

**SPECIAL ANGUS COUNCIL - 4 MARCH 2021**

**COVID-19 BUDGET IMPLICATIONS AND POTENTIAL USE OF SCOTTISH GOVERNMENT  
FISCAL FLEXIBILITIES**

**REPORT BY THE DIRECTOR OF FINANCE**

**ABSTRACT**

The purpose of this report is to advise members of the potential budget implications arising from the COVID-19 pandemic and to recommend an approach to dealing with these for 2021/22 budget setting purposes.

**1. RECOMMENDATIONS**

1.1 It is recommended that the Council:-

- i) Note that the current expectation is that all of the direct financial impact from COVID-19 on the Council's 2020/21 revenue budget can now be met from recently announced additional Government funding;
- ii) Note the assessment of COVID-19 budget impacts for financial year 2021/22 as set out in Sections 5 and 10 of this report;
- iii) Agree that the revenue budget for 2021/22 be set excluding the detail of potential costs and funding associated with COVID-19 and that COVID-19 implications for the Council's budget form part of budget revisions to be made during financial year 2021/22 when there is sufficient information and clarity to adjust budgets with confidence;
- iv) Note the potential medium term implications for the Council's services and budgets arising from the pandemic as set out in Section 6 and the possibility that COVID-19 funding to the Council may need to be used over a number of years into the future;
- v) Note the position regarding additional Scottish Government funding for COVID-19 and the significance of recent announcements to the Council's budget strategy as set out in Section 7;
- vi) Note that the Scottish Finance Secretary's announcement of 16 February 2021 that Scottish local authorities will receive additional funding of £275m in financial year 2020/21 for COVID-19 implications will allow the Council to review its planned use of uncommitted General Fund Reserves for COVID-19 costs in 2020/21 with a report on the implications arising to be brought to members in the May 2021 cycle of meetings;
- vii) Agree that the Council does not use fiscal flexibilities (as described in Section 8) as part of setting its 2021/22 budget in March 2021 but leave open the possibility for members, through full Council, to reconsider this as part of any required revisions to the 2021/22 budgets or medium term plans should circumstances change and the use of these flexibilities become financially necessary;
- viii) Note the availability of the COVID-19 Contingency Reserve to assist the Council with managing the financial impact of the pandemic both now and into the future;
- ix) Note the intention to bring an update report to the May 2021 cycle of meetings setting out proposals for initial COVID-19 related adjustments to 2021/22 revenue budgets, including the impact of recent funding announcements; and
- x) Note that the update report referred to in recommendation ix) will also allow any implications from the UK Budget and Scottish Budget finalisation to be included at that time.

## 2. ALIGNMENT TO ANGUS COUNCIL PLAN / COMMUNITY PLAN

- 2.1 This report contributes as a whole to the local outcomes contained within the Council Plan and Angus Community Plan. The proposals in this report will provide the Council with the ability to respond flexibly to the challenges caused by the pandemic thereby helping to achieve the Council's priorities and those outcomes the Council, as a partner within the Community Planning Partnership, is trying to deliver.

## 3. BACKGROUND

- 3.1 The COVID-19 pandemic has affected every aspect of our lives in the last year and in relation to the Council's finances has seen significant changes in our costs and funding. The impact on the Council's finances and budgets will continue into financial year 2021/22 but predicting to what extent and in what ways is difficult. This report therefore sets out the main issues to consider for budget setting purposes and recommends that the Council manage the budgetary impacts from COVID-19 in a flexible way that can respond to changing circumstances.

