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**REPORT TO:** East Lothian Council (COVID-19 Emergency Recess Arrangements)

**MEETING DATE:**

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** COVID-19 – Financial Management Update

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## **1 PURPOSE**

- 1.1 To provide an update on the financial implications for the Council relating to the current COVID-19 outbreak. The report will include: details setting out the package of financial support currently provided from the Scottish Government to support the COVID-19 outbreak; the emerging financial implications and pressures for Council relating to COVID-19; the response from the Council to date; and the process for the preparing the 2019-20 consolidated financial position.

## **2 RECOMMENDATIONS**

- 2.1 The Council is recommended to:
- Note the package of financial support provided by the Scottish Government to date;
  - Note the emerging financial implications and pressures for the Council relating to COVID-19;
  - Note the process for preparing the 2019-20 consolidated financial position including submission of the unaudited accounts.
  - Note the intention to provide more detailed quarterly financial reviews that may in turn require revision to the Council's approved Financial Strategy.

### **3 BACKGROUND**

- 3.1 The Council's financial strategy and associated financial plans for 2020/21 and beyond were approved on and prior to the 3 March 2020. These plans were supported by significant revenue streams including; Council Tax and rental income, and included the delivery of a wide range of savings proposals and efficiencies amounting to £5.5m over the next 3 years and £3.2m in 2020/21. A summary of the planned savings is set out in **Appendix 1** of this report.
- 3.2 Since then, the impact of the COVID-19 outbreak and our response to support both the workforce and community has had a significant impact on the Council's financial plans. It is unlikely budgeted income streams for the Council will be fully realised during the year, that additional costs will be incurred in excess of approved budget, and that agreed savings and budget pressures may not be fully deliverable.
- 3.3 The Council has managed to support much of its workforce to operate flexibly and remotely to support the delivery of many of the valued services that our communities rely on. In addition, the Council has managed to deliver and support a range of new initiatives including the establishment of Children's and Community Hubs, the co-ordination and delivery of food parcels to support those most vulnerable households within our communities, the processing and payment of business grants to support a wide range of organisations, and support to shielded individuals.
- 3.4 This support is facilitated and supported by our existing workforce, working alongside community partners and a growing number of volunteers. There are, however, additional financial implications arising from meeting these new obligations, as well as significant financial pressures arising due to the on-going COVID-19 outbreak, which will have very severe implications for current and future financial plans.

#### **Scottish Government Funding**

- 3.5 As at 15 April 2020, the Scottish Government had received over £3.365bn of consequential from the UK Government to support the COVID 19 outbreak. More recently, a further £155m has been announced following on from an additional £1.6bn of funding made available for English councils. A summary of the main package of financial support provided to Scottish councils is set out below, with more information provided in **Appendices 2 and 3** of this report.
- On 18 March 2020, the Scottish Government announced a package of support to communities. This included: a package of Non-Domestic Rates relief for retail, hospitality and leisure sectors, which increased the General Revenue Grant to councils by £1bn and reduced the NDR estimate by £1bn (effectively cost neutral); a £1.2bn package of support for grants to business; and a £350m package of financial support to communities some of which would be directed through local authorities.

- In addition, the Scottish Government announced a further £220m of funding on 15 April 2020; £120m to extend the support to the Business Grant scheme eligibility, and the remaining £100m to support self-employed and micro and SME businesses in distress due to COVID-19. From this, £34m will be directed and supported through local authorities to provide grants to self-employed with the remaining £66m through Enterprise Agencies.
- In addition, the Scottish Government has recently received a further £155m of consequential as a direct result of £1.6bn of funding which was announced to support English councils. Following on from significant pressure applied by COSLA, the Cabinet Secretary for Finance has now indicated these will now be passed onto Scottish councils in full albeit that at the time of writing, distribution of the funding has yet to be determined.

3.6 Whilst overall a large proportion of the £3.365bn is deployed through local authorities, only £80m has been made available to directly bolster the work of councils to support communities (£50m Hardship and £30m Food Fund) in a locally responsive way but this will clearly not be sufficient as lockdown continues. This equates to £1.412m for East Lothian Council comprising Hardship Fund £0.965m and Food Fund £0.447m. In addition, we are currently awaiting further confirmation around the distribution and any direction for the use of the additional £155m national funding.

