

SPECIAL ARRANGEMENTS COMMITTEE

23 JUNE 2020

COVID-19 – UPDATE ON FINANCIAL IMPLICATIONS AND CHANGE PROGRAMME

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report advises the Committee of the further work carried out by officers to assess the financial implications for the Council's budgets and those of key partners arising from COVID-19. An update on the Council's Change Programme is also provided. The report also identifies some of the challenges which will have to be taken into account in our financial planning for the remainder of financial year 2020/21.

1. RECOMMENDATIONS

1.1 It is recommended that the Committee:

- (i) Notes the initial nature and estimated scale of financial implications arising from the updated assessment outlined in this report;
- (ii) Notes the update on the Council's Change Programme;
- (iii) Reviews and scrutinises the content of this report and provides any commentary considered appropriate at this time; and
- (iv) Notes that more detailed work to revise the Council's 2020/21 budgets will get underway shortly once the draft Annual Accounts process has concluded;
- (v) Agree that special repayment of debt planned for financial year 2019/20 be deferred meantime for the reasons set out in Section 10.

2. ALIGNMENT TO THE COUNCIL PLAN

2.1 The proposals set out in this report will contribute to the outcomes outlined in the Angus Council Plan 2017-22, which focus on the Economy, People, Place and our Business.

3. BACKGROUND

3.1 Reference is made to Report 143/20 - COVID-19 – Update on Implications for Council Plans and Budgets submitted to the May meeting of this Committee. Within that report Members noted an intention to bring an updated assessment of 2020/21 financial implications from COVID-19 – Council and Key partners to the June meeting. An update on the Council's Change Programme was also to be brought to the June meeting.

3.2 This report provides the latest estimate of the financial impact on the Council's budgets for the period 1 April to 30 June 2020. Work to assess the financial impact for the whole of 2020/21 will begin shortly based on our recovery plans and the new methods of service provision such as in schools which are in the process of being devised.

3.3 The significant financial impact already evident and uncertain environment from which to plan ahead are expected to make the 2020/21 financial year one of the most challenging as far as budget planning and monitoring are concerned. Members will appreciate that effective planning and monitoring of our finances is a core part of our financial governance.

4. CHANGE PROGRAMME UPDATE

- 4.1 Council agreed a Finance and Change Plan for 2020/21 to 2022/23 in February 2020. The Programme covers a wide range of activities including enabling projects, investment projects and programmes of work intended to deliver financial savings.
- 4.2 COVID-19 has already had a significant effect on the Change Programme we planned to deliver in February because officer time has had to be diverted to responding to the pandemic. The Programme is also impacted by the changed economic and social environment which the Council and partners now operate within.
- 4.3 In normal course a full update on the Change Programme is brought to the Scrutiny & Audit and Policy & Resources Committees on a quarterly basis. This has not been possible recently due to COVID-19 work taking priority but that regular cycle of updates will be reinstated as soon as possible after the summer recess. In the meantime this report provides a summary update on the Change Programme following review by senior officers and project leads.
- 4.4 Attached at Appendix 1 is the latest version of the Council's Change Programme set out under the headings of Economy, People, Place and Our Business in line with the Council Plan. In relation to the savings projects in the Change Programme project leads anticipate a significant impact on delivery in 2020/21 and 2021/22 at this stage. This is due to a combination of slippage in delivery timescales due to COVID-19 and concern that anticipated savings in some areas will no longer be achievable to the same extent due to economic factors.
- 4.5 Appendix 2 shows the movement in estimated Change Programme savings over the 3-year period from the Finance & Change Plan agreed in February to now. The table below summarises the position.