## 4. COVID-19 REVENUE BUDGET IMPACT – FINANCIAL YEAR 2020/21

- 4.1 When the 2020/21 revenue budget was revised in September 2020 (Report 211/20) it was estimated that the pandemic would have a net additional impact on the Council's revenue budget of £13.2m. At that time £9.5m of additional support from the Scottish Government had been announced and Council agreed to use uncommitted General Fund Reserves and uncommitted early years grant funding to make up the difference (£3.7m). The position has moved on considerably since September with clarification of the cost impact on the Council and additional funding from Government allowing the call on Reserves to be reduced.
- 4.2 Although the nature of the pandemic means the position remains unpredictable and subject to change the **current expectation is that all of the direct financial impact from COVID-19 on the Council's 2020/21 revenue budget can now be met from additional Government funding** with the caveat that some of this funding (announced by the Finance Minister on 16 February 2021) has (at the time of writing this report) still to be allocated at an individual Council level. Further commentary on this is provided in Section 7 below.
- 4.3 A significant amount of COVID-19 related funding has been allocated to the Council from the Scottish Government over the course of 2020/21. Some of this has been to support the Council's direct costs and some to enable the Council to provide support to local people and businesses in accordance with Scottish Government national guidance. The timing of release of some of those funds from Government to Councils (in some cases within the final quarter of the financial year) means a sizeable proportion of these funds will not have been spent by 31 March 2021 and will therefore be earmarked and carried over to be used in financial year 2021/22. A full reconciliation of COVID-19 funds received and unspent at 31 March 2021 will be carried out to identify the sums carrying forward which in turn will inform the adjustments required to 2021/22 budgets to use these funds. Reports for approval will be brought to members as part of this process. The scale of additional funding and the expectation that a substantial part of it will remain to be spent at 31 March 2021 will mean that the Council's temporary cash (short term investments) and Reserves positions in the 2020/21 Annual Accounts will be much higher than normal.

## 5. COVID-19 BUDGET IMPACT – FINANCIAL YEAR 2021/22

- 5.1 As the last 12 months have demonstrated the rapidly evolving nature of the pandemic, and the national response and changing guidance associated with the response, makes financial management and budget planning very challenging. Realistically at this point in time trying to predict what the pandemic will mean for the Council's budget for the full 12 month period for financial year 2021/22 would be little more than guesswork. Council services have made some initial assessments of the most obvious areas where additional costs and lost income is likely to arise due to the pandemic as part of the 2021/22 budget process. These amount to £1.8m but only cover direct impacts and now require to be reviewed in light of new issues and guidance which is emerging as the pandemic enters the next phase.
- 5.2 There are also a number of uncertainties and risks caused by the pandemic which could affect the Council's 2021/22 budget and which would be a call on the additional Government funding being provided including:-

- a. Increased social need and demand for support – the level of demand for some Council services is driven by circumstances in the wider economy and society and it seems likely that higher levels of support to the public and businesses and higher levels of statutory intervention by the Council may be required at least in the short term. We are already seeing some evidence of these effects in care and wellbeing services.
  - b. Change Programme savings delivery risks – the pandemic has been hugely disruptive to delivery of the Council's Change Programme during 2020/21 and if officer time has to be deployed to response activity for a significant part of financial year 2021/22 this is likely to cause further delay in the achievement of planned savings.
  - c. ANGUSalive – the risks here are set out in the separate report (67/21) also on the agenda for this meeting but in summary the Trust's ability to generate income to cover the substantial part of its costs remains a risk until facilities can re-open again and customers return.
  - d. Income implications – across Scotland the largest financial impact on local authorities from the pandemic has been from lost income and this remains an area of significant uncertainty and risk for Angus Council as we move into financial year 2021/22.
  - e. Unknowns/New Measures – there remains considerable uncertainty about how the next phase of the pandemic will develop and what response the Council may need to make including the potential for new guidance and safety measures, perhaps ongoing testing, etc. all of which could mean additional costs.
- 5.3 In addition to the above potential cost implications for the Council's budget, it is also possible that further Government funding will be provided throughout 2021/22 in response to specific issues.
- 5.4 Given the significant uncertainties and risks and the potential for additional funding to be made available it is recommended that the Council set its budget for 2021/22 excluding the detail of potential costs and funding associated with COVID-19 and that these COVID impacts form part of budget revisions during 2021/22 when there is sufficient information and clarity to adjust budgets with confidence. This will provide a flexible and responsive approach to a highly unpredictable situation and allow the Council to deploy resources based on need and with clarity of purpose. Budget adjustments can be considered and approved by members through the Council's existing budget monitoring arrangements to Policy & Resources Committee.