### **Other National Funding Implications**

3.7 During this time, officers have continued to engage with COSLA to support the wider and national discussions with the Scottish and UK Government. A summary of the key issues which are currently being pursued is set out below:

- The pursuit of wider assurances and financial resources to be provided to local government to appropriately meet the financial cost to support communities during the COVID 19 outbreak, and to ensure on-going financial resilience and sustainability.
- In order to support this, COSLA requires all councils to complete a financial template that will be used to inform the national discussion. The first template has been submitted, with all returns currently being reviewed and validated for consistency by a sub-group of Directors of Finance prior to discussions with Scottish Government. It is anticipated that this template will be updated every 2 weeks.
- The majority of the immediate costs to support Health and Social Care is reflected within Local Mobilisation Plans that have been prepared by the Health and Social Care Partnership and co-ordinated through NHS Boards. Assurances has been provided that funding will be made available to support the response to COVID-19 aligned to plans. We are monitoring this overall position aligned with the wider COSLA template.

- 3.8 Members will also be aware that the Scottish Government have currently put on hold plans to fully implement 1140 hours from 1 August 2020. Scottish Government have confirmed flexibility in the use of funds to support children and families during the COVID-19 pandemic, including support for partner providers to help ensure they remain viable and able to play their part in future delivery of the programme. The implications of this programme delay and funding amendment is still being fully considered, and more details will be provided in due course. A separate report is currently being developed by the Acting Head of Education.

### **Financial Implications / Pressures for East Lothian Council**

- 3.9 The Council has already responded in a positive approach to support the community, with a summary of the key financial actions/responses set out below:

- Enhanced arrangements to pay our providers / suppliers as quickly as possible;
- Administration and payment of business support grants in line with new national guidance and very tight timelines;
- Initial allocation of £0.1m directed through Area Partnerships to support the provision of food to vulnerable households, with the remaining balance to be allocated based on evidence need and priorities;
- Application of new national NDR reliefs for 2020/21 and a wide range of support to businesses across East Lothian working collectively across Council services;
- Enhanced support to Council 'ALEO / Group Components' to consider implications arising from COVID 19 and wider support which can be provided by the Council;
- Supporting key contractual arrangements / obligations across Council services in line with national procurement advice and guidance; including; Early years Partner Providers, Bus Operators and Care at Home providers.
- Flexibility to any commercial property where East Lothian Council is the landlord to offer rental deferment of up to 6 months with the option of repaying the rent in full over a maximum 18 month period.
- The Council continues to promote and encourage all customers to pay in line with expectations, with updated advice/guidance and support provided to customers who are experiencing difficulty/hardship during this period. The Council will not pursue any new recovery actions relating to outstanding debt during this current period, but will work flexibly with customers to ensure that we recover and minimise any impact to the Council as much as possible.

3.10 The financial impact of COVID-19 for the Council is very significant. The recently approved budget plans are supported by significant revenue streams including; Council Tax and rental income, much of which will now be difficult to fully realise. In addition, the Council has already delivered over £31m of efficiencies in recent years with a further £5.5m planned across the next 3 years, much of which will now not be delivered. Work is currently on-going to identify and quantify the full impact upon the Council and to identify any mitigation that can be put in place. More detailed updates will be provided to members on the implications through our quarterly financial review process, taking cognisance of the Council's approved budget and planned savings.

3.11 A summary of a wide range of enhanced financial pressures, a summary of the extent of which is set out below:

- The Council's approved budget plans are supported by significant revenue streams including Council Tax and Rental income. We are already seeing signs of strain relating to the ability to recover in full these income streams, and support is offered to individuals who are not able to pay to mitigate the extent of the impact on customers and the Council. In addition, given the forecasted growth across East Lothian, both revenue streams yield is predicated on the delivery of a number of new additional properties. Due to the current closedown of construction, it is likely that this will not be realised. Given council tax accounts for approximately 25% of the Council's revenue stream, and rental income affects the total HRA expenditure, the impact of this may be significant and impact not only on 2020/21 but for future years.
- The approved budget plans included the delivery of £5.5m of planned savings, £3.2m of which were planned to be realised in 2020/21 through enhanced income streams or reduced staff turnover. The ability to increase income in the current economic climate and on-going lockdown will be challenging, and there is likely to be an impact on staff turnover during the continued COVID-19. Whilst it is still expected that some of the planned savings will be realised, it is likely there will be a shortfall in 2020/21, creating a recurring pressure going forward.
- The costs associated with support and mobilisation of the workforce to operate remotely and undertake our obligations is significant. This includes additional IT infrastructure, hardware and software, as well as developing new requirements such as the establishment of a new software platform to support the Shielded requirements.
- There is likely to be a significant impact on the ability to deliver the approved capital programme in line with existing plan, due to the current closedown of all construction related activity. In addition, there are risks associated with the timing and payment of developer contributions necessary to support the capital projects. This will impact

on our financial plans and budgetary assumptions for 2020/21 and subsequent financial years.

