

Members' Library Service Request Form

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Document Title	COVID 19 - Financial Update

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Additional information:

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Designation	Head of Council Resources
Date	2 July 2020

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REPORT TO: Members' Library Service

MEETING DATE:

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: COVID 19 - Financial Update

1 PURPOSE

- 1.1 To provide an update on the financial implications for the Council relating to the current and on-going implications of managing the response to the COVID-19 public health crisis.

2 RECOMMENDATIONS

- 2.1 To note the emerging serious financial implications facing the Council as a result of COVID 19, and also that a further robust review of the financial implications facing the Council will be carried out as part of our normal quarterly financial reviews with progress reported to Council in August.

3 BACKGROUND

- 3.1 An initial financial impact report was considered in May 2020, setting out the emerging financial implications and pressures arising from COVID, including the initial package of financial support provided by the Scottish Government to support the Council in its response.
- 3.2 This report, provides an update on the financial implications facing the Council, and sets this out within the context of the national response.
- 3.3 The Council has continued to respond pro-actively and continuously to support both the workforce and community during the on-going response. The range of support actions and activities has been far reaching, and includes facilitating the national response to support communities, as well as continuing to deliver essential services to the most vulnerable and ensuring the health and safety of both the staff and communities remains at the heart of our response.

3.4 As highlighted previously, the financial impact arising from COVID is significant and continues to grow as we support both on-going response and take preliminary steps towards recovery of vital public services. Despite an extensive package of financial support provided by Scottish Government to facilitate the local government and partnership response, the financial costs and pressures incurred to date along with those deemed necessary in future are significantly in excess of the additional funding being made available and are not containable within approved budget levels.

3.5 The Council has continued to feed directly into the national discussions between COSLA and Scottish Government in order to help inform national decision-making, and to ensure that full funding is provided to support the Council's response to COVID. All Scottish councils have now submitted a number of updates based upon nationally designed financial templates, aimed at providing a clear understanding of the cost pressures facing Councils arising from COVID. With an initial focus on the period April-June, the most recent submission made to COSLA has now extended the financial modelling to cover the full 2020-21 financial year. For East Lothian Council, the headline implications are set out below, with a supporting summary set out in **Appendix 1** of this report:

- The potential additional financial implications for the Council during 2020-21, net of additional funding made available by Scottish Government is currently estimated to be around £15 million.
- Due to the construct of the national template, this position excludes any impact arising from the potential loss of Council Tax revenue. Current revenue streams are significantly impacted, with a reduction of £0.850m at end of May relative to the same time last year. In addition, there remains a risk of further losses during the remainder of the year and also that additional anticipated yield due to what had been buoyant house building across East Lothian will not fully materialise which could give rise to a further pressure of up to £1 million.
- The reported costs exclude any pressures to support the Health and Social Care service provision, the cost implications of which are being captured separately with positive assurances from Scottish Government that appropriate funding will be made available through health related COVID 19 mobilisation plans.
- The template includes both the costs incurred by local government to support the response to COVID, as well as initial steps planned for the recovery of services that support the community. The most significant example of this being the costs required to facilitate and enable the safe return to school of pupils and staff in early August in accordance with national guidelines is now approaching £10 million. This matter was considered fully by the recent Education Committee held on 26 June 2020 with the Committee conditionally

approving Local Delivery Phasing Plans dependent upon securing full funding from national governments.

- The reported position also includes the estimated cost associated with lost income relating to closure of facilities and anticipated fees and charges. This is currently estimated to be around £4.5 million.
- In March 2020, the Council's approved 3-year budget 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 staffing/turnover savings. The ability to deliver all of these planned savings in this year has been severely compromised, with many of the related plans effectively placed on hold to enable the workforce to focus their attention and support upon the COVID response.
- Although it is hoped that covid impacts are mostly temporary, it is already clear that many of the pressures and financial implications will actually be recurring and may therefore stretch across a number of years.
- In addition, there is likely to be anticipated financial pressures arising within the HRA budget, with current rental income streams much lower than currently projected and current year rent arrears already increased by over £0.285 million.

3.6 As referenced earlier, the potential funding gap already takes into consideration the financial support provided by the Scottish Government. As highlighted in the previous COVID financial management report in May 2020, the Scottish Government initially received over £3.5bn of funding from UK Government to support their response to COVID, with a significant proportion deployed through local government, most notably to support grants and rate reliefs to businesses. As previously reported, only £235 million was made available directly to councils to support communities (£50m initial Hardship, £30m to support the provision of food to families in need. Towards the end of May, a further £155m was provided to Scottish councils as part of additional UK government funding. Collectively, this equates to overall support of £4.403m for East Lothian Council (£0.965m initial Hardship Fund, £0.447m Food Fund, and £2.991m additional funding). More details setting out the updated funding provided by Scottish Government is set out in **Appendix 2**. It is also anticipated that £27.6m of national funding is to be made available to local government to support the continuation of food provision over the summer, the details of which have yet to be confirmed.

3.7 Within various ministerial communications, the Scottish Government has confirmed flexibility in the use of funds previously made available to support both the implementation of the extended Early Learning and Childcare (1140 hours), previously planned for August 2020, as well as any funding received as part of the Scottish Attainment Fund. East Lothian Council does not attract wider Challenge Authority nor Challenge Schools

funding, and funding allocations received through the Pupil Equity Funding and 1140 hours have already been largely committed with limited spare resources available to support COVID related pressures.

