to the Pandemic.

4.2 Each strand of funding also came with its own administrative burden including offer and acceptance of grant and specific reporting requirements which often limited the adoption of a more flexible, local response. The way in which resource had been allocated to deal with the pandemic magnified a growing trend of direction and/or ring fencing and this was raised by COSLA with Government. The position eased somewhat in February 2021 where a number of grants were routed through General Revenue Grant as were the larger allocations made for both 2020/21 and 2021/22.

4.3 Appendix 1 provides an updated assessment, extracted from the COSLA Grant Tracker, of the additional revenue funding provided in 2020/21 which stands at £23.832 million. £9.223 million was provided as general support with a further £10.586 million provided to meet specific costs including support to individuals, families and communities and to support Education Recovery etc. In the year £4.023 million was received in respect of the Loss of Income Scheme. A significant element of resources was provided towards the end of the year, including £4.953 million of non-recurring funding.

4.4 As identified in the main financial monitoring report funds provided in 2020/21 , particularly those announced towards the end of the financial year, have been carried forward to meet COVID pressures in financial year 2021/22.

4.5 In the year £0.971 million was redirected from the Early Years expansion ring fenced grant and Pupil Equity Funding. The former to assist in offsetting the additional costs of providing Early Learning and Childcare for Key Workers and the latter to contribute to the funding of summer 2020 hubs for vulnerable learners.

5 Financial Flexibilities

5.1 As Council is aware COSLA and Scottish Government reached agreement in principal on three financial flexibilities in respect of Capital Receipts, Service Concession Flexibility (PPP/PFI contracts) and a Loans Fund repayment holiday. These flexibilities were designed to allow Councils to utilise existing resources in alternative ways, principally by deferring debt repayments chargeable to the revenue account until later years. It is important to note that they would not result in any additional funding support for local government.

5.2 The situation in relation to COVID has changed significantly since the options were developed in September 2020, and given that budgets have been set for 2021/22, the focus has shifted to be on developing workable solutions for the medium term. This includes the use of service concession flexibility on an ongoing annuity basis, as well the ongoing need for statutory mitigation to reverse the impact of capital accounting entries on the revenue accounts.

5.3 Arising from this Local Government is leading a review of capital accounting, working collaboratively with Scottish Government, to fully understand Scottish Government's reservation around the use of annuity method. There are two stages to the review, Stage one is focussed on the "why" and the wider financial impact of any removal of statutory mitigation and a move to capital accounting. Local Government's view is that statutory mitigation must remain and is imperative to enable affordable capital investment in the future. If there is not a strong enough case for retaining statutory mitigation for capital accounting, then stage two would involve a full review of capital accounting. A strong case at stage one should pave the way to allowing the service concession flexibility on an annuity basis to be agreed permanently.

5.4 A first meeting of the Review Group was held on 13 May. Chaired by Directors of Finance Section Chair, the group includes representatives from SOLACE, Directors of Finance, Link, CIPFA, Audit Scotland and Scottish Government. At the first meeting, the terms of reference and the scope were discussed, as well as an initial paper on the background to statutory mitigation, highlighting the difference between private and public sector capital accounting. A key piece of work undertaken as part of the review was to collect information from all Councils on the value of statutory mitigation used in 2020/21, to assess the financial impact of not allowing their use. If statutory mitigation cannot be used to "reverse" capital accounting entries from council accounts (replaced by principal elements of loans fund charges), then there is an impact on the overall budget position, ultimately impacting on Council Taxpayers and Tenants if no other funding is available.

5.5 An update on stage one is expected to be provided to COSLA Leaders at their June meeting. This will include any implications for the use of the service concession flexibility going forward (noting that the view of professional advisers is that this is still necessary given ongoing pressures and wider Local Government aspirations in relation to its role in recovery).

5.6 In respect of capital receipts these continue to be required to support the extensive capital commitments approved by Council and so would not be available to support flexibility unless Council made equivalent reductions in capital investment plans.

5,7 Council previously agreed to delegate to the Chief Officer Corporate Solutions, in consultation with the Group Leaders approval to apply flexibilities as required, based on the outcome of the ongoing discussion with Government, on the actual outturn position at the year end and an assessment of continued Covid financial pressures for 2021/22. Given the additional resources allocated for 2020/21 and the flexibility to deploy these across 2020/21 and 2021/22 it has not been necessary to utilise the final flexibility, that of a loans fund repayment holiday in the year. The position with and utilisation of the flexibilities will continue to be assessed in the current year and deployed as appropriate.