Table 1 – Change Programme Savings Movement

	2020/21 £000	2021/22 £000	2022/23 £000	3-Year Total
Savings Targets (February 2020)	10,244	8,405	8,281	26,930
Latest Estimates (June 2020)	9,032	7,770	8,543	25,345
(Reduction)/Increase	(1,212)	(635)	262	(1,585)

- 4.6 The movement across the 3-year period is clearly a concern in terms of the Council's medium-term financial planning but the 2020/21 position requires specific attention because it indicates that a large shortfall in our budget is now expected to arise. It is important not to view the Change Programme savings in isolation however and this updated position will be brought within the work to revise our 2020/21 revenue and capital budgets. Those budget revisions will also need to consider areas where additional investment is required to adapt to new methods of service delivery. The reduction in expected savings in 2020/21 has been reflected in the overall summary position in Section 8.
- 4.7 Specific attention is drawn to the assumed savings in Appendix 1 which were expected to come from our partners in the Angus Health & Social Care Partnership, ANGUSalive and Tayside Contracts in financial year 2020/21. Collectively the savings targets from those partners when the budget was set in February was just under £5m, i.e. around 48% of the total Change Programme savings target. With the exception of a change on the Tayside Contracts savings target the original targets have been retained for the time being, mainly because a full year assessment of the impact of COVID-19 is required for those partners. Members are advised that those original targets are considered to be an area of high risk for achievement to the full extent budgeted and in all likelihood some downward revision of the targets for those partners will be required in the coming months.

5. ASSESSING THE FINANCIAL CONSEQUENCES – ANGUS COUNCIL

- 5.1 Work to assess and monitor the financial implications arising from COVID-19 is continuing and the position will continue to evolve as more data and information about future service provision becomes clear. Report 143/20 suggested a financial impact from COVID-19 under the following broad headings:-

- a) Mobilisation/Immediate Response Costs
- b) Lost Income / Other Costs
- c) Reduced Costs
- d) Key Supplier Support Costs
- e) Capital /Construction Project Impacts
- f) Revised Service delivery arrangements and new duties following lockdown
- g) Test & Protect
- h) Increased need and service demand from some of our most vulnerable citizens

Section 8 of this report provides additional information on the estimated financial impact on each of the above.

- 5.2 In addition to the above officers also anticipate some negative impact on the Council's collection of Council Tax, Non-Domestic Rates, Rents and Sales Ledger invoices in 2020/21 given the widespread impact of the pandemic on the economy. By way of example at 31 May 2020 Council Tax collection was more than 1% less than for the same period in 2019, equivalent to around £0.6m in cash terms.

6. UPDATE ON IMPACTS FOR KEY PARTNERS

- 6.1 The Council is working with a wide range of partner organisations to deliver the COVID-19 response but for the purposes of this report a brief update on the following key partners is provided:-

- a) Angus Health & Social Care Partnership
- b) ANGUSalive
- c) Tayside Contracts

A detailed update on the above key partners was provided in Report 143/20 and that detail is not repeated here.

Angus Health & Social Care Partnership (AHSCP)

- 6.2 Although the AHSCP has its own budget to manage it relies on funding from Angus Council and NHS Tayside as funding partners. Significant financial issues for AHSCP are therefore potentially significant financial issues for the funding partners under the risk sharing arrangements set out in the Integration Scheme.

- 6.3 AHSCP continues to work with the Scottish Government to ensure appropriate funding adjustments are made to reflect COVID-19 as guidance on funding and overall COVID-19 resource implications continues to develop. Within this there remains a significant risk to the achievability of the full savings target included in the Council's budget and Change Programme for AHSCP in 2020/21.

- 6.4 At the time of writing the AHSCP estimate that for the period mid-March to 30 June 2020 a financial impact of between £3m and £4m will arise as a consequence of COVID-19. This includes an estimated impact from delayed delivery of planned savings. Members should regard this estimate as provisional in nature and subject to change. It is also likely that the COVID-19 financial impact for AHSCP will stretch well beyond 30 June and early estimates for the whole of 2020/21 indicate possible costs of £6m to £8m.