## **6. COVID-19 BUDGET IMPACT – FUTURE YEARS**

- 6.1 The Council's Change Programme over the next 3 years will be further developed to a significant extent based on our approach to recovery and renewal from the pandemic. The pandemic has required the Council to work in very different ways, many of those with positive results, and the Change Programme will seek to harness those benefits in terms of improved outcomes for the users of Council services and, where applicable, financial savings.
- 6.2 The pandemic's legacy for the Council, its services, customers, staff and budgets is however likely to include many negative consequences in the short and medium term which although difficult to predict, will need to be factored into the Council's medium term service and financial planning. The pandemic has affected education, social work and justice services, adult care services, the economy, transformation programmes, maintenance works and capital investment among many others and it is not unreasonable to expect that additional activity, support and demand to try to address some of those affects will arise and with it financial impacts on to the Council.
- 6.3 The Council's service and financial strategy must accordingly evolve to recognise the medium term impacts from the pandemic and ensure that essential services required by Angus citizens of all ages can be planned for and funded. This is likely to mean using additional COVID-19 funding from Government (and potentially resources created through fiscal flexibilities – see Section 8) over a number of financial years and specific proposals in this regard will be brought to members for consideration in due course.

## **7. ADDITIONAL GOVERNMENT FUNDING FOR COVID-19**

- 7.1 The position with regard to funding for COVID-19 implications on the Council's budget has continued to evolve during the course of the current financial year. Most of this has been factored into the 2020/21 and 2021/22 budget positions set out elsewhere in the reports for the Special Council meeting on 4 March 2021. A small number of recent and significant announcements are however worthy of specific note as described below.

### £259m funding for COVID-19 in 2021/22

- 7.2 Finance circular 1/2021 has confirmed that £259m has been included for non-recurring COVID costs in the 2021/22 grant settlement of which Angus Council's share is likely to be around £5.6m. The basis for distribution of the £259m is to be considered by COSLA Leaders at their meeting of 26 February 2021 so the Council's estimated share has not been formally confirmed by Scottish Government at the time of writing this report. It is expected that this funding can be used by local authorities to address additional COVID-19 costs in 2021/22 and is not expected to be subject to ring-fencing.

### £275m funding for COVID-19 in 2020/21

- 7.3 The Scottish Government Finance Secretary provided an update to Parliament on 16 February 2021 in which she announced "£275 million to support COVID pressures including for lost income in Local Government - Councils will have the freedom and flexibility to decide how it is deployed to support the range of COVID pressures they are facing, ensuring continuity for the critical services they provide".

- 7.4 At the time of writing this report Angus Council's share of this funding has still to be confirmed but based on the distribution options to be considered by COSLA Leaders this is likely to be around £4.6m. Funding at this level is projected to be sufficient to cover all remaining COVID costs affecting the Council's budget in 2020/21 and may provide flexibility into 2021/22 and future years. This funding, once confirmed, can replace the Council's planned use of uncommitted General Fund Reserves for COVID costs in 2020/21 thereby releasing those resources for other purposes. The announcement of this funding so late in the Council's budget setting process means it has not been possible to discuss its implications with either the Policy & Budget Strategy Group or Shadow Budget Group. It is therefore recommended that the implications of this announcement be the subject of a further report to members in the May cycle of meetings.

### £40m funding for Schools

- 7.5 The Finance Secretary also announced on 16 February 2021 a further "£40 million for local government to support the ongoing deployment of safety mitigations within our schools". This funding is in addition to £30m of funding for additional logistics costs for the safe re-opening of schools announced in July 2020. At the time of writing, the basis of distribution of the £40m, and therefore Angus Council's share, has still to be determined but an allocation of around £0.8m can be anticipated.

- 7.6 It remains possible that further Government funding in addition to the above will be provided during 2021/22 in response to specific issues but even if that does not arise, the one-off funding for COVID costs announced in the Scottish Budget on 28 January of £259m in 2021/22, together with the announcements of 16 February of £275m in 2020/21 are significant positive developments for the Council's budget in the context of the challenges the pandemic continues to bring. Although at the time of writing formal confirmation of Angus Council's share of these national figures has still to be received the expected allocations mean that all known and currently projected COVID-19 impacts on the Council's revenue budget in both 2020/21 and 2021/22 are projected to be containable within those funding allocations with the potential for any funding not immediately required being able to be used to address the possible medium term budget implications from COVID-19 described in Section 6 of this report.

