Midlothian

Midlothian Council
Tuesday 23 February 2021

COVID-19 Financial Update

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

1 Recommendations

a) Note the update provided in section 4 of funding provided/projected to be provided by the Scottish Government to support local government's response to COVID-19 and the current position in respect of funding and financial flexibilities.

b) Agree to delegate to the Chief Officer Corporate Solutions, in consultation with the Group Leaders, approval to apply the financial flexibilities as required, based on the actual outturn position at the year end and an assessment of continued Covid financial pressures for 2021/22.

c) Note the update provided in section 6 of the additional expenditure and loss of income projected to be experienced by the Council as a consequence of the pandemic. The net impact of which is incorporated in the Financial Monitoring update elsewhere on today's agenda.

d) Note the material assumptions on which the reported position is predicated, including a revised estimate of funding from the income loss scheme, that education recovery costs will be contained within Scottish Government funding and other flexibilities and that Council Tax collection rates are sustained.

2 Purpose of Report/Executive Summary

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. Members should note that the financial position remains fluid as the impact and consequences of the pandemic both for Council services and for communities across Midlothian continue to evolve.

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: 05 February 2021
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3 Background

The Council was last provided with an update on the financial impact of the pandemic on 17 November 2020 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.

This report provides a further update of the financial and funding aspects arising from the COVID-19 pandemic. 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

Firstly in terms of the national position, and to provide context for members, Appendix 1 sets out the latest assessment of the COVID-19 Barnett consequentials for Scotland which now stand at £8.600 billion and the related funding to Local Government of £1.078 billion (excluding business grants funding routed through Councils, £500 self-isolation payments and the £100 payment per child entitled to Free School Meals (Dec 2020) and includes resource for IJB delegated services.

As can be seen in the Appendix the majority of the funding for Local Government is for very specific purposes in support of individuals and families and is therefore not money that will alleviate service pressures as a result of responding to the Pandemic. Each pot of funding has also come with its own administrative burden including offer and acceptance of grant and reporting, and has often limited a more flexible, local response. The way in which resource has been allocated to deal with the pandemic has magnified a growing trend of direction and/or ring-fencing and this has been raised by COSLA with Government. Government officials are now looking at routing money through General Revenue Grant, with recent examples including January funding for Free School Meals and £45 million Remote Learning although the latter will still require reporting from Councils.

Appendix 2 provides an updated assessment of the additional revenue funding for 2020/21 provided to the Council which currently is estimated at £11.851 million of which £4.270 million is provided as general support with a further £5.766 million provided to meet specific costs including support to individuals, families and communities and to support Education Recovery etc. with £1.814 million expected in respect of the Loss of Income Scheme.

Aa additional £110 million in respect of Income Loss support was announced on 28 January 2021 as part of the Scottish Government‘s budget for the year ahead. It is understood that this relates wholly to income loss experienced by Councils and associated ALEO's for the current financial year. It is anticipated that this will provide further relief to the significant income loss being experienced by the Council. However details of the proposed arrangements to apply this support and distribute funding are awaited before an assessment of funding can be determined.

£0.935 million has been 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 key workers.

In respect of the Midlothian IJB £223 million of Health & Social Care funding has been passed to Local Government for Local Mobilisation Plans. The Midlothian IJB estimates it will receive £5.118 million of this. It remains the position that it is not anticipated that the Board will require to seek an additional financial contribution from its Partners in 2020/21.

5 Financial Flexibilities

As Council is aware COSLA and Scottish Government reached agreement in principal on three financial flexibilities in respect of Capital Receipts, Service Contracts (PPP/PFI) 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. Importantly they do not result in any additional funding support for local government.

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.

In respect of the service contract flexibility there is continued uncertainly on what this flexibility entails. In the press release from Cabinet Secretary on 8 October 2020, the quantum of £750m incorporated a significant sum from this flexibility. Shifting the repayment of the capital cost from the length of the contract to the life of the asset was expected to broadly half the in-year charge and bring a prior year adjustment.

However as previously reported guidance from Scottish Government indicates that Councils’ revenue accounts should reflect the straight line depreciation of the assets rather than the principal element of the contract payment. Given in most cases the contract payment is structured and accounted for on an annuity basis the value of the flexibility is all but lost if straight line depreciation is the requirement. Indeed for some contracts applying the “flexibility” would increase revenue charges in the earlier part of the contract.

The CIPFA Directors of Finance section have engaged constructively with Scottish Government officials to see if regulations can be amended to allow the flexibility to accommodate annuity-based contracts. The professional viewpoint of Directors of Finance is that the asset life method using an annuity basis is proper accounting practice and they are keen to secure that this flexibility can be used in this or next financial year to mitigate unprecedented COVID pressures. However, there is a difference in views on accounting treatment, with Scottish Government officials stressing the need to go back to Treasury with a revised “ask" in relation to the annuity method.

Scottish Government officials have expressed more general concerns around the use of annuity in relation to loans and service contracts and if the flexibility was to be granted based on annuity, a condition would be that there is an agreement to reform of the loans fund with payments being equal to the depreciation of any asset. Whist the Directors of Finance are willing to consider a review the position is that before agreeing to a fundamental change in accounting practice there must be a clear understand of the impact. The initial assessment is that Scottish Government’s desired change would significantly impact on Council’s ability to invest in assets and support economic recovery.

Accordingly the position is that there needs to be a realistic timescale and scope agreed jointly for any review to understand the full implications and affordability impacts, across key capital programmes including Learning Estate Investment Programme and Green Growth Accelerator (both of which are key priorities for Scottish Government) and for key building projects that are critical for social and economic recovery. However, given the pressure being faced right now by Local Government, the Directors of Finance section view is that the time is not right, nor is imposing this “condition” as part of the flexibility being sought.

On our current understanding of the implementation of the change there is no value to this flexibility for Midlothian. COSLA are now engaging directly with the Cabinet Secretary to seek a way forward which is more in keeping with the original objectives of this flexibility.

Given the continued uncertainly in terms of the flexibilities provided and the impact of the pandemic over the remainder of financial year 2020/21 it is proposed to revisit the utilisation of the financial flexibilities once the actual year end position is known. This will also provide necessary flexibility for 2021/22 to help mitigate the expected, but at present unquantified impact of the pandemic on service budgets, whether continued shortfalls in income, additional expenditure required to deliver services in a safe manner or other interventions to support the Midlothian Community.

Accordingly it is recommended 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.

6 Additional Expenditure and Loss of Income

As reported to Council on 17 November 2020 the pandemic continues to brings 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 is required to operate. There was also expected to be longer term additional cost and reductions in income.

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 3 provides an updated summary of the cost of these obligations and where appropriate associated funding. The current estimate of the net impact on the Council is £2.567 million. Members should note that this excludes costs linked to Adult Health and Social Care provided via the Midlothian Integration Joint Board which is subject to separate cost tracking and funding discussions with the Scottish Government.

The loss of income across services is significant and continuing and is estimated at £8.861 million although a proportion of this is offset by reduced operating costs. Table 2 in appendix 3 provides an assessment of the loss of income expected together with the reductions in expenditure which partly offset these and which result in a net impact of £5.774 million.

Although the distribution of funding from the loss of income has still to be received, we have been notified that based on our reported losses for the first half of the year we will receive £1.814 million of the £90 million set aside for the scheme. The increase in relative share compared with a GAE distribution reflects that the majority of other Councils have ALEO’s providing leisure services and were able to mitigate income loss through the Corona Virus Job Retention Scheme.

As reported on 17 November 2020 actual collection rates for Council Tax have remained relatively buoyant with the 31 January 2021 position indicating a 1.2% 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 at this point is likely that future years windfall income will not materialise rather than there be a need to reduce the budget collection rate. We will continue to monitor the position closely over the remainder of the year.

The net financial impact for the year for the above elements is reflected in the tables in the Financial Monitoring report.

7 HRA

The principal concern for the HRA is the potential for loss of income from increase rent arrears. Rent arrears have experienced a monetary increase of £0.5 million, approximately 31% since the 1 April 2020 with an increase over the same period of 225 or 8% in the number of tenancies in arrears.

Engagement with tenants to help them meet their obligations, access benefit entitlements and support to sustain their tenancies continues together with recovery action short of eviction. Members will be aware that legislation has been extended to ensure no evictions can take place until March 2021 other than for cases where there is anti-social or criminal behavior.

The position is predicted to result in an increase in the provision required for non-collection of rents of £0.300 million more than originally budgeted for. The position will be monitored and an assessment made at the year if any further increase in the provision for bad and doubtful debt is required.

8 Report Implications (Resource, Digital and Risk)

8.1 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.

8.2 Digital

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

8.3 Risk

The report outlines the overall risks to the financial position of the Council and the extent to which these risks require further mitigation. 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.

There remains a risk that actual costs and income losses may increase as events unfold over the remainder of the year or if local or national restrictions are reintroduced.

8.4 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.

8.5 Additional Report Implications

See Appendix A

Appendices

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 financial year 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.

Appendix 1-3 Financial Tables