- 3.8 It is now very clear and undisputed that the scale of the financial implications facing the Council relating to COVID is considerable with the funding gap currently estimated to be around £15 million and a high risk of this increasing further as we progress down the long road to recovery. Outwith COVID, the Council already faced significant financial pressures that had to be managed in 2020-23 arising from increased service demand. As the Council's Chief Finance Officer, I now consider it necessary to inform Councillors that unless the position changes dramatically with regard to the level of national government funding being made available to cover the costs of the council's response to this national public health crisis, the Council faces a financial challenge on an unprecedented scale. By statute, Councils are not able to operate on a deficit-funding basis and therefore the situation now requires a range of significant interventions designed to reduce our net operating costs that will clearly in turn have significant implications upon the delivery of local services.
- 3.9 As previously reported, a more detailed and robust review of the financial implications facing the Council will be carried out as part of our normal quarterly financial reviews and I will report progress made with this work to Council in August. Importantly, this will set the context for any decisions required to manage the financial commitments for the Council in both the short and medium term, including where appropriate any modification to the Council's approved financial strategy.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report, although, ongoing monitoring and reporting of the Councils financial performance is a key part of the approved Financial Strategy and this reports signals a significant risk that the financial strategy will require amendment in the near future.

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 Members Library Service 31 May 2020 – 61/20 COVID 19 Financial Management Update
- 7.2 Education Committee 25 June 2020 - Local Delivery Phasing Plan – Re-opening of Schools in East Lothian – Report by the Depute Chief Executive (Resources and People Services)

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DATE	2 July 2020

Appendix 1 – Summary of COVID Financial Implications - 2020-21

Area	Detail	Estimated Cost
Education Recovery	In line with mobilisation plan	£9.7 million
Lost income & other Costs	Includes: fees and charges, lost income from closure of buildings including rental income, and potential savings not likely to be achieved.	£6.7 million
Other service costs	Includes costs to support COVID response and	£2.9 million
TOTAL COST		£19.3 million
Less		
Scottish Government Funding received	Includes: initial Hardship Funding, initial Food Funding and share of national £155 million	(£4.4 million)
NET PRESSURE		£14.9 MILLION

Appendix 2 – East Lothian Council Implications

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"> • Neutral position to the Council
Grants to Support Business	£1.2bn	£20.9m	<ul style="list-style-type: none"> • Ring fenced specific funding • Applications open until 10 July 2020 • Weekly returns submitted to the Scottish Government
Hardship fund provided to support Councils	£50m	£0.965m	<ul style="list-style-type: none"> • Non ring-fenced funding
Scottish Welfare Fund – additional funding	£45m	£0.334m	<ul style="list-style-type: none"> • Ring-fenced funding. • Initial allocation of £22m allocated to Local Authorities. • No specific detail provided as to the remaining £23m allocation – but indication that this will be ‘targeted to where it is most needed’.
Increased eligibility for social security benefits and increased cost to the	£50m	None to date	<ul style="list-style-type: none"> • No specific details provided but it is understood that this will be used to

Council Tax Reduction Scheme (CTRS)			establish a reserve to fund any additional requirements of the CTRS if demand exceeds the current national £351 million.
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 3rd Sector organisations</p>	£0.447m	<ul style="list-style-type: none"> £30m now allocated to Local Authorities (£15m to support households in receipt of free school meals and £15m to support vulnerable families) <p><u>Free school meals</u></p> <ul style="list-style-type: none"> The funding will be used to offset the costs of supporting and distributing free school meals to those currently in receipt of FSMs <p><u>Support to Vulnerable Households</u></p> <ul style="list-style-type: none"> The funding has been allocated to Area Partnerships to target a more localised approach to support food distribution to vulnerable households.
Wellbeing Fund for 3 rd Sector	£50m	None – 3 rd sector	<ul style="list-style-type: none"> Scottish Government grants of between £5k - £100k

Communities Fund	£40m	None – community Groups	<ul style="list-style-type: none"> • Scottish Government funding to be made available to community groups to support small scale resilience • It is anticipated an initial £10m will be made available through Community Anchor Organisations although no detail has yet been provided. • No detail as to how the remaining £30m will be allocated / utilised.
3 rd Sector Resilience Fund	£20m	None – 3 rd sector	<ul style="list-style-type: none"> • Grants to be delivered through Firstport, Social Investment Scotland and Corra Foundation. • Provides grants up to £0.100m and 0% interest loan facilities
Extension of Business Support Grant	£120m	None to date	<ul style="list-style-type: none"> • No specific additional funding has been provided by the Scottish Government • Weekly returns are submitted to the Scottish Government which reflects the total value of grants paid to support business.

Support for new self-employed	£34m (£66m through Enterprise Agencies)	£0.336m	<ul style="list-style-type: none"> • 60% paid to local authorities' remainder will be allocated based on review / monitoring of claims. • Deadline for applications end of March 2021
National funding to support Local Government	£155m	£2.991m	<ul style="list-style-type: none"> • Non ring fenced funding and used to support COVID response
TOTAL	£2,834m	£21.763m	