- There are emerging cash flow implications associated with the non-realisation of anticipated funding streams set out above. This may require the Council to borrow more than we had anticipated in order to fully meet any enhanced creditor obligations. It should be noted that the Council cannot borrow for revenue purposes as set out in our Treasury Management Strategy and therefore all cash flow implications will continue to be closely monitored.
- There are limited opportunities for the Council to save money during this current period, with much of our expenditure obligations already committed.
  - In accordance with a range of UK and Scottish Government expectations, all staff continue to be paid with many deployed to support our response to COVID-19. Staff costs amount to over 60% of the Council's total cost base, with additional expenditure commitments emerging relating to the payment of supply and casual workers.
  - We are continuing to make a number of our contractual payments to key and essential providers. Examples include supported bus contractors, early year providers and PPP obligations.
  - Much of our existing income streams included within the net budgets are adversely impacted including: commercial rent, school meal income and almost all other fees and charges.
  - The Council will continue to monitor any expected savings within the monthly financial reviews, but it is expected these will be minimal relative to meeting the on-going financial commitments of the Council.
- Many services are now experiencing a wide range of financial pressures some of which will lead to increased costs. Examples of this include: waste disposal contract and the loss of significant dividend payments from Lothian Buses due to the economic downturn.
- Many of the Council's buildings are currently not in use and there may be additional costs for the Council required to bring them back into operation. This may include additional safety and health checks and supporting steps taken to make them better able to support social distancing as we move from response to recovery.

- The ability for all of the Council's trading activities (Property Maintenance, Roads and Facilities Management) to deliver the planned budgeted surplus is significantly impacted. For 2020/21 it was expected that over £1.8m would be returned as surplus to the General Fund but with severely restricted trading, the ability to recover this in full is now significantly at risk.
- In addition, much of the Council's workforce has been mobilised to support the response to the COVID-19, including supporting a number of activities which the Council would not traditionally undertake such as: payment of new business grants, supporting shielded individuals, mobilising mass fatality plans, and supporting children's and community hubs. Additional staffing costs have been incurred to support these new requirements, and whilst many staff are working flexibly to support our response, there remains an inevitable impact upon the normal work which is not being progressed and this may impact on the Council's ability to recover and deliver planned savings in line with previous plans.

- 3.12 The implications and scale of financial 'asks' on the Council are significant, and likely to increase further as the implications of COVID-19 evolves. The most recent COSLA return, submitted from East Lothian indicated that the financial implications for the Council projected until the end of June will exceed £6.6m, and the risk of this increasing further is significant. What remains clear is that the sum of these 'asks' will undoubtedly exceed the level of resources which has been made available to the Council to date. The Council is focussing on prioritising our support and maximising effective use of financial resources as well as working with communities including business to access, and maximise all funding that has been made available to them.
- 3.13 COSLA has recently indicated in its most recent briefing provided to Scottish Government Ministers that the national budgets approved in March 2020 will need to be reviewed. They have indicated that they would expect Scottish Government to revisit its budget over the coming months and to recognise that Local Government is at the heart of response, recovery and regeneration and provide them with necessary support – this will require investment, a move to multi-year budgets and more flexibility around the work required locally to best meet shared outcomes.
- 3.14 It remains unclear as to whether this approach will be fully supported, but without question, there are some very significant challenges facing the Council and it is unlikely we will be able to deliver current and on-going obligations within existing financial plans. The scale of challenge already faced along with what may lie ahead will require a significant review of all approved financial plans for 2020/21 as part of our in-year financial reviews, and this may also require modification to the Council's approved financial strategy.



