REPORT TO: MORAY COUNCIL EMERGENCY CABINET ON 1 JULY 2020

SUBJECT: FINANCIAL PLANNING

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 To inform the Cabinet of the current position regarding financial planning during the COVID-19 pandemic, to set out the issues facing the Council in terms of managing its budget during 2020/21 and to recommend actions to be taken to advance financial planning for 2020 onwards. The report also makes recommendations in regard to managing the Council's debts as we move out of lockdown.

1.2 This report is submitted to the Emergency Cabinet following a decision of Moray Council on 17 June 2020 to convene a meeting of the Emergency Cabinet as and when required until a new simplified Committee structure commences on 2 September 2020, due to the COVID-19 pandemic.

2. RECOMMENDATION

2.1 It is recommended that the Emergency Cabinet:

i. notes the first, high-level estimate of the full financial year impact of the response to the pandemic as set out in APPENDIX 1 to this report and the approach to short term financial planning set out in paragraphs 3.8 to 3.11 of this report;

ii. approves the recommencement of debt management process as described in paragraphs 3.12 to 3.15 of this report with immediate effect

3. BACKGROUND

3.1 **Response to the COVID-19 pandemic**
The Council approved its budget for 220/21 on 3 March 2020 (paragraph of the Minute refers). On 24 March 2020 the First Minister announced lockdown in response to the COVID-19 pandemic. Lockdown completely changes the context in which the budget for 202/21 was set and has implications for the budget going forward to 2021/22 and beyond. In previous emergency situations – generally arising from severe weather events – the Council's

response has been relatively short-term or one-off expenditure to make safe, renovate or replace assets and to ensure people are kept in safe accommodation until emergency works have been carried out. The consequences for financial planning have been limited. The current pandemic and the response to it requires a reassessment of the basis on which the Council's budget is constructed.

3.2 The requirements for social distancing are likely to continue for some time and will colour the approach the Council takes towards use of its assets to deliver services, to ensure resilience against future similar situations.

3.3 The response to the pandemic will have significant cost to the Council in 2020/21. A report to Council on 17 June 2020 estimated a total net cost of £1.5 million to the end of June. Based on that estimate, high level estimates of the likely cost for the year have been prepared, using a number of untested assumptions about timing of service recovery. The Scottish Government route map to recovery has been used as a guideline for service recovery. Services where social distancing will impact on service recovery have been assumed to be recovered in the main by phase 4 and a tapering effect applied to costs or lost income over the time of potential full recovery. Mobilisation costs have been extended over time where it is expected that additional costs are likely to continue, for example the cost of child care for key workers where the Scottish Government have set an expectation of continued support. These estimates will require to be refined over the coming months as the Council's recovery plans are further developed. They do not include any additional expenditure to facilitate recovery of services as these costs are subject to a number of variables which are still developing, such as social distancing policy. The costs are summarised as **APPENDIX 1** to this report and total £5.5 million more than the funding which the Council has currently been allocated. The bulk of the cost arises from income foregone. If that cost remains unfunded then the Council will have to meet it from reserves or from in-year savings or efficiencies. If reserves are used that reduces the Council's resilience against future unplanned events and increases the savings which the Council is likely to have to find over the coming years.

3.4 The first stage in preparing the budget for any one year is to identify the starting point – the recurring budget brought forward from the previous year. Some of the cost impact identified for 2020/21 will be non-recurring, but some will be recurring and identifying the recurring impact will be one of the first stages in preparing a budget for 2021/22. Part of that impact is anticipated to be on the Improvement and Modernisation Programme (IMP), where work has been stalled to enable the Council to concentrate on response to the pandemic. As services recover work on IMP can recommence, however, the programme will require to be reviewed in the light of the impact of the pandemic on building use, ways of working and other recovery considerations. So for example, the financial impact of blended learning if this contingency is required would need further modelling. The impact of social distancing requirements on Council facilities as they return to use requires to be modelled. The impact of closure of constructions sites on the growth of our Council Tax base requires to be assessed as does the increase in applications for Council Tax Reduction. Funding for the Council Tax Reduction Scheme is contained within General Revenue Grant. There may be additional monies available in 2020/21 to contribute towards loss of

Council Tax revenue from increased applications for Council Tax Reduction. It is currently unclear whether any such additional funding will be recurring.

3.5 Part of the process of recovery of services is to challenge the need for non-statutory services to be reinstated and to take on board lessons learned from the response to the pandemic. This needs to dovetail with financial planning.

3.6 The pandemic also changes the environment in which the Council delivers its services and in particular the environment in which services are funded. The consequences of the pandemic on the international, national (both at UK and Scottish levels) and local economy are generally expected to be severe and long-lasting. This impacts on the likely tax take for UK and Scottish Governments and for Council Tax. At present there seems to be a consensus across political parties austerity is not an appropriate response to the huge increase in public debt resulting from government support for response to the pandemic but there is currently no indication as to what the response will be and what the consequences for local government might be. Current indications are that interest rates are likely to remain low and also that inflation will remain below target, but oil prices have a big influence on the current low level of inflation so that remains uncertain.