## **8. POTENTIAL USE OF SCOTTISH GOVERNMENT FISCAL FLEXIBILITIES**

- 8.1 In October 2020, the Scottish Government and COSLA agreed that a number of what were termed financial or fiscal flexibilities could be considered by Councils to help them address the financial impacts of COVID-19. At that time, these flexibilities were suggested as an alternative option to additional funding for Councils and were therefore proposed as a fallback option in the absence (at that time) of sufficient direct additional funding from Government to Councils to meet COVID-19 costs.

- 8.2 The fiscal flexibilities identified by the Scottish Government that local authorities may utilise (should doing so be deemed prudent and appropriate) are:
- a. use of capital receipts to fund revenue COVID-19 expenditure in 2020/21 and 2021/22;
  - b. amendment to credit arrangement accounting treatment (mostly PPP/PFI projects), applied in either 2020/21 or 2021/22; and
  - c. loans fund principal repayment holiday in either 2020/21 or 2021/22 (but not both).
- 8.3 None of these measures involve new funding and they may only be used to support COVID-19 related costs, e.g. those relating to the immediate mobilisation effort and the recovery phase – they cannot be applied to any other budgetary pressures. Furthermore, as noted in correspondence from the Cabinet Secretary for Finance in October 2020, the fiscal flexibilities “should not be seen as an opportunity to maintain or grow reserves. Local authorities are expected to take into consideration the contribution their reserves can make to meet their funding pressures”.
- 8.4 It is the expectation of the Scottish Government that the fiscal flexibilities, if they are to be used, should be used in a particular order. First considering the additional resources available from capital receipts, and the change in accounting treatment for credit arrangements, before taking advantage of a loans fund repayment holiday.
- 8.5 As these flexibilities can mean negative financial consequences into future years, their utilisation must be given careful consideration in conjunction with all other options available.
- 8.6 At the time of writing, the second flexibility on credit arrangement accounting has not been concluded between the Scottish Government and COSLA. Finance officers need to know the confirmed basis of this flexibility before being able to assess its benefits and impact alongside the other flexibilities available so that suitable advice on which flexibilities would be best for Angus Council can be provided to elected members.
- 8.7 As has been reported to Policy & Resources Committee in the budget monitoring reports, officers have held off deploying the separate Loans Fund Review in 2020/21 until such time as the position on potential use of fiscal flexibilities has been confirmed. In setting the 2020/21 revenue budget a saving of £2m was included in the Change Programme to come from the Loans Fund Review. This saving is guaranteed and not at any risk of being delivered with the only question being the timing of its implementation.
- 8.8 It is recommended that the Council defer implementation of the Loans Fund Review until financial year 2021/22 so that it can be aligned with a final decision on the deployment (or not) of the COVID-19 fiscal flexibilities. This provides the Council with maximum flexibility on both fiscal flexibilities and how the Loans Fund Review is applied. The only issue created by deferring the implementation of the Loans Fund Review into 2021/22 is that the planned saving of £2m in 2020/21 needs to be covered temporarily for that year through other means. As outlined in other reports for the Special Budget meeting it is proposed to cover this one year shortfall by deferring planned special debt repayments (£1.5m) and covering the remaining £0.5m from General Fund Reserves.
- 8.9 Deploying fiscal flexibilities is only permitted for COVID-19 purposes and their use would in some cases result in negative financial consequences into future years’ revenue and capital budgets. They should therefore only be used if the Council believes that they are necessary because there are funding shortfalls which cannot be covered by other means. Based on all current information and assessments of COVID-19 cost impacts and with the knowledge that substantial one-off funding for COVID-19 costs in 2020/21 and 2021/22 is to be allocated to the Council there is currently no immediate financial case to deploy the fiscal flexibilities as part of the Council’s 2021/22 budget setting process in March 2021. It is worth noting that this may not be the position for other Councils who may, depending on their own financial position, require to deploy the flexibilities in some shape or form as part of their budget setting process.
- 8.10 However, the COVID-19 pandemic has shown how quickly circumstances can change so it is recommended that both the immediate and medium term financial impacts of COVID-19 be kept under review and the possibility of deploying some or all of the fiscal flexibilities be left open and revisited during 2021/22. Any proposals here would be part of a formal revision to the Council’s 2021/22 budgets and would need to be subject to member approval through full Council.