## **Financial Accounts 2019/20**

- 3.15 The timelines relating to the production and approval of annual accounts is set out in statute, which includes:
- Draft accounts for East Lothian Council and its group components to be completed, and issued to Audit by those charged with governance, no later than 30 June in each year.
  - Final audited accounts to be approved and signed off by those charged with governance by end of September in each year.
- 3.16 Due to the on-going COVID-19 situation, Finance officials have engaged proactively with External Audit seeking clarification relating to statutory implications and audit expectations and requirements. To date the position from Audit Scotland is summarised below:
- There are no changes to the current deadlines which are set for the production of the statutory accounts, but auditors remain supportive of a pragmatic and flexible approach which takes account of local circumstances;
  - Where statutory deadlines are not achieved as a result of COVID-19 issues, audited bodies will be required to disclose the circumstances;
  - Audit Scotland have clearly stated that the current situation will not undermine the delivery of high quality audits although there would appear to be an acceptance that normal timescales may not be met.
- 3.17 Through discussion with our External Auditors and the Council Management Team, it has been agreed to progress with the production of the 2019/20 accounts as a critical activity for the Council in line with the existing timeline. This will provide clarity on 2019/20 financial outturn, which will be important, and allow attention to be focussed on addressing the collective financial challenges arising as result of responding to COVID-19. Political Group Leaders have already been provided with an update on this position.
- 3.18 Whilst all efforts will be made to deliver the accounts within these timescales, there are many key dependencies to support this critical activity, including the resilience of the Finance team and other key service officers. Should any significant staffing challenges arise within the team which may compromise the ability to deliver the accounts, these timescales may be required to change.
- 3.19 It is expected that the necessary governance requirements included within the Council's draft accounts will be considered by Audit & Governance Committee under special arrangement in middle of June. It is also expected that the emerging 2019/20 year-end review and draft accounts for submission to Audit, will be considered formally as part of the planned Council emergency recess arrangements at the end of June.

#### **4 POLICY IMPLICATIONS**

- 4.1 There are no direct policy implications associated with this report although ongoing monitoring and reporting of the Council's financial performance is a key part of the approved Financial Strategy.

#### **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – as described above
- 6.2 Personnel - none
- 6.3 Other – none

#### **7 BACKGROUND PAPERS**

- 7.1 Council 11 December 2018 – Item 5 – Financial Strategy 2019-24
- 7.2 Council 12 February 2019 – Item 2 – Administration Amendment General Services budget proposals
- 7.3 Council 12 February 2019 – Item 3 – Administration Amendment Rent Proposals
- 7.4 Council 27 August 2019 – Item 5 – 2019-20 Quarter 1 Finance Review
- 7.5 Council 29 October 2019 – Item 4 – Financial Review 2019-20 (Period 5)
- 7.6 Council 17 December 2019 – Item 3 – Financial Review 2019-20 (Period 7)
- 7.7 Council 25 February 2020 – Item 6 – Financial Review 2019-20 (Quarter 3)

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<b>DATE</b>	11 May 2020



## **Appendix 1 – Approved Savings Plans**

<b>Area</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>TOTAL £'000</b>
Corporate	2,000	830	325	<b>3,155</b>
Service	1,213	657	504	<b>2,374</b>
<b>TOTAL</b>	<b>3,213</b>	<b>1,487</b>	<b>829</b>	<b>5,529</b>

## **Appendix 2 – Scottish Government Package of Support 18 March 2020**

### Non-Domestic Rates

- 1-year rates holiday (100% relief) for all retail, hospitality and leisure properties, from April.
- 1.6% NDR relief for all properties across Scotland, from April.
- A new Local Government Finance Order to approve the NDR estimate reduction of £1bn and an increase in General Revenue Grant of £1bn.

### Grants to businesses

- £10k grant for all businesses qualifying for Small Business Bonus Scheme, eligible for rural relief or nurseries relief, from April.
- £25k grant for businesses in hospitality sector for Rateable Values between £18,000 and £51,000 from April.
- Total cost: £1.2bn with 120,000 businesses eligible.
- Councils will administer the grants and they will not be application based.

### Support to Communities

One off £350m package of measures:

- £50m hardship fund for Local Government with full flexibility.
- £45m additional funding for Scottish Welfare Fund, administered by Local Government for Community Care and Crisis Grants. This is in addition to the current £35m annual funding.
- £50m for increased eligibility for social security benefits and increased cost to the Council Tax Reduction Scheme.
- £70m food fund for organisations to address food insecurity, especially for older people, and families who may not be able to rely on free school meals, to be delivered through Councils.
- £50m wellbeing fund for 3rd sector partners, provided directly to third sector.
- £40m supporting communities fund to address social isolation, distancing etc, to go to community groups.
- £20m for a Third Sector Resilience Fund, to address business health of third sector organisations.
- £25m reserve held by Scottish Government.

## **Scottish Government Package of Support – 15 April 2020**

- £120m to extend the current Business Grant Scheme eligibility, ensuring that in addition to a 100% grant on the first property, small business rate payers will be eligible to a 75% grant on all subsequent properties. Changes will also be made so that small sports clubs, properties in receipt of Enterprise Area relief and ALEOs will be eligible.

- £100m to be made available to protect self-employed people and viable micro and SME businesses in distress due to COVID. This fund will be channelled through local authorities and enterprise agencies to target newly self-employed people and businesses who are ineligible for other Scottish Government or UK Government schemes.
  - £34m to support self-employed people, with more detail / guidance expected shortly with a view to commencement of the scheme by end April;
  - Remaining £66m will be routed through Enterprise Agencies.

