

REPORT TO: POLICY AND RESOURCES COMMITTEE – 24 AUGUST 2020

REPORT ON: FINANCIAL IMPLICATIONS OF THE COUNCIL'S RESPONSE TO THE COVID-19 EMERGENCY – UPDATE AND FINANCIAL RECOVERY PLAN

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 198-2020

1.0 PURPOSE OF REPORT

1.1 This report sets out the financial implications of the Council's response to the Covid-19 emergency and proposes a financial recovery plan containing various measures aimed at mitigating the increased costs in financial year 2020/21 to protect the Council's financial sustainability going forward.

2.0 RECOMMENDATIONS

It is recommended that the Policy and Resources Committee:

2.1 Notes the significant projected deficit on the Council's 2020/21 Revenue Budget, due to the cost implications of responding to the Covid-19 emergency.

2.2 Approves the financial recovery plan, as set out in section 6 of this report, containing various measures aimed at mitigating the increased costs in financial year 2020/21 to protect the Council's financial sustainability going forward.

2.3 Notes that further reports will be brought forward to advise elected members of progress in aligning 2020/21 spend levels more closely with the funding available.

2.4 Notes the longer-term financial implications of the response to the Covid-19 emergency.

2.5 Agrees that this report should be submitted to the Local Government and Communities Committee, as the Council's evidence, to help inform the Scottish Parliament's scrutiny of the Scottish Government's 2021/22 budget proposals.

2.6 Notes that further representation will be made through COSLA regarding the need for additional funding and for the full-pass through of Barnett consequentials resulting from the provision of relevant additional funding in England.

2.7 Notes that there remains a significant risk around additional funding which is requested to address the current deficit, particularly in the event that projections are not achieved with income streams and in the event of any further lockdown, and thus further actions and reductions in expenditure are urgently required.

3.0 FINANCIAL IMPLICATIONS

3.1 Latest projections show gross additional costs of £32.737m for financial year 2020/21, in respect of the Council's response to the Covid-19 emergency. This includes £5.490m for LACD. At this stage, it is assumed that the additional costs incurred by DHSCP in addressing the Covid-19 emergency will be funded in full by the Scottish Government. After taking into account confirmed additional government funding streams, the projected funding shortfall for 2020/21 is £19.558m. The financial recovery plan, as set out in section 6 of this report, containing various measures aimed at mitigating the increased costs in financial year 2020/21 to protect the Council's financial sustainability going forward. The financial recovery plan currently totals £16.456m, leaving a projected deficit of £3.102m for 2020/21. Further reports will be brought forward to advise elected members of progress in aligning 2020/21 spend levels more closely with the funding available.

4.0 BACKGROUND

4.1 The Covid-19 emergency has impacted on all areas of society and on all aspects of normal daily life, particularly since the implementation of the national lock-down on 23 March 2020. These impacts have been severe and are likely to continue as we emerge from lock-down and progress through the four

recovery phases (as set out in the Scottish Government's route map) and beyond. All levels of government have taken action to support and protect our most vulnerable citizens, local businesses, key suppliers and the third sector during these challenging and unprecedented times. These actions seek to maintain resilience during this crisis and ensure that people and organisations will emerge in the best possible shape when the emergency is over. The financial implications of the public sector response have been significant and have required record levels of unplanned spend.

- 4.2 Report 144-2020 was approved in mid-April under the arrangements for dealing with essential Council business. The report advised elected members of the various actions implemented by the Council and the Scottish and UK Governments in response to the on-going Covid-19 emergency and set out the associated financial implications. The report also advised that the Council was incurring significant additional costs in delivering its response to the Covid-19 emergency and would continue to do for the foreseeable future. This report now sets out an update on the financial implications of the Council's response to the Covid-19 emergency and proposes a financial recovery plan containing a number of measures aimed at mitigating the increased costs in financial year 2020/21 to protect the Council's financial sustainability going forward.
- 4.3 The Executive Director of Corporate Services, as the Council's nominated Section 95 Officer, has a statutory duty to ensure that the Council operates within the financial resources available to it and remains financially sustainable in the short, medium and long term.