ANGUSalive

- 6.5 An application to HMRC under the Coronavirus Job Retention Scheme (CJRS) has now been made and paid covering the period 13 March to 30 April 2020 for a value of £298,000. This equates to approximately 45% of the full ANGUSalive payroll costs for that period and the Trust has funded the balance from its own funds. A number of factors affect the level of grant support for pay costs which is available, including that the CJRS covers only up to 80% of pay (to a maximum of £2,500) and 80% of associated Class 1 National Insurance Contributions but only 3% of pension costs. It was also the case in March and April that ANGUSalive staff were needed to support the response and so many could not be furloughed until more recently.

- 6.6 Applications to the CJRS for future months will also be made at the appropriate point in line with the Scheme rules which apply at that time. In line with Report 126/20 payment of the Council's

management fee to ANGUSalve for Quarter 2 has been made 1 month early (June instead of July) to protect the Trust's cashflow.

- 6.7 Despite the application to HMRC to furlough staff being successful the net impact on ANGUSalve's financial position for the period mid-March to 30 June 2020 is estimated at between £500,000 and £600,000 mainly due to lost income.
- 6.8 The Scottish Government's Route Map for easing the lockdown means that the majority of ANGUSalve services will remain unavailable until later phases and the manner in which services can reopen and the cost of measures to re-open safely will need to be considered. The Council's finance team are working with the ANGUSalve senior management team to assess the financial implications for the Trust for the 2020/21 financial year as a whole. This will inform whether the Council's planned management fee for 2020/21 will be sufficient or will require to be adjusted. Any proposed adjustments would be subject to Council/Committee approval.

Tayside Contracts

- 6.9 As a shared service provider on behalf of the 3 Councils Tayside Contracts has been significantly impacted by the cessation of many areas of service provision and the partner Councils have agreed to use existing budgets to cover fixed costs incurred by Tayside Contracts so that staff can continue to be paid.
- 6.10 Report 143/20 advised members that Tayside Contracts was in the process of applying to the CJRS for certain groups of staff. An application covering the period 1 March to 10 June for a value of £1.477 million was made and has now been approved by HMRC. Applications to the CJRS for future months will also be made at the appropriate point in line with the Scheme rules which apply at that time.
- 6.11 The support Tayside Contracts will receive through the CJRS will reduce the burden of fixed costs affecting the Council and has been reflected in the overall summary of COVID-19 financial implications later in this report.

7. ADDITIONAL FUNDING FROM SCOTTISH GOVERNMENT

- 7.1 Report 143/20 provided more detail but for ease of reference Table 1 below shows the additional funding which has so far been allocated to the Council to support the financial impact of COVID-19 on Council budgets.

Table 1 – Additional Scottish Government Funding

Funding Source	Angus Council Share £000
Hardship Fund	1,088
Food Fund	602
Additional Barnett Formula Consequentials	3,371
Weekend Death Registration Service	12
TOTAL	5,073

In addition to the above allocated to Angus Council the Angus HSCP have so far received £1.5m directly to offset COVID-19 costs across the whole partnership.

- 7.2 The Council will also receive additional funding to support specific activities including Scottish Welfare Fund Grants and Council Tax Reduction (CTR) awards. The above excludes national support arrangements including business and self-employed grants which the Council is administering on behalf of Scottish Government. All of these other sources of funding are ring-fenced and cannot currently be used to support general financial pressures on the Council's budget.

8. SUMMARY OF OVERALL IMPACT

8.1 Table 2 below summarises the main financial impacts as currently estimated. Unless otherwise noted all are based only on a three and a half month period from mid-March to 30 June 2020.

Table 2 – Summary of Overall Financial Impact 2020/21 Budgets to 30 June 2020

Area of Impact	Est. Value £m	Comments
Mobilisation/Immediate Response Costs	1.2	Expected to rise once May payroll and ledger data analysed further
Lost Income / Other Costs	1.2	
Reduced Savings – Change Programme	1.2	Figure is full year impact but expected to rise
Council Tax, Sales Ledger Collections	0.6	Early estimate
Reduced Costs	(0.7)	
Key Supplier Support Costs (beyond existing budgets)	0.1	Figure is a provision rather than a confirmed cost at this stage (Report 173/20 refers)
Support to Tayside Contracts (net impact on budget for physical works)	1.3	Early estimate net of CJRS payments
Revised Service Delivery Arrangements	Unknown	No significant costs for this expected before 30 June but could be significant beyond that date in some services. Impact on School staffing is contained in Report 179/20 for this meeting.
Test & Protect	Unknown	Costs to date minimal and contained in existing budgets, subject to further review but unlikely to be significant by 30 June
Additional Demand	Unknown	Still to be estimated – too early to assess fully
Sub-total Angus Council General Fund Revenue Budget	4.9	
AHSCP Issues (Potential AC Share of impact)	Nil	Currently assuming additional costs will be fully covered by additional Scottish Government funding but use of AHSCP Reserves may also have to be considered
ANGUSalve (funding gap which could require additional support from Angus Council)	0.6	Early estimate net of CJRS payments. No commitment made that Council would fund this gap
Total Potential Revenue Budget Impact	5.5	
Capital /Construction Project Impacts	1.2	Expect actual additional costs incurred by 30 June to be limited. Figure shown is initial estimate of total cost impact but only on a small number of specific projects including Arbroath Flood Prevention Scheme (Report 181/20 refers). <u>Value expected to rise significantly once all projects have been assessed.</u>
Estimated Impact on Housing Budgets	0.3	Expect costs on housing capital projects to increase once all have been assessed
Total Potential Impact on Council Finances to 30 June 2020	7.0	

8.2 Some of the £7.0m total potential impact shown above will fall into financial year 2019/20 but the vast majority will affect 2020/21 budgets. More work is required to assess the impact on the Council's capital budget so the figure in the above table is very much indicative at this stage.

8.3 To date the Council has been allocated £5.073m in additional funding support from Scottish Government to support the budgetary impacts on the Council. Based on current estimates this sum would be sufficient to meet the impact on the General Fund revenue budget to 30 June 2020 (£4.9m) but wouldn't be sufficient to address the other potential impacts shown. The AHSCP position (which assumes all additional costs are funded by additional government grant) remains a risk until further clarity on that is obtained.

- 8.4 Members are asked to view the figures and the overall totals in Table 2 with caution – they are high level best estimates of the financial impact arising from COVID-19. These figures will change, possibly significantly, as further work is undertaken. In relation to capital projects any cost increases will necessitate a revision to the scope and number of projects which can be undertaken unless additional resources are identified to offset those cost increases.

9. IMPLICATIONS FOR WHOLE OF 2020/21 FINANCIAL YEAR

- 9.1 It is now clear that COVID-19 will have a lasting effect on the Council, its services and its finances which will certainly endure to the end of the current financial year and almost certainly beyond that. As was stated in Report 143/20 this means 2020/21 plans and budgets need to be revised because they no longer reflect expected costs and incomes and need to be adjusted to ensure proper governance and accountability.
- 9.2 Work to re-assess budgets across each service and corporately will begin shortly but will in many instances require officers to make broad assumptions and best estimates. Budgets are likely to continue to need to be adjusted and refined throughout 2020/21 given the uncertainty which will prevail.
- 9.3 The bullet points below give an indication of the types of budget implications which are expected to arise when the full year effect of COVID-19 is estimated. It is by no means an exhaustive list and many new issues seem likely to emerge as detailed planning in line with the Government route map is undertaken in the coming weeks.

