
BUDGETARY IMPACT OF COVID 19 - INITIAL FINANCIAL ASSESSMENT

Briefing Note by Executive Director, Finance & Regulatory

EMERGENCY POWERS – COVID-19

24 April 2020

1 DECISION(S) REQUIRED BY CHIEF EXECUTIVE

- 1.1 It is recommended that the methodology used to determine the financial implications of the COVID-19 response is noted. This information will continue to be refined and developed over the coming weeks to provide as clear a financial position as possible and will provide the basis of a financial return to COSLA to be shared with the Scottish Government.**

2 BACKGROUND AND PURPOSE

- 2.1 This paper provides an initial high level assessment of the impact of COVID 19 on the Council's 2020/21 revenue budget. As a Category 1 responder the Council's primary responsibilities are working with other Category 1 responders to protect life, especially the vulnerable; and to advise/support businesses and the wider public during this crisis. The emergency situation currently affecting the UK is assessed as having a profound negative effect of the Council's finances, with potential pressures of over £10m already being identified with further significant costs projected.
- 2.2 This initial assessment focuses on the impact in 5 main areas:
- reductions in income;
 - additional unplanned expenditure now being incurred as a consequence of COVID-19;
 - delays in the delivery of savings anticipated by the budget approved in February 2020;
 - existing Council budget which can be directed to the COVID-19 emergency; and,
 - any service underspends which could be used to mitigate budget pressures.
- 2.3 The report explains the methodology adopted to capture the financial impact of the pandemic at this early stage in the financial year and the management actions agreed by CMT to minimise these impacts wherever possible.
- 2.4 **Reductions in income**
Even at this early stage in the financial year the current situation is likely to have a significant impact in three main areas: Council tax, Non-domestic rates and fees and charges income.

2.5 Council Tax

The budget for Council Tax in 2020/21 stands at a net £67.1m excluding Council Tax Reduction Scheme. An ultimate collection rate of 98.8% is budgeted in a normal year with the bad debt provision set at 1.2%. In year collection is normally expected to be 95% with any under recovery of income impacting adversely on the Council's cash flow. Month 1 billing of Council Tax appears to have held up reasonably well with a small negative variation against expected direct debit receipts of only £8k (0.1%). Month 1 is however expected to be a relatively good month for council tax receipts as the COVID-19 lock down only took effect in the last week of March and traditionally people who are annual payers will pay their full Council Tax in April. This is therefore expected to be a high point of monthly collection with people whose income has reduced due to the lock down subsequently acting to delay payment of their Council Tax. Every 1% reduction in tax take will have a £0.67m impact on the Council's budget. Unlike some fees and charges income, it is likely that anticipated Council Tax payments delayed will eventually be received as the Council agrees payment plans with residents experiencing temporary financial issues. If repayment plans are agreed this will limit the impact to a timing and therefore cash flow issue rather than a budget issue.

2.6 Non Domestic Rates

Scottish Government has put in place a £2.2bn package of assistance for businesses to assist during the current crisis with £1.2bn available in the form of business grants and a further £1bn package of rates relief to business adversely affected by the lock down. All businesses with a rateable value of less than £18,000 and qualifying for small business bonus relief and meeting the criteria laid down by Scottish Government are eligible for a grant of £10,000. Businesses in the hospitality, retail and leisure sectors with a rateable value of up to £51,000 per annum are eligible for a £25,000 grant. All retail, leisure and hospitality businesses have had their rates bill cancelled for 2020/21 and government has postponed the proposed 1.6% increase in the rates poundage which was due to take effect for all businesses on April 1.

2.7 In terms of the impact on the Borders, Scottish Government has calculated a requirement for overall funding of £39.9m and has paid the Council 80% of this sum up front. Confirmation of the arrangements for the remaining payment of 20% is awaited. As at close of business on Friday 17 April, £10.73m had been paid to 986 businesses. In total the Scottish Government originally estimated 3,600 Borders businesses were eligible for the grant scheme at 17 March 2020. Subsequent expansion of the scheme to include self-catering accommodation and caravan sites, along with a further £220m national funding to assist rate-payers who own multiple properties and the newly self-employed, will however expand the number of businesses who will ultimately benefit from the scheme.

2.8 Scottish Government has recognised the impact that the provision of rating relief will have on the Non Domestic Rate income collected from local businesses by the Council and has amended revenue support grant payments (RSG), initially for the first 3 months of the financial year to protect Council cash flow. In the first quarter NDR payments have been reduced by £12.169m with RSG increased by the same amount. It is likely moving forward that the Assessor will see a significant increase in the number of appeals against 2020 rating demands due to the exceptional impact of COVID 19 on business trading income and this situation will require to be carefully monitored.

2.9 Fees and Charges

The Council's budget for 2020/21 includes £27.8m to be delivered by a range of fees and charges. The following narrative outlines the impact on the key elements of fees and charges.

	Loss of Income	Cost Reduction	Net Income Loss
Planning Fee	443,820	0	443,820
School Meals	450,000	(202,500)	247,500
Waste Services	369,549	0	369,549
SBcContracts	3,356,250	(2,801,775)	554,475
Misc fee income	500,000	0	500,000
	5,119,619	(3,004,275)	2,115,344

Miscellaneous fee income pressures may include fees & charges such as school lets, nursery fees and social care charges. The cumulative impact from loss of income in these areas could be significant. Work in on-going with Live Borders to determine financial implications for them through loss of income, this will be mitigated by their decision to furlough their staff.

2.10 Additional Expenditure

Additional costs have been incurred by the Council as a result of the COVID-19 emergency response. The Council received £1.1m of assistance from Scottish Government as part of a £50m national hardship fund to deal with the immediate impact of the crisis. The orders placed to date total £0.979m with significant additional costs still forecast. The costs shown below in key categories of spend have been incurred to date and do not represent the full commitment which may be required.

Category of expenditure	£
PPE	486,413
Catering	141,126
Cleaning	248,201
Community Council Support	63,000
Temporary Mortuary	38,396
Other Costs	2,154
Total	979,290

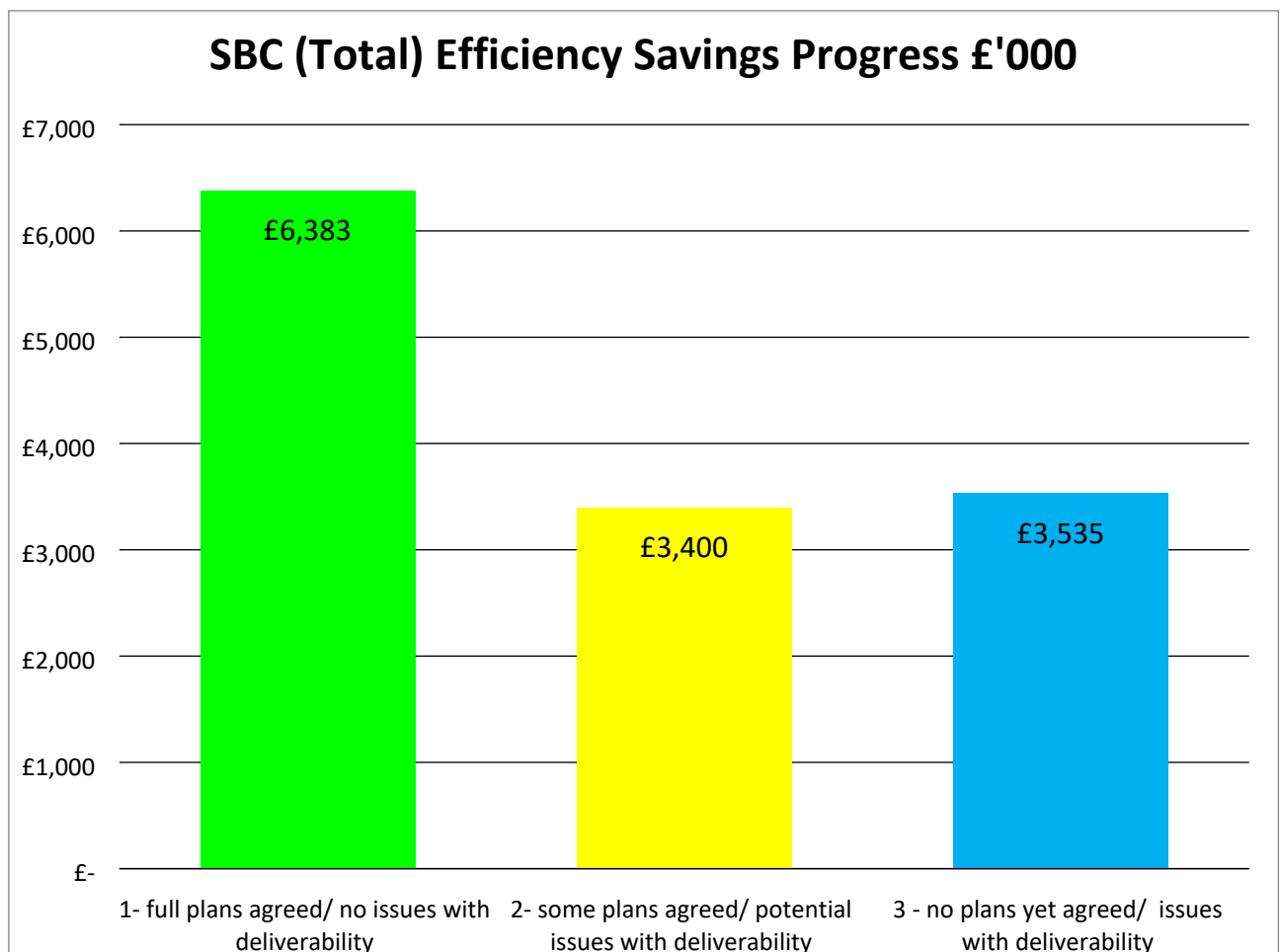
2.11 It is assumed care related costs of £42k already incurred along with 13 additional spaces at Whim Hall and the expansion of Deanfield will be funded through the IJB mobilisation plan and have therefore been excluded from the table above.

2.12 It should be noted that there is a potential increase in construction project costs as a result of delays in delivery which have yet to materialise but could have a financial impact.

2.13 With regard to supplier payments the Council has agreed to pay Early Years and Transport providers in advance to ensure they can maintain a sound financial position during this period. The Early Years additional costs are being funded through Early Learning & Childcare expansion funding. The transport provider arrangements are designed to protect provider's cash flow in terms of the timing of the payment but have no budget impact for the year. The action taken by the Council is designed to ensure the key providers are able to continue in operation and will be able to resume normal service when required.

2.14 **Delays in delivery of financial plan savings**

The savings required by the 2020/21 financial plan along with savings brought forward from 2019/20 total £13.363m. An initial assessment has been made of how the COVID-19 emergency response could impact on delivery of these savings in 2020/21. Below is a graph showing that 48% of the savings (£6.383m) have plans in place for delivery with a high degree of confidence that these savings will be delivered in full on time. The remaining 52% (£6.935m) have been assessed as having some risk attached to delivery, with 26% (£3.4m) having some plans agreed but potential for issues with deliverability and 27% (£3.535m) with no plans yet agreed and / or confirmed issues with deliverability due to the COVID-19 response.



2.15 **Additional Budget Identified**

In recognition that the Council will be required to fund an element of the pressures resulting from the COVID-19 response, the following Council budgets could be directed to these budget pressures:

Scottish Government funding:		
Hardship fund	(1,100)	SBC share of £50m national funding to support Councils with additional costs and loss of income
SBC funding which could be directed to supporting COVID-19 response:		
SBC COVID-19 reserve	(500)	Allocation from SBC share of SG £95m funding from Green Party negotiations
Community Fund	(740)	Earmarked balance from 2019/20 into 2020/21
Corporate Transformation growth	(250)	2020/21 budget growth which could be removed - £250k earmarked bal from 19/20
Total	(2,590)	

2.16 Opportunities for making savings within existing budgets

It is important to recognise that whilst there are significant financial implications for the Council as a result of the COVID-19 emergency response, there will also be areas of activity within the Council which will naturally reduce during this period resulting in underspends. It is crucial these underspends are captured as early in 2020/21 as possible to allow the budget to be redirected to support additional costs elsewhere in the Council. Examples of where we need to consider redirecting budget are:

Review all growths included in the 20/21 Financial Plan	Can any growths be removed/reduced in line with reduced activity?
Reductions in service delivery levels	Can budget be removed/redirected within services eg pool cars/travel/materials/agency
Impact of delays in delivery of capital programme	Less borrowing required/lower consultants costs

2.17 Consideration should be given, at this point, to how the Council will return to normal business post the emergency response from a budget perspective. The pressures on the Council's budget will require corporate action to identify budgets which have not been committed during the lockdown period and as such the working assumption should be that services should only plan to commit the remaining proportion of their non-staffing budget which relates to the post lockdown period to the 31st March. The changes to the way in which the Council has been forced to operate following the COVID-19 restrictions with extensive use of digital technology including video conferencing and changes in working practices provides the opportunity to embed these changes moving forward and to deliver significant transformational benefits on a sustained basis.

2.18 Budget Monitoring Arrangements

Financial implications will be reported to CMT through the normal budget monitoring arrangements. The finance team are finalising 2019/20 outturn over the next 2 weeks with the outturn report being presented to CMT on the 20th May 2020 and then being presented to Elected Members through the Emergency Powers process on 9th June 2020.

2.19 COSLA and the Directors of Finance Section have also now agreed a financial pressure template to record the additional costs, lost income and savings not achieved while resources are diverted to tackling COVID-19 emergency. A similar approach has previously been adopted by NHS Boards and it is intended that this template places the recording and reporting of Council costs and pressures on a consistent footing with approach adopted for the NHS to record Health and Social Care costs. By ensuring all costs are recorded, but not duplicated, across both returns

Scottish Government will be provided with a complete picture of the financial impact of COVID-19 on Health and Local Authority services.

2.20 Ministers have given the commitment that “reasonable expenditure” incurred by Local Authorities will be funded by the Scottish Government. The intention behind the guidance is therefore to ensure that the costs included by Councils in the template returns for consideration by Ministers will be additional, auditable and as consistent as possible across all 32 Councils.

2.21 Each line on the financial pressure template has been reviewed and additional guidance has been included to ensure a consistent approach is followed. It is proposed to use historic information from previous financial years, which has been subject to Audit, and where possible information across the last 3 financial years to establish a trend that is comparable to the current crisis situation can be derived. In this way it is expected that the difference from ‘normal’ activity to the current period will be identifiable as the direct impact of COVID-19.

2.22 Principles to be followed in recording costs related to COVID-19

1. Figures should initially be based on an initial 3 month (12 week) period ending 30 June. If current restrictions are extended by UK or Scottish Government this period will be revisited.
2. Only additional costs should be recorded, net of any associated savings or income. The Council’s legally approved budget for 2020/21 should be the starting point for evidencing the additional costs incurred. Additional costs in this case may relate to additional expenditure, reduced income, or planned savings not delivered. In compiling the list of cost pressures, councils should not include issues where there were pre-existing budget pressures prior to the COVID-19 crisis, as those are highly unlikely to be funded by the Scottish Government and would only serve to undermine the case for the funding of the COVID-19 direct impacts.
3. Costs recorded in the spreadsheet template should be additional to normal activity. They may include new costs incurred as a consequence of COVID 19, or reflect variances to the 2020/21 approved revenue budget for income and expenditure arising from the current emergency.
4. All costs included in the spreadsheet should be auditable i.e. be supported by primary source documents such as invoices and overtime claims, or represent a demonstrable material variance to past financial performance in a normal year.
5. Where possible, variances should be measured with regard to more than one year for example an expenditure or income trend over the last 3 years.
6. The cost variances included in the template should be subject to a formal budget monitoring report to elected members.
7. Additional funding already provided by the Scottish Government will be reflected in the summary statements that will be provided to the Scottish Government, so individual council returns should be on a gross impact basis.

2.23 Action required

The following action is required to ensure we have a clarity across the Council on how CMT are approaching the COVID-19 response from a financial perspective:

- Managers must be fully engaged in determining the financial impact of additional costs and loss of income in their services;
- Managers must also identify areas of budget which are underspending due to lower than normal service activity and therefore could be redirected to COVID-19 pressures;
- A communication will be issued to all budget managers asking them to reflect the COVID-19 impact in their monthly forecasts to allow a Council position to be confirmed as part of the routine budget monitoring processes;
- A summary position encompassing the CoSLA national template along with the IJB mobilisation return will be circulated round CMT on a regular basis to ensure full awareness of the financial pressures being experienced and forecast;
- The 2019/20 outturn position along with a monitoring position based on April 2020 will be presented to CMT on the 20th May 2020. This will be reported to Members through the process agreed at the meeting of Scottish Borders Council on the 26th March.

3 IMPLICATIONS

3.1 Financial

There are no additional financial implications associated with this report, its content referring specifically to the impact of COVID revenue budget.

3.2 Risk and Mitigations

There is a risk that the financial implications experienced by the Council during the COVID-19 emergency exceed the funding available, causing a financial risk to the Council. This risk is mitigated by robust monitoring processes and regular contact with CoSLA and Directors of Finance colleagues to ensure the Council approach is in line with other Scottish Councils.

3.3 Equalities

There are no equality impacts arising from this report.

4 CONSULTATION

The Convener, the Leader of the Administration and the Leader of the Opposition are being consulted and any questions will be responded to by relevant Officers and any comments received will be considered by the Chief Executive in arriving at her decision.

Author(s)

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APPROVED:

Chief Executive: Tracey Logan

Date: 5 May 2020

Having consulted -

Leader of the
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Cllr Shona Haslam

Date: 5 May 2020

Convener:

Cllr David Parker

Date: 5 May 2020

Leader of the
Opposition:

Cllr Stuart Bell

Date: 5 May 2020