

Agenda Item	13
Report No	HC/17/20

THE HIGHLAND COUNCIL

Committee: Highland Council

Date: 30 July 2020

Report Title: Budget impact of Covid-19- Understanding the gap

Report By: Executive Chief Officer – Resources and Finance

1. Purpose/Executive Summary

- 1.1 Members have to date received two formal reports on the potential impact of Covid 19 on the Council's 2020/21 budget, both of which have looked to the potential scenarios the Council may face. Due to the unprecedented nature of the current financial climate any scenario modelled requires significant assumptions to be made with no historic basis on which to found it. This in turn brings significant forecasting risk.
- 1.2 The scenarios outlined so far have reflected an effective full-year lockdown with a potential adverse impact assessed at £96.9m, and a scenario which would see a second three-month lockdown at the end of calendar year 2020 with a potential adverse impact of £65.7m.
- 1.3 Lockdown was first implemented in March and significant progress has been made through the phases out of lockdown which, at the time of writing, are at phase 3. <https://www.gov.scot/publications/coronavirus-covid-19-framework-decision-making-scotlands-route-map-through-out-crisis/>
- 1.4 The progress made to date appears to have been more positive than those assumed in the previous scenarios identified by the Council and the scenario identified in this paper is based on a continued positive progression out of lockdown.
- 1.5 This report presents to Members a summary of the financial return provided by Council officers to COSLA in late June that estimates the impact of Covid 19 on the Council's 2020/21 budget. Overall, before additional government funding is applied, a gap of £47.7m is forecast. The application of confirmed government funding reduces the gap to £35.7m.
- 1.6 At this stage it still remains incredibly difficult to fully assess the impact of Covid 19 on the Council's budget, but the figures reflected here will be further updated in line with the Council's own Quarter 1 financial monitoring which will be presented to the next

Council meeting. It is hoped that the potential financial impact will be reduced further by actions the Council has taken to control Covid response spend, by reprioritising existing resources rather than incurring additional costs, by reassessment of cost pressures, and by the impact of new government guidance received on the schools return.

- 1.7 Whilst the figures have improved from those reported previously any adverse setbacks in the route map out of lockdown will likely widen the anticipated budget gap.

2. Recommendations

- 2.1 Members are asked to note the revised budget gap figures as reported to COSLA in June.

3. Implications

- 3.1 Resource- The Covid 19 crisis is expected to impact significantly on the Council's budget. The estimated negative impact is expected to be in excess of the Council's general fund non-earmarked reserve
- 3.2 Legal- In March 2020 the Council set a balanced budget for financial year 2020/21 as is required by statute. Although not a clear legal requirement the significant changes to that budget as a result of Covid 19 will require ongoing reassessment which will be presented to subsequent Council meetings.
- 3.3 Community (Equality, Poverty, Rural and Island)- This report does not identify any specific impacts of this nature however the financial, economic and social crisis facing the Council will impact on spending which in turn will significantly affect services, and demand for services, across the Council. Future budget revisions will need to consider mitigation of any negative impacts for people with protected characteristics.
- 3.4 There are no specific Climate Change / Carbon Clever or Gaelic implications arising as a direct result of this report. Future budget revisions will need to consider the Council's climate change ambitions and commitments.
- 3.5 At this time the level of risk the Council faces is greater than ever before. The risks cover those to our staff and their health and wellbeing, to the health, safety and wellbeing of our communities and risks to the provision of essential Council services. This report focuses specifically on the potential financial impact of the Covid 19 crisis and there are so many variables and future uncertainties that forecasting, and modelling is impossible to do with any accuracy. There is a significant risk that any particular scenario that the Council chooses to plan for may be significantly different from what actually transpires.

4. Covid 19- financial impact

- 4.1 Members have, to date, received two formal reports on the potential impact of Covid 19 on the Council's 2020/21 budget, at Corporate Resources Committee on the 3 June and at the Highland Council meeting on the 25 June. Links to both papers are provided in the background papers section of this report.
- 4.2 Given the rapidly changing financial landscape it is impossible to say with any certainty at this stage what the financial impact of Covid 19 on the 2020/21 budget will be. In certain areas matters are changing on a daily basis and the figures reported here reflect those reported to COSLA in late June. Since these figures were compiled certain things have changed which will definitely impact on the reported gap, such as emerging government guidance around education return.
- 4.3 The figures reported to COSLA, and in this report, reflect the completion of a pro-forma issued to all Scottish local authorities with a standard set of key assumptions. The key assumptions reflect:
- Lockdown - March-May 2020
 - Phase 1 - June 2020
 - Phase 2 - July 2020
 - Phase 3 - August to December 2020
 - Phase 4 - January to March 2021
- 4.4 **Appendix 1** provides a summary of the COSLA return with the financial impact of Covid 19 split across 5 key areas:
- Mobilisation costs- principally the costs of the initial response activity
 - Lost income- budgeted income from fees, charges and recharges not expected to be delivered
 - Challenges in delivering approved savings- planned savings activity not expected to be delivered due to Covid 19
 - Recovery costs- additional costs associated with the return to 'normal' activity over the remainder of the financial year
 - Reduced costs- costs saved in specific areas as a result of lockdown

The presentation in **Appendix 2** provides further detail.