A) Additional Costs

Officers expect there to be additional unbudgeted costs in areas such as:-

- Additional support for vulnerable people and families
- Cleaning
- PPE and safety equipment such as hand sanitisers
- Building adaptations and signage to suit social distancing
- Furniture and equipment to enable longer term home working by large numbers of staff
- Staff costs where existing rotas are insufficient to cover new ways of providing services – this is a particular concern in schools (the largest service – see separate report No.179/20)
- Procurement of goods and services where social distancing and other safety measures affect productivity and therefore unit costs
- Inflationary impacts both generally and in specific sectors
- Diseconomies of scale in services with high volumes

B) Reduced Budget Savings

Officers anticipate further downward revisions to planned budget savings through our Change Programme will be required once the position for partners is assessed on a full year basis. Those savings which rely on income generation or savings in what the Council procures are expected to be negatively affected by national economic factors at least in the short term.

C) Reduced Income

Officers expect there to be reduced income in areas such as:-

- Council Tax and Rent collection as people in some cases find it more difficult to pay
- Council tax base growth due to the pause in new house building during lockdown
- School meals as fewer children attend school
- Fees & Charges generally as fewer services are either sought or able to be provided due to social distancing
- Capital receipts due to potentially reduced demand
- Reduced surpluses from trading activities e.g. in Tayside Contracts and Parks Services
- Reduced recharge income for services provided e.g. to Housing Revenue Account

D) Reduced Costs

Officers expect there to be reduced costs in areas such as:-

- Energy consumption (subject to space requirements for new methods of service provision)
- Staff travel costs through continued use of digital technologies
- Service provision costs such as school meals where fewer units of service are required

9.4 The above gives a sense of the scale of the challenges the Council will face which come on top of many years of declining budgets, savings and staff reductions. It will be important that despite those challenges the Council continue to focus on delivery of its priorities as set out in the Council Plan. Officers are accordingly examining many options to ensure those priorities can be achieved which may require new investment, new enabling projects and service redesign. Deployment of the Council's scarce resource should continue to be guided by the Council Plan priorities.

10. SPECIAL REPAYMENTS OF DEBT

10.1 The Council has for a number of years had a policy (agreed annually through the budget setting process) of using any savings in its loan charges budget to make special repayments of debt. Such special repayments reduce the debt owed by services to the Council's Loans Fund and this allows savings to be made year on year thereafter in the revenue budget compared to what would have been due. The financial impact of special debt repayments is taken into account each year as part of the assessment of the long term affordability of the Council's capital spending plans. Once applied any special debt repayments made cannot be reversed once that financial year has been closed.

10.2 In practice Special Debt Repayments are normally applied at the end of the financial year (as at 31 March). For 2019/20 it is proposed to defer the planned special debt repayments at 31 March 2020 on the vehicle replacement programme to provide financial flexibility should it prove to be required due to COVID-19 and the escalating and ongoing costs arising from the pandemic. Not making such a special repayment would mean those unspent resources being added to the Council's uncommitted General Fund balance thereby providing a higher sum should it be required than otherwise would have been the case.

10.3 Deferral of the 2019/20 special debt repayment on 31 March 2020 as proposed in paragraph 10.2 would not preclude such a repayment being made at a later point if the additional flexibility in General Fund balances proved not to be required. In practice for accounting purposes the special debt repayment could be applied from 1 April 2020 thereby giving the same savings into future years as would arise had the payment being made on 31 March 2020. In simple terms deferring the special debt repayment at 31 March 2020 gives flexibility which if not ultimately required can be applied 1 day later to the same effect.

11. FINANCIAL IMPLICATIONS

11.1 The financial implications are as set out elsewhere in this report and include immediate issues for financial year 2020/21 as well as longer term issues for the years beyond that. As things stand it is highly likely that the Council will need to use its uncommitted Reserves to address significant gaps in its budget in 2020/21 caused by COVID-19. The extent to which that is required will become evident once the work to look at the full year effect from COVID-19 has been completed and information on any further funding from Scottish Government is known.

12. EQUALITIES IMPLICATIONS

12.1 The recommendations in this report will have no differential impact on persons with protected characteristics.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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List of Appendices

1 – Updated Change Programme Project List

2 – Movement in Change Programme Savings February 2020 to June 2020