5 IMPACT ON THE COUNCIL'S 2020/21 REVENUE BUDGET

- 5.1 It is important that Councils responsible for spending public money do so in a manner that preserves the normal high standards of financial reporting, accountability and effective governance expected of them, even in these exceptional circumstances. COSLA and the CIPFA Directors of Finance Section have issued a financial template to all Councils to record the additional costs, lost income and savings not achieved while resources are diverted to tackling the Covid-19 emergency. This has been updated as the situation develops and has informed COSLA discussions with the Scottish Government. Councils' made their first return of the financial template to COSLA on 24 April and a second return was made on 15 May. Both these returns were based on an assumed 12-week lockdown period, to end June. Attention has recently turned to the full year financial effect of Covid-19 in 2020/21, with COSLA issuing a revised template to Councils to capture this information. The revised template is based on the lockdown period (March to May) plus the four phases of the Scottish Government's route map. Returns of the revised template were made in late June.
- 5.2 Monitoring of the additional costs of responding to the Covid-19 emergency is now embedded within the Council's established budget management processes. Latest projections show projected gross additional costs of £32.737m for financial year 2020/21. A break-down of this figure over service areas is shown at Appendix 1. Further details of the main cost / income shortfall areas are included at Appendix 2.
- 5.3 The figures in Appendix 1 do not include the financial impact of Covid-19 on Dundee Health and Social Care Partnership. These costs are being captured in the separate IJB Mobilisation Plans. Under the financial risk-sharing agreement with NHS Tayside, the Council is required to fund one-third of any deficit incurred by DHSCP. At this stage, it is assumed that the additional costs incurred by DHSCP in addressing the Covid-19 emergency will be funded in full by the Scottish Government.
- 5.4 The figures in Appendix 1 include the financial impact of Covid-19 on Leisure and Culture Dundee. The closure of all income generating facilities and subsequent operating restrictions once facilities re-open has had a significant impact on income levels, with a shortfall of £5.490m projected for 2020/21 (see separate report 194-2020). This figure is before recognising income of £2.409m for furloughed staff under the UK Government's Coronavirus Job Retention Scheme ie a net deficit of £3.081m. It is evident that a projected deficit of this size could not be managed entirely by LACD and would require additional financial support from the Council.
- 5.5 The revenue monitoring position for the period to 30 June 2020 is presented separately in report 171-2020. This report shows a projected underspend of £1.064m for financial year 2020/21, excluding the costs associated with Covid-19. This projected underspend can be used to partly offset the financial impact of Covid-19.
- 5.6 The Council has, to date, received the following additional funding allocations from the Scottish Government to help meet the additional costs incurred in 2020/21 in the response to the Covid-19 pandemic:

	<u>£000</u>
Hardship Fund £50m	1,389
Scottish Welfare Fund £22m	809 *
Food Fund £30m	1,152
Barnett Consequentials £155m	4,308
Registration Services £0.6m	16
Discretionary Housing Payments £5m	213
Free School Meals – Summer Period £12.6m (ring-fenced)	521
Community Support incl Food £15m (ring-fenced)	494
Additional Teachers / Support Staff £33.3m (ring-fenced)	<u>976</u>
	<u>9,878</u>

* the above item will result in equivalent additional expenditure which is not reflected in Appendix 1

In addition to the above, the Council has been offered funding of £0.861m (mainly capital) for the purchase of digital devices and connectivity solutions to tackle digital exclusion amongst children and young people. The Councils allocation will be taken up in full.

- 5.7 The Council has furloughed a small number of income-generating staff in areas such as car parking, architectural services, engineering services and construction. Successful applications have been made to the UK Government's Coronavirus Job Retention Scheme and funding totaling £0.927m has been received. In addition, LACD are anticipating funding totaling £2.119m from the Coronavirus Job Retention Scheme (see report 194-2020).
- 5.8 Taking all of the above into account, the projected funding shortfall for 2020/21 is £19.558m (see Appendix 3).
- 5.9 The Council has been approached by a number of organisations in the city requesting financial support. Given the deficit position currently being reported, the Council is unable to provide any additional financial support to organisations given there are no available resources.

6.0 FINANCIAL RECOVERY PLAN 2020/21

- 6.1 Any in-year deficit would require to be charged against the Council's reserves. A deficit of the amount identified in paragraph 5.8 above clearly could not be accommodated given the Council's relatively small reserves balance. The projected deficit represents a significant risk to the financial sustainability of the Council going forward. The Covid-19 crisis is challenging the Council's ability to operate within the financial resources available to it and action must be taken to address this. Accordingly, the Chief Executive and Executive Director of Corporate Services, along with Service Executive Directors have been reviewing options for corrective actions that can be taken to help mitigate the financial consequences of Covid-19. These actions seek to reduce the projected in-year deficit whilst minimising the impact on front-line services as we move through the four recovery phases set out in the Scottish Government's route-map.

- 6.2 The key elements of the financial recovery plan are as follows:

6.2.1 Use of Ear-marked Reserves and Balances

A review of the Council's ear-marked reserves and balances has been undertaken to identify any scope for releasing some of these to help offset Covid-19 costs. Whilst all of these reserves are ear-marked for specific purposes, it is considered that in the current circumstances some re-prioritisation would be appropriate. Accordingly, the following amount can be released and included in the financial recovery plan:

General Fund – 2019/20 carry forwards £2.000m

The Council also has an uncommitted General Fund balance of £8.012m. It is essential that the Council maintains a reasonable level of working balances to deal with unexpected or emergency items of expenditure. Given that the level of the uncommitted General Fund balance is already relatively low, it is not proposed to release any of this for inclusion in the financial recovery plan at this stage. This area will be kept under review for the remainder of the financial year.

Decisions regarding the use of reserves held by LACD to help offset Covid-19 costs are a matter for the Board of LACD. However, given the scale of the challenge facing LACD (see paragraph 5.4 above) it would be reasonable to assume, for the purposes of the financial recovery plan, that an amount of £0.750m can be released from reserves.

6.2.2 Use of Existing Service Budgets to Offset Internal Charging Income Shortfalls

The Covid-19 crisis has had a significant impact on the financial operating position of Construction Services. Unlike other Council services, Construction Services receives no direct funding through a budget allocation from the Council or Scottish Government, rather it must operate on the income it generates. During the lock-down period all construction work was suspended except for emergency repairs. This means that Construction Services has been unable to generate income to cover its fixed costs and also provide for the surplus assumed in the 2020/21 revenue budget. At the same time, however, there are corresponding property maintenance budgets in City Development and Housing that have not been used due to the suspension of construction work. It is considered appropriate that these budgets should now be used to help mitigate the significant deficit that has been accruing in Construction Services. Effectively, City Development and Housing would be paying a retainer to ensure that their key supplier remains financially sustainable and is still able to provide services going forward. This treatment ties-in with the support that is being provided to Tayside Contracts by the three local partner Councils. It is also in line with Scottish Government procurement guidance which promotes engagement and support of key suppliers to ensure service continuity and appropriate transition to restart. The value of existing budgets that can be used to support Construction Services is estimated at £3.443m and this amount has been included in the financial recovery plan.

6.2.3 Scottish Government Funding Flexibilities

Significant amounts of ring-fenced Scottish Government funding are made available to Councils for children's services, mainly through Pupil Equity Fund, Scottish Attainment Challenge and Early Years and Childcare Expansion. In recognition of the financial and other resource implications of maintaining critical provision for children and families at this time, the Scottish Government has relaxed the rules around the use of ring-fenced funding, as follows:

- relax current guidance on Pupil Equity Funding in order that headteachers can support our most vulnerable children;
- apply flexibility to schools and Local Authorities in receipt of Challenge Authority and Schools' Programme funding;
- relax grant conditions in respect of funding for Regional Improvement Collaboratives, allowing resource linked to this initiative to be repurposed to the Covid-19 response; and,
- allow Local Authorities to deploy early learning and childcare funding flexibly to deliver critical provision for children and families.

Whilst some of this funding will already be committed for 2020/21 (mainly for staff costs) there remains an opportunity to reprioritise spend in line with the flexibilities outlined above and therefore help offset the significant Covid-19 costs in children's services. It is considered that £4.000m of ring-fenced funded can be reprioritised and included in the financial recovery plan.

6.2.4 Further Government Funding

On 23 June, the Deputy First Minister announced an extra £100m of funding over two years to help children return to school and recover any lost ground. This announcement was made in conjunction with the revised planning assumption of a full-time return to schools in August. Subsequently, the additional funding for education recovery has been increased by a further £30m, taking the total to £130m. To date, £50m of this additional funding has been distributed, for additional teachers (£45m, ring-fenced) and support staff (£5m). The Council's share of the £50m additional funding is £0.976m in 2020/21 and £0.488m in 2021/22. Decisions are awaited as to the phasing and distribution of the remaining £80m of additional funding. The estimate of Covid-19 related costs for Children and Families Services includes £1.827m of spend in 2020/21 on additional NQTs and associated supply cover (see Appendix 2). These costs would be met from the Council's share of the additional £130m funding for education recovery and it is therefore appropriate to include further additional grant funding of £0.851m (ie £1.827m less £0.976m already received) in the financial recovery plan.

On 2 July, the UK Government announced a major new support package to help Councils respond to coronavirus as part of a comprehensive plan to ensure Councils' financial sustainability for the future. Councils in England will now receive a further £500m to respond to spending pressures they are facing. Recognising that Councils are best placed to decide how to meet pressures in their local area, this funding has not been ring-fenced. The Barnett consequential will result in additional funding of £49m being made available to the Scottish Government. As yet, no decision has been made as to how this additional funding will be used by the Scottish Government, although it is understood that this will be passed onto local government in full. For the purposes of the financial recovery plan it has been

assumed that this funding will be passed on to Council's and that Dundee City Council's allocation will be £1.362m. The new support package announced by the UK Government also includes an income loss scheme, to compensate Councils in England for the significant loss of income from car parking, leisure and cultural assets etc. All relevant losses, over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound. The Scottish Government is currently working with COSLA and Local Government stakeholders to design a Loss of Income Scheme appropriate for Scotland and the outcome of this work is awaited. The cost of the scheme would be met from unallocated Barnett consequentials. Given the extent of income loss that the Council and LACD have suffered, any such scheme could be significantly beneficial although much depends on the specific scope and terms of the scheme (for example the English scheme does not cover ALEOs). For the purposes of the financial recovery plan, a prudent estimate of £3.5m has been assumed as funding from the Loss of Income Scheme.

The Chancellor of the Exchequer announced a package of measures on 8 July which is intended to support economic recovery from the Covid-19 emergency. Many of the measures will apply directly in Scotland as for the rest of the UK, with Barnett consequentials applying in Scotland for matters which are devolved. Details are still required to ascertain how these measures will impact on local government finance and what additional Barnett consequentials may be generated for the Scottish Government budget. It is emphasised that there is no obligation on the Scottish Government to pass this funding on to Councils in Scotland. At this stage, no additional funding has been assumed in the financial recovery plan.

One of the national measures announced on 8 July is a Job Retention Bonus of £1,000 paid to employers for each employee who earns at least £520 per month and is kept on (until at least end of January 2021) after returning from furlough. It is estimated that the Council and LACD will receive funding totalling £0.550m from this scheme in 2020/21.

Regarding further government funding generally, representation will be made through COSLA regarding the need for additional funding and for the full-pass through of Barnett consequentials resulting from the provision of relevant additional funding in England. There remains a significant risk around additional funding which is requested to address the current deficit, particularly in the event that projections are not achieved with income streams and in the event of any further lockdown, and thus further actions and reductions in expenditure are urgently required.

6.2.5 Staffing Budget Reductions

Staff costs currently account for around 67% of the Council's net revenue budget. Since March, any recruitment to vacant posts has been restricted to essential roles and teaching posts. It is proposed that these restrictions on recruitment should remain in place for the remainder of the 2020/21 financial year. Similarly, the levels of overtime worked since March have been relatively low and, again, it is proposed that restrictions on overtime working should remain in place for the remainder of 2020/21. In order to deliver savings in staffing budgets, opportunities for voluntary early retirement and voluntary redundancy will be identified on a targeted basis across all services (see report 188-2020 to Recovery Sub-Committee, 10 August 2020). The Council has set-aside capital receipts totalling £2.892m in order to meet future transformation costs. The upfront costs associated with severance packages (strain on fund and redundancy costs) would be met from these set-aside capital receipts, with the full value of the salary saving accruing against the revenue budget.

The approved 2020/21 revenue budget already includes a corporate savings target of £0.550m for reductions in staffing budgets arising from VERs/VR and reductions overtime, additional hours and absence. At this stage it is considered prudent not to assume any further savings in staffing budgets for the purposes of the financial recovery plan.

6.2.6 Further Funding Flexibilities

Discussions are on-going between COSLA and the Scottish and UK Governments around further funding flexibilities that may be made available to Councils to help mitigate (or at least defer) the financial impact of Covid-19. At this stage, no measures have been agreed. Any agreed measures will be considered by officers and included in future updates of the financial recovery plan, if considered appropriate.

6.3 The financial recovery plan set out in paragraph 6.2 above currently totals £16.456m, leaving a projected deficit of £3.102m for 2020/21 (see Appendix 3). Further reports will be brought forward to advise elected members of progress in aligning 2020/21 spend levels more closely with the funding available.

7.0 LOOKING FURTHER AHEAD

- 7.1 The national response to the Covid-19 epidemic has seen the UK Government incur unprecedented levels of expenditure, both in terms of measures to contain and fight the spread of the virus and to deal with the impact on the economy. The devastating economic impact has seen a record fall in GDP levels, leading to significant reductions in taxation revenues which in turn has necessitated record levels of government borrowing. This position is clearly unsustainable into the medium / longer term, where the resultant level of government debt will require to be addressed and managed down. This will be an enormous challenge for the public finances and is likely to have significant implications for the levels of government grant support that are available to Councils. This will be at a time when vital Council services will be required to deal with the social and economic aftermath of the epidemic, and when other sources of income available to Councils will be under severe pressure.
- 7.2 The Chancellor's recent Budget Statement resulted in a relatively small level of Barnett consequentials. The Autumn Budget is, however, likely to be more instructive in terms of future levels of public spending. At this point the appropriateness of the Council's existing budget assumptions particularly grant funding may require to be re-assessed.
- 7.3 The Council's longer-term financial projections and strategies will require to be revisited and updated to reflect the post-Covid situation and reports will be brought forward to the Policy and Resources Committee later in 2020.

8.0 SCRUTINY OF SCOTTISH GOVERNMENT'S 2021/22 BUDGET PROPOSALS – CALL FOR VIEWS

- 8.1 On 23 July 2020, the Local Government and Communities Committee launched a call for views on the impact of Covid-19 on the financial sustainability of local government in Scotland. This is part of the Scottish Parliament's established arrangements for the scrutiny of the Scottish Government's 2021/22 budget proposals. It is proposed that this report should be submitted to the Local Government and Communities Committee, as the Council's evidence, to help inform the Scottish Parliament's scrutiny of the Scottish Government's 2021/22 budget proposals.

9.0 POLICY IMPLICATIONS

- 9.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

10.0 CONSULTATIONS

- 10.1 The Council Management Team have been consulted on the content of this report.

11.0 BACKGROUND PAPERS

- 11.1 None.

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

13 AUGUST 2020

Covid-19: Gross Additional Costs By Service Area

	£000
Children and Families	7,426
City Development	8,159
Neighbourhood Services	1,874
Chief Executive	128
Corporate Services	3,795
Construction Services	4,375
Miscellaneous	350
LACD	5,490
HRA/Capital	1,140
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	32,737
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Covid-19: Main Cost Areas

	£000	£000
<u>Children and Families:</u>		
Free school meal payments	1,616	
Additional NQT teachers including supply cover	1,827	
PPE	760	
Children services (LAC placements / additional staff / transfer)	850	
School meal lost income	<u>656</u>	
		5,709
<u>City Development:</u>		
Car Parking lost income	2,687	
Architects / Engineers fees lost income	1,554	
GAM lost income	954	
Property costs including costs associated with bringing all lock down properties back into operation	<u>1,164</u>	
		6,359
<u>Neighbourhood Services:</u>		
Additional costs associated with providing temporary accommodation following higher than anticipated demand during the Covid-19 pandemic	647	
Lower income from Trade Waste	<u>474</u>	
		1,121
<u>Corporate Services:</u>		
PPE	1,140	
Bad Debt Provision	850	
Council Tax Reductions	285	
Discretionary Housing Payments	288	
Crisis Grants	300	
Food Fund - supply of food	<u>494</u>	
		3,357
Construction Services		4,375
LACD		5,490
HRA/Capital		1,140
Total		<u><u>27,551</u></u>

	£m	£m
DCC / LACD gross additional costs 2020/21		32.737
Add share of DHSCP Covid-19 related costs (assume fully funded)		0
Total Gross Additional Costs 2020/21		32.737
Less projected underspend per June revenue monitoring report		(1.064)
Total Net Additional Costs 2020/21		31.673
Government Funding:		
Confirmed Scottish Government funding	(9.878)	
Additional expenditure requirements not reflected in Appendix 1	0.809	
UK Government Coronavirus Job Retention Scheme	(3.046)	
Funding Shortfall 2020/21		19.558
Financial Recovery Plan 2020/21:		
Use of ear-marked reserves and balances: General Fund - 2019/20 carry forwards	(2.000)	
Use of reserves: LACD	(0.750)	
Recharge of Construction costs to existing General Fund / HRA budgets	(3.443)	
Flexibilities around SG ring-fenced funding streams (ELC / PEF / SAC)	(4.000)	
Share of additional funding for education recovery	(0.851)	
Share of £49m consequentials from UK Government funding announcements on 2 July	(1.362)	
Loss of Income Scheme *	(3.500)	
Chancellor's Summer Statement 8 July: £1,000 for each employee returning from furlough *	(0.550)	
Total of Financial Recovery Plan 2020/21		16.456
Projected Deficit 2020/21		3.102

* Potential Funding has been assumed but has not been guaranteed at this time,