3.7 As the country moves out of lockdown the Council should be aware of the impact its actions have on the local economy. Direct impacts range from significant spend which can benefit local suppliers to the provision of affordable industrial sites and premises. Where possible the Council should seek to ensure that the local economy is supported to recover, building on events such as the Supplier Development Programme for local small and medium enterprises and seeking Value for Moray. The overarching response to economic recovery is being progressed through Moray Economic Partnership and will be the subject of future reports including consideration of the funding of interventions such as grants. Again, the financial implications of any interventions by the council require further consideration.

Short term financial planning strategy and process

3.8 The Council must review its general services revenue and capital budgets for 2020/21 as soon as possible, but this must be based on recovery plans at service level which are still evolving. A first review of the capital plan is the subject of a further report to this Emergency Cabinet. The revised plan, if approved, will be subject to a detailed review of the capital plan for the three years from 2020/21 to 2023/24 over the summer, with a proposed revised three year capital plan reported to Committee in December. Following that report the Council's Capital Strategy will be revised for approval prior to bringing a revised indicative 10 year plan, incorporating the revised three year plan, to Council when the budget for 2021/22 is considered in February 2021.

3.9 The review of the revenue budget must of necessity be a more iterative process as changing circumstances and government directives and financial announcements emerge. A first iteration will be reported to Council on 2 September 2020 and updates will be reported thereafter as costs emerge, with a view to reporting the estimated actual for 2020/21 to Committee on 1 December 2020 along with an updated three year budget forecast. The

Council's medium to long term financial strategy and Treasury Management Strategy will then require updating in the light of that forecast prior to consideration along with the budget for 2021/22 in February 2021.

3.10 The Council would normally consider a detailed variance report on the past year at the same meeting as the unaudited accounts are presented. Due to constraints of working during lockdown the variance report has not been prepared for this meeting. The variance report is generally a useful short-term financial planning tool but is less likely to be of significance during a period of rapid service re-design. The report will be submitted to Committee on 6 October 2020. The audited annual accounts will also be submitted at a later date than normal, due again to restrictions to working practices of the auditors in response to the pandemic , and are now due to be reported by 30 November 2020. This will not impact on the financial planning process.

3.11 The Council's budget for 2020/21 is reliant on reserves and to that extent is overcommitted. The short term financial strategy should be about removing that structural overspend. However, resources are limited and with services concentrating on recovery and redesign a traditional trawl for savings is unlikely to be an effective approach. A revised short term financial strategy will be drafted and brought to Council on 2 September 2020. That strategy will encompass the options available to generate savings and the flexibility which the Council has to manage the immediate impact of COVID-19 and to manage the impact on the financial planning process in the short term. Scottish Government has given an element of flexibility regarding the use of Early Years and Childcare expansion funding and the Pupil Equity Fund, and work has commenced to identify how much flexibility that gives in practical terms for Moray. As in previous years the other main source of flexibility is in the use of reserves. When the budget for 2020/21 was set the Council anticipated to have free reserves of £10 million. As reported in another report to this Cabinet meeting, the actual out-turn is free reserves of £14.7 million. Up to £1.2 million may be required as that is late funding from Scottish Government for a variety of reasons. So the provisional position regarding flexibility is as summarised below:

	£M
Balance on free reserves 31 March 2020	14.7
Potentially required for spend in 2020/21	(1.2)
Committed to balance budget	(2.3)
First estimate net spend on pandemic	(5.5)
Free reserves at 31 March 2021	5.7

It should be noted that as MIJB COVID costs are reported nationally through NHS reporting lines rather than the Cosla returns, this summary does not reflect the Council's share of any overspend by the MIJB during 2020/21 which is not funded centrally as referable to the COVID pandemic. From this it can be seen that there is unlikely to be significant flexibility around the use of reserves in 2020/21. The position reported to Council on 3 March 2020 indicating a potential use of free reserves in 2021/2022 is unlikely to remain feasible, adding to the savings which require to be identified for that year. A great many local authorities across Scotland will find themselves in a similar position and at a national level, Cosla is negotiating around new flexibilities which may be afforded to local government whilst also lobbying for additional funding. It should be noted that the Council has ear-marked reserves of £2.9 million for Council priorities, £0.7 million for the Improvement and Modernisation Programme, and continues to have flexibility to use capital receipts to fund transformation or to make savings in 2021/22 and 2022/23 so the Council is not reliant on free reserves to invest in modernisation.

3.12 A review of the Council's Housing Revenue Account (HRA) budgets – both revenue and capital – also requires to be carried out. Following the pandemic the Council has increased void levels, increased housing arrears, and the delay in construction of new housing will impact on rental income levels going forward. Maintenance work carried out by the Council's Housing DLO has been restricted to emergency repairs during the pