

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) Note the update provided in section 5 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.
- c) Approve the allocation of additional grant funding support to supplement service budgets and so partially mitigate the financial pressures arising as a result of the pandemic.
- 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.

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3 Background

The Council was last provided with an update on the financial impact of the pandemic on 25 August 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 uncharted 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

The Scottish Government has allocated a further £49 million of Barnett consequential to Councils of which Midlothian's share is £0.824 million.

On 8th October 2020 Ms. Kate Forbes, The Cabinet Secretary for Finance wrote to Councilor Gail Macgregor, the COSLA Resources Spokesperson to provide an update on financial flexibilities for local government. In this letter the Cabinet Secretary confirmed that she was happy to agree the list of proposed principles COSLA officials have shared for the loss of income scheme. The letter also confirms that the additional funding for the scheme is estimated at £90 million. A copy of that letter is provided at Appendix 1.

In respect of the financial flexibilities, whilst further details will be brought forward in the form of statutory guidance and a change in statutory regulations, Councils are advised to plan on the basis that the following financial flexibilities will be available:

- Capital Receipts Received - Dispensation for both 2020/21 and 2021/22 through Statutory Guidance to place capital receipts in the Capital Grants and Receipts Unapplied Account and then used to finance Covid expenditure.
- Credit arrangements - At present Councils are required by statutory guidance to charge the debt element of service concession arrangements (PPP/PFI/NPDM projects) to their revenue accounts over the contract period. A change to the accounting treatment will allow the debt element to be repaid over the life of the asset rather than the contract period,

applying proper accounting practices. Councils will have the flexibility to apply this change in either 2020/21 or 2021/22. This approach will apply to all credit arrangements going forward and in addition it is expected that a prior year adjustment can be made.

- Loans Fund Principal Repayment Holiday - The flexibility being offered is a loans fund repayment holiday which will permit a council to defer loans fund repayments due to be repaid in either 2020/21 or 2021/22 (but not both).

The confirmation of the final suite of financial flexibilities is a welcome development. An assessment of the quantum is being progressed by officers and this will in turn support the development of options for Council to consider in respect of their application as part of the ongoing consideration of Council's Medium Term Financial Strategy.

The draft principals of the income loss scheme indicate that the scheme should be designed to address the specific loss of income challenges faced by Local Government in Scotland, with recognition that services are structured and delivered differently to those in England. Based on current cost collection exercises, once measures such as Job Retention, additional management fee, and other grants are factored in, the net impact figure for all Councils is estimated at over £400 million for 2020/21. Allocation of funding will be based on actual losses experienced by Councils and it is anticipated that Councils will be notified of their allocation from the £90 million as soon as possible to allow for inclusion in budget strategies for 2020/21. The rationale being that quarters 1 and 2 of 2020/21 have already resulted in substantial losses that need to be mitigated and that there may be additional consequential losses to flow from the English scheme.

Current estimates of loss of income are circa £4.4 million which equates to 1.1% of the national estimate of net loss of income loss. This would point to an allocation of circa £1 million from the £90 million. This is less than the previous estimate included in the 25 August 2020 report which had been based on GAE share of a quantum of £139 million (at that time the £49 million Barnett consequential losses were anticipated to be used to supplement the income loss scheme).

Appendix 2 provides an updated assessment of the additional revenue funding for 2020/21 distributed to the Council which currently totals £6.539 million of which £4.270 million is provided as general support with a further £1.679 million provided to meet specific costs and £0.590 million distributed thus far for Education recovery.

It is recommended that Council now approve the allocation of this additional grant funding support to supplement service budgets and so partially mitigate the financial pressures arising as a result of the pandemic as detailed in appendix 3.

Furthermore there will be access to an estimated £0.850 million of further funding to support for Education recovery for 2020/21 but this is subject to claim arrangements.

£1.018 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 hubs for key workers.

In respect of the Midlothian IJB the Cabinet Secretary announced to Parliament on 29 September 2020 £1.089 billion to support health and social care costs. The revenue allocation from this to NHS Lothian totals £78.273 million of which £18.180 million is for integration authorities and is in addition to the previous allocation of £11.179 million. NHS Lothian officers, in partnership with the four IJB Chief Finance Officers are progressing the allocation of resources to each of the IJB's. 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 Additional Expenditure and Loss of Income

As reported to Council on 25 August 2020 the pandemic continues 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 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 £1.668 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 £6.252 million although a proportion of this is offset by reduced operating costs and particularly in respect of Sport and Leisure. This also reflects a continuing impact for leisure and other facilities and it may be some time until income levels return to pre pandemic levels. In addition it has been assumed that some facilities will continue to be utilised to support schools returning. 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 £4.419 million before factoring in any grant funding from the loss of income scheme.

As reported on 25 August 2020 Actual collection rates for Council Tax have remained relatively buoyant with the 1 October 2020 position indicating no more than a 0.7% year on year reduction in collection levels. As such at this point it considered prudent to continue to base projections on the budgeted collection rate of 97% and continue to monitor the position closely over the remainder of the year.

In respect of Education recovery work continues to assess the additional costs and to support the submission of a claim for reimbursement from Scottish Government.

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

6 HRA

The principal concern for the HRA is the potential for loss of income from increase rent arrears. At 5 September arrears have increase by 27% during the year and sit at £1.9 million (excluding technical arrears). Recovery action by way of reminders has re-commenced which should increase payments though 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 will be monitored and an assessment made as the year progresses if an increase in the provision for bad and doubtful debt is required.

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 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.

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

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 Scottish Government Letter and financial tables