- 4.5 Overall, the COSLA return shows a revised budget gap figure of £47.697m, prior to the application of any additional government funding. This budget gap figure remains under constant review and a further update will be reported as part of the Council's Quarter 1 revenue monitoring and brought back to the September Council meeting. It is hoped that the budget deficit figures reported there will have improved from those reported here as the actions taken by Council to mitigate any additional costs will be incorporated.

5. Additional funding from government

- 5.1 Appendices to the June Council report provided details of additional government funding that have been made available. Many of these funding streams are for distinct purposes and cannot be used to meet the budget gap identified in this paper.
- 5.2. In addition to the funding streams identified in the June Council report confirmation of further funding in relation to Phase 2 of the food fund has also been received. This funding is intended to continue the provision of free school meals during the summer

holiday period as well as food provision to vulnerable people to the end of September (with the latter detailed in a separate report to this meeting of the Council).

5.3 The funding streams outlined below can all be used to offset costs included in the reported budget gap figures. The Council has received formal confirmation of all of these funding streams:

- Hardship fund- Highland share £2.373m
- Food fund (tranche 1)- Highland share £1.119m
- Food fund (tranche 2)- Highland share £1.114m
- Additional funding support for local government- Highland share £7.357m

5.4 After the application of this confirmed additional funding to the gross budget gap figure a net budget gap of £35.734m remains.

	£m
Gross budget gap per COSLA return (Appendix 1)	£47.697m
Less: Additional confirmed government funding	-£11.963m
Net budget gap	£35.734m

5.5 As outlined in section 6 below the UK government has made further funding support schemes available for local authorities. Whilst we await the details of the schemes and their applicability to Scotland any additional funding received will help close the budget gap.

6. Further mitigation of the budget gap

6.1 This report does not at this point propose any further actions as to how any budget gap may be managed, the context of which was reported to the Highland Council on the 25 June. In short, the options open to the Council to mitigate the budget gap are:

- Curtailment of spend through management action
- Use of additional government funding
- Repurposing of budgeted investment funds
- Not rebuilding reserves as budgeted
- Repurposing of ring-fenced funding
- Lobbying government for additional funding or increased flexibility
- Use of Reserves

A report will be provided to Council in September that will provide both an updated assessment of the budget gap along with specific proposals to close the gap.

6.2 Since the previous Council meeting the UK government has, on 2 July, made a further announcement on funding for local authorities. This funding has two constituent parts:

- Cash funding for local authorities
- A scheme to recompense Councils of 75p for every £1 of lost income

Full details of the schemes, and their applicability to Scotland, is awaited. Both have the potential to significantly reduce the budget gap.

A link to the UK Government announcement is provided below:

<https://www.gov.uk/government/news/comprehensive-new-funding-package-for-councils-to-help-address-coronavirus-p pressures-and-cover-lost-income-during-the-pandemic>

- 6.3. Whilst the reducing gap now appears to be more manageable in light of internal actions and decisions taken and government funding schemes confirmed and proposed, Members are still reminded that a hugely significant level of risk still remains. The financial impact of a future lockdown period is likely to be significant and the closer any lockdown happens to financial year end the less ability there will be to take actions to mitigate the gap. As such having a significant level of uncommitted reserves to mitigate any such eventualities may be a prudent approach to take.

Designation: Executive Chief Officer - Finance and Resources

Date: 15 July 2020

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/76701/item_6_annual_accounts_2019_2020_and_revenue_budget_202021

https://www.highland.gov.uk/download/meetings/id/76661/item_5_covid-19_financial_resilience

	Estimated Total Budget impact £'000	Explanation of impact- costs not allowed for when budget approved in March or expected shortfalls in income
LG Mobilisation Costs		
Social Care Costs Outwith Remit of IJBs	1,663	Immediate costs of Covid response services for key worker childcare and additional social costs incurred in relation to children's social work during lockdown period
Housing and Support to Vulnerable Communities	5,594	Full year costs relating to homelessness support, free school meals and food and other support to vulnerable groups. Some of these costs will be offset by specific additional funding.
Workforce Costs (excl IJB workforce)	587	Principally cost of supply teacher retention payments but also overtime and other staffing related costs.
Non-Workforce Costs	2,841	Costs of increasing workload in welfare benefits administration, IT costs associated with rates billing/digital learning, emergency property costs, refrigeration fleet hire,
	10,685	
Lost Income & Other Costs		
Closures	5,471	Income lost from school meal sales, ferry services, wraparound care, commercial rental, facilities letting
Fees and Charges	10,895	Income lost from waste, garden waste, harbour dues, public conveniences, car parking, marine fuel margin, registration fees, licencing fees, planning fees
Other Costs and Lost Income	1,806	Income lost from grounds maintenance recharges, quarry income, lower than budgeted increase in billable properties for Council tax
	18,172	
Challenges in delivering approved savings		
Value of savings at risk	6,638	Total value of approved budget savings now at risk of delivery due to Covid 19. Non-delivery of savings will create a budget pressure
	6,638	
Recovery Costs		
Education	8,166	The additional costs associated with schools returning from August relating to transport, IT, food, PPE, cleaning, additional staffing/cover costs and property recommissioning costs
Early Learning and Childcare	0	
Waste and Environment	86	
Culture and Leisure	3,040	Potential financial support to HLH to offset income loss due to closed facilities
Vulnerable Communities	0	
Non-delegated social care	1,960	Forecast full year impact on children's services budgets as breakdown of family situations leads to additional costs
Office estate, etc.	2,300	Costs associated with recommissioning property estate (including water systems), increased building cleaning requirements, changes in community hub arrangements
Test, protect & shielding	0	
	15,552	
Adverse budget impact	51,047	
Reduced costs	-3,350	Savings arising naturally due to lockdown- school meals food costs, vehicle fuel costs, travel costs, utility costs
Net overall budget impact	47,697	

Impact of Covid-19 on council budget

COSLA financial return June 2020

Budget gap estimates

Various different scenarios for the budget gap have been estimated/reported:

- £96.9m- Worst case scenario- based on full year lockdown (reported to Resources Comm 3/6/20)
- £65.7m- 'Mid-case' scenario- based on second lockdown Oct-Dec (reported to RC 3/6/20)
- £47.7m- 'Current' scenario- based on gradual easing of lockdown and no regression

Assumptions

All the budget gap figures reflect our best estimates at a particular point in time. There are so many variables it makes forecasting nigh on impossible:

- How will lockdown restrictions ease?
- What will societal impact be and how will this impact on demand for Council services?
- What additional services will government ask us to provide (and will they fund them)?
- Will our contractual costs increase?
- How quickly will our income streams recover?

Revised assumptions

The full impact to date of Covid 19 will be assessed as part of our quarter 1 revenue monitoring. This will be reported to Resources Committee on 12th August.

The revenue monitoring position reported to Resources Committee will represent a further update of the estimated budget gap as a full year outturn forecast will be reported.

Again, the forecast outturn position will be based on many assumptions about what will happen in the remainder of the year, which may change significantly.

A second lockdown represents a high-value risk.

'Current' £47.7m budget gap

Current figures based on COSLA return late June and reflect:

- Lockdown- March-May 2020
- Phase 1- June 2020
- Phase 2- July 2020
- Phase 3- August to December 2020
- Phase 4- January to March 2021

Any reversion to full lockdown will have a significant adverse impact on the budget gap

'Current' £47.7m budget gap

Figures split across 5 key categories:

- Mobilisation costs- principally the costs of the initial response activity
- Lost income- budgeted income from fees, charges and recharges not expected to be delivered
- Challenges in delivering approved savings- planned savings activity not expected to be delivered due to Covid 19
- Recovery costs- additional costs associated with the return to 'normal' activity over the remainder of the financial year
- Reduced costs- costs saved in specific areas as a result of lockdown

'Current' £47.7m budget gap

Figures split across 5 key categories:

- Mobilisation costs- **£10.7m**
- Lost income- **£18.2m**
- Challenges in delivering approved savings- **£6.6m**
- Recovery costs- **£15.5m**
- Reduced expenditure- **(£3.3m)**

Overall impact £47.7m

Mobilisation costs- £10.7m

Mobilisation costs mainly reflect the additional costs incurred (or effectively incurred) in the initial lockdown phase and the cost of continuing certain specific Covid response activity into the remainder of 2020/21 and include:

- Key worker childcare and additional children's social care costs- £1.7m
- Housing, free school meals and support to other vulnerable groups- £5.6m*
- Workforce costs, biggest element supply teacher retention payments- £0.6m
- Various welfare, property, ALEO, third sector, refrigeration fleet- £2.8m

* Some of these costs, particularly food-related, will be offset by additional government funding (see later slide for funding detail)

Lost income- £18.2m

The largest individual element of the budget gap relates to income lost as demand for Council services that generate fee and charge income has disappeared or diminished. Areas of particular concern include:

- Commercial rental income £0.8m
- Food and drink sales £2.3m
- Ferry income £1.2m
- Waste income £3.8m
- Harbour dues and marine fuel sales £1.0m
- Parking income £2.0m
- Planning income £1.8m

In 20/21 Q1 fee, charge and recharge income was £9.1m lower than for Q1 in 19/20 (£20.5m compared to £29.6m)

Non-delivery of planned savings

As reported to Highland Council on 25th June (Appendix 2 to Council report) a significant number of approved budget savings have been rated 'red' or 'amber'.

Savings in these categories are ones that, as a result of Covid, will be more challenging, or impossible to deliver. Non-delivery of planned budget savings will add to the budget gap.

Many of the savings that we will struggle to deliver relate to planned income generation activity.

£6.6m of savings are rated 'red' or 'amber', but it is hoped that some savings will be partially delivered, reducing this area of budget pressure somewhat.

Recovery costs- £15.5m

The costs of returning to 'normal' service levels over the remainder of the year:

- Education- £8.2m*
- Waste- £0.1m
- Culture and Leisure- £3.0m
- Children's social care- £2.0m
- Office and property costs- £2.3m

None of these costs have been incurred yet so all are estimates that require revision

*Cost of education return submitted to COSLA prior to HC Education committee.

Reduced expenditure (£3.3m)

Four specific areas of cost reduction that will naturally arise as a result of lockdown have been identified. More (although likely to be less significant) will be identified through the Q1 monitoring:

- School meals (food cost)- £1.7m*
- Fleet and fuel savings- £0.5m
- Energy usage savings- £0.2m
- Staff travel savings- £0.9m

*Cost saving will be tempered by lost income from meal sales as reflected on lost income sheet

Mitigations

Ways of mitigating the budget gap were reported to Council on the 25th June and included:

- Curtailment of spend through management action
- Use of additional government funding
- Repurposing of budgeted investment funds
- Not rebuilding reserves as budgeted
- Repurposing of ring-fenced funding
- Lobbying government for additional funding or increased flexibility (see next slide)
- Use of Reserves

No new approvals of mitigations are being sought at this stage- formal proposals to come to September Council

Confirmed government funding

All the following additional funding streams can be used to offset costs included in the budget gap figures:

- Hardship Fund- £2.373m
- Food fund (tranche 1)- £1.119m
- Food fund (tranche 2)- £1.114m
- Additional funding- £7.357m

Total confirmed funding £11.963m

The Council has received formal confirmation of these funding sources.

In addition certain flexibilities have been granted around other funding streams.

New government funding

On the 2nd July UK government announced two funding streams for local government:

1. Straight cash allocation to local authorities (Scotland to get £50m of Barnett consequentials)
2. Scheme to cover lost income- government to cover 75p in the £ of lost fee income (applicability to Scotland to be confirmed)

Both schemes are likely to require Scottish Government decisions on whether to replicate for Scotland- we will need to await full details being released.

20/21 impact- reduced costs

- Recruitment at or near zero- staff should be redeployed rather than employing new **BUT** very little turnover of staff.
- Agency and overtime costs minimised for the majority of services
- Severance / Redundancy lengthy formal process- savings would not be realised in year.
- Energy costs should reduce although cost-intensive winter period now passed and fixed contractual volumes

Not yet clear in which areas service will reduce giving savings but many costs are fixed e.g.

- £300m of contracted staff
- £105m NHS payment
- £56m loans charges
- £30m PPP contract

Although many services are not needed we are required to continue payment- e.g. school transport, early years partner providers, PPP schools, CCFM (fixed staffing costs)

Key Messages

- Budget gap of £47.7 M – best estimate at this moment in time
- Offset by confirmed additional government funding of £12 M
- Message from SG clear – no further monies unless UK govt provide (hopefully more may come)
- Over £30 M for the council to find
- Reserves currently £15 M (but any use to meet gap would limit ability to pay for staff reductions in 2020/2021)
- Resolution lies in contract removal ; service reduction or holding back on areas identified for investment
- Very few choices ; we are in the same position as many businesses ; not a time for expansion – survival first