- 8.11 Although the recommendation is not to apply fiscal flexibilities in financial year 2020/21 nor in the setting of the 2021/22 budget, there will still be the option to revisit this approach and deploy fiscal flexibilities either as part of the 2020/21 year end accounts process or during 2021/22 if required. The only flexibility which is time limited is the use of capital receipts in financial year 2020/21 – the Council would need to decide on using that flexibility prior to the 2020/21 Annual Accounts being finalised in June. There is however more than sufficient flexibility in 2021/22 capital receipts, the loan repayment holiday and credit arrangements flexibility (once confirmed) to avoid having to use 2020/21 capital receipts as a flexibility.
- 8.12 Based on the above, it is recommended that the Council does not use fiscal flexibilities as part of setting its 2021/22 budget in March 2021 but leave open the possibility for members through full Council to reconsider this as part of any required revisions to the 2021/22 budgets or medium term plans should circumstances change and the use of these flexibilities become financially necessary.

## **9. COVID-19 CONTINGENCY RESERVE**

- 9.1 Members will recall as part of the revisions to the 2020/21 Revenue Budget (Report 211/20) in September 2020 it was agreed that a COVID-19 contingency reserve be established which could if required be drawn upon to address new COVID-19 issues. Table 3 of Report 75/21 sets out the latest balance on this reserve which is £2.057m.
- 9.2 The availability of this reserve provides additional flexibility in the Council's budget and its response to the pandemic. The nature of the reserve means its use can be flexible and cover a number of financial years should Council wish to use it in that manner. The reserve can also be used to hold any COVID-19 grant monies which have yet to be spent at the end of the financial year. Proposals on the use of this reserve will be brought forward when required.

## **10. APPROACH TO COVID-19 BUDGET IMPACT FOR 2021/22 BUDGET SETTING**

- 10.1 COVID-19 and its financial impact and the funding arrangements to cover those impacts adds an additional layer of complexity to the Council's budget setting process for 2021/22 and the announcement of substantial additional one-off funding to support Councils, although very much welcomed, has come quite late in the Council's budget strategy formulation process. There remains much uncertainty about the next stages in the pandemic and what this will mean for the services the Council provides and the cost of those services. That uncertainty makes budget planning very challenging. The final terms for the credit arrangements fiscal flexibility has also still to be confirmed.
- 10.2 Taking into account all of the factors, risks and issues set out in this report I believe that the Council can, at this point in time, assume with confidence that all COVID-19 budget impacts which may arise during the 2021/22 financial year will be able to be met from a combination of additional government grant, the COVID-19 Contingency Reserve and if required through the use of fiscal flexibilities. Collectively these funding sources could deliver a minimum of £15m of funding options to call upon if required and potentially more. COVID-19 budget implications identified so far are currently well below this figure and, even allowing for the risks and uncertainties referred to in paragraph 5.2, it is very unlikely that these would exceed the funding options the Council can have available.
- 10.3 Although I am confident that the Council has sufficient funding options to cover COVID-19 financial impacts in 2021/22 it is more difficult to determine where those impacts will arise, which services will be affected and by how much. It is therefore recommended that the Council set its budget for 2021/22 excluding the detail of potential costs and funding associated with COVID-19 and that these COVID-19 impacts form part of budget revisions during 2021/22 when there is sufficient information and clarity to adjust budgets with confidence. This will provide a flexible and responsive approach to a highly unpredictable situation and allow the Council to deploy resources based on need and with clarity of purpose.
- 10.4 This approach means that the 2021/22 budget that members approve on 4 March 2021 will assume that the 2021/22 budget can be set on the assumption that COVID-19 costs and related funding options will have, at worst, a financially neutral impact on the budget.

- 10.5 An update report setting out proposals for initial COVID-19 related adjustments to 2021/22 revenue budgets, including the impact of recent funding announcements will be brought to members in the May 2021 cycle of meetings. This approach to COVID-19 costs and funding, i.e. to be subject of a follow up report, will also allow any implications from the UK Budget and Scottish Budget finalisation to be included at that time.

## **11. FINANCIAL IMPLICATIONS**

- 11.1 There are no additional financial implications arising from the recommendations in this report which have not been explained in the report content.

**NOTE:** The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

- Finance Circular 1/2021 issued on 1 February 2021 by the Scottish Government;
- Letter of 28 January 2021 from the Cabinet Secretary for Finance, Economy and Fair Work to COSLA President

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