### Appendix 3 – East Lothian Council Implications

Scottish Government Announcement 18 March 2020			
Detail	Total National Funding	Total ELC Funding	Additional Comments
Non Domestic Rates Relief	£1bn	NDR (£9.508m)  GRG + £9.508m	<ul style="list-style-type: none"> <li>• Neutral position to the Council</li> </ul>
Grants to Support Business	£1.2bn	£16.69m  Potential to increase to max of £20.9m	<ul style="list-style-type: none"> <li>• Ring fenced funding with 80% currently paid to local authorities.</li> <li>• ELC have confirmed that grants will be paid initially up to the current confirmed quantum of £16.69m pending further clarity on future funding.</li> <li>• Significant challenges relating to processing grant payments in line with Ministerial expectation of 10 days.</li> <li>• Enhanced support to focus on processing grants with over £11m paid to date.</li> </ul>
Hardship fund provided to support Councils	£50m	£0.965m	<ul style="list-style-type: none"> <li>• Non ring-fenced funding</li> </ul>

			<ul style="list-style-type: none"> <li>• Weekly financial returns provided by all services to Finance to monitor additional costs relating to COVID 19, including loss of income to the Council.</li> <li>• These returns are currently being reviewed by Finance – but this funding is unlikely to meet the full cost implications arising for the Council, the implications of which will continue to increase as the impact of COVID 19 continues.</li> </ul>
Scottish Welfare Fund – additional funding	£45m	£0.334m	<ul style="list-style-type: none"> <li>• Ring-fenced funding.</li> <li>• Initial allocation of £22m allocated to Local Authorities.</li> <li>• No specific detail provided as to the remaining £23m allocation – but indication that this will be ‘targeted to where it is most needed’.</li> </ul>
Increased eligibility for social security benefits and increased cost to the Council Tax Reduction Scheme (CTRS)	£50m	None to date	<ul style="list-style-type: none"> <li>• No specific details provided but it is understood that this will be used to establish a reserve to fund any additional requirements of the CTRS if demand exceeds the current national £351 million.</li> </ul>



Food Fund to support Food inequality	<p>£70m</p> <p>(£30m to local authorities – see comments)</p> <p>£30m to support food to shielded individuals</p> <p>£10m investment to 3<sup>rd</sup> Sector organisations</p>	£0.447m	<ul style="list-style-type: none"> <li>• £30m now allocated to Local Authorities (£15m to support households in receipt of free school meals and £15m to support vulnerable families)</li> </ul> <p><u>Free school meals</u></p> <ul style="list-style-type: none"> <li>• The funding will be used to offset the costs of supporting and distributing free school meals to those currently in receipt of FSMs</li> </ul> <p><u>Support to Vulnerable Households</u></p> <ul style="list-style-type: none"> <li>• £0.1m initially distributed to Area Partnerships to target a more localised approach to support food distribution to vulnerable households.</li> <li>• The remaining balance to be allocated in accordance with evidenced needs and priorities.</li> </ul>
Wellbeing Fund for 3 <sup>rd</sup> Sector	£50m	None – 3 <sup>rd</sup> sector	<ul style="list-style-type: none"> <li>• Scottish Government grants of between £5k - £100k</li> <li>• Fund is currently paused – with additional expressions of interests open from 7 May 2020</li> </ul>

Communities Fund	£40m	None – community Groups	<ul style="list-style-type: none"> <li>• Scottish Government funding to be made available to community groups to support small scale resilience</li> <li>• It is anticipated an initial £10m will be made available through Community Anchor Organisations although no detail has yet been provided.</li> <li>• No detail as to how the remaining £30m will be allocated / utilised.</li> </ul>
3 <sup>rd</sup> Sector Resilience Fund	£20m	None – 3 <sup>rd</sup> sector	<ul style="list-style-type: none"> <li>• Grants to be delivered through Firstport, Social Investment Scotland and Corra Foundation.</li> <li>• Provides grants up to £0.100m and 0% interest loan facilities</li> </ul>
Extension of Business Support Grant	£120m	None to date	<ul style="list-style-type: none"> <li>• Updated guidance available from 5 May 2020</li> </ul>
Support for new self-employed	£34m (£66m through Enterprise Agencies)	£0.336m	<ul style="list-style-type: none"> <li>• 60% paid to local authorities' remainder will be allocated based on review / monitoring of claims.</li> <li>• Grant claim now live</li> </ul>
<b>TOTAL</b>	<b>£2,679m</b>	<b>£18.772m</b>	