6 Additional Expenditure and Loss of Income

6.1 As reported to Council on 23 February 2021 the pandemic continued to bring a significant divergence from the budget approved in February 2020 as a result of rapidly introducing new services and support arrangements to communities across Midlothian, as well as from adapting and changing how the Council was required to operate. There was also expected to be longer term additional cost and reductions in income.

6.2 There are a range of obligations, some with associated funding and some not, focused on supporting the direct response to the pandemic. Table 1 in appendix 2 provides an updated summary of the cost of these obligations and where appropriate associated funding for the year. Members should note that this excludes costs linked to Adult Health and Social Care provided via the Midlothian Integration Joint Board. The net costs of these interventions was met from non specific covid funding.

6.4 The loss of income across services for 2020/21 was significant at £8.185 million although a proportion of this was offset by reduced operating costs. Table 2 in appendix 2 provides an assessment of the loss of income together with the reductions in expenditure which partly offset these and loss of income grant funding of £4.023 million which results in a net impact of £0.690 million which was offset by non-specific covid funding.

As reported on 23 February 2021 actual collection rates for Council Tax have remained relatively buoyant with the yearend position indicating a 0.9% year on year reduction in collection levels. The budget is based on a collection rate of 97% with total collection historically exceeded this figure which resulting in a degree of windfall income arising in later years. As such although collection rates have reduced it is likely that future years windfall income may not materialise rather than there having been a need to reduce the budget collection rate for the year.

As highlighted in the main financial monitoring report the additional costs and lost income in the year were met from the available COVID funding.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

The report sets out the significance financial interventions by the Council in terms of its response to support individuals, families, businesses and communities deal with the effects of the pandemic. These represent a fundamental challenge to the financial stability and sustainability of the Council in the short to medium term and in recognition of that work continues, coordinated by COSLA, to help Councils maintain financial sustainability at this challenging time.

7.2 Digital

Increased reliance and investment in digital solutions and digital first solutions will be a key element of future plans.

7.3 Risk

The report outlines the overall risks to the financial position of the Council and the extent to which these risks have and continue to be mitigated. This mitigation includes pursuing those additional funding areas and or financial flexibilities outlined above and dependent on the outcome of these further mitigating action may prove necessary to ensure that the Council's ability to continue to deliver services in a financial sustainable manner.

7.4 Ensuring Equalities

As changes to existing plans are developed the assessment of the impact of these proposals in relation to their impact on equalities and human rights will be carried out. This will help to ensure wherever possible that there are no negative impacts on equality groups or potential for infringement of individuals' human rights from the any of the proposals.

7.5 Additional Report Implications

See Appendix A

Appendix A – Report Implications
Appendix 1-2 - Financial Tables

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan
The exiting financial plans support the delivery of the key priorities in the single Midlothian Plan. As the impact on the Council of the pandemic and recovery continues to unfold over the 2021/22 financial year *and beyond* any changes in the availability and allocation of resources will need to be considered in parallel to the actions proposed to continue to delivery key priorities.

A.2 Key Drivers for Change
Key drivers addressed in this report:

☒ Holistic Working
☒ Hub and Spoke
☒ Modern
☒ Sustainable
☒ Transformational
☒ Preventative
☒ Asset-based
☒ Continuous Improvement
☒ One size fits one
☐ None of the above

A.3 Key Delivery Streams
Key delivery streams addressed in this report:

☒ One Council Working with you, for you
☒ Preventative and Sustainable
☒ Efficient and Modern
☒ Innovative and Ambitious
☐ None of the above

A.4 Delivering Best Value
The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders
The development of the Medium Term Financial Strategy reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the "Midlothian Promise" and the early development of the Council's Longer Term Financial Strategy.

In addition there is continues engagement with the recognised Trade Unions on the financial position.

A.6 Impact on Performance and Outcomes
The Financial Strategy facilitates decision on how Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the pandemic will impact on the availability and allocation of resources in pursuit of key outcomes as set out in the

Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

A.7 Adopting a Preventative Approach

Maintaining the effectiveness of the Financial Strategy will support the prioritisation of resources to support prevention.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and we will work to mitigate as far as feasible any sustainability issues which arise as a consequence of any of the changes to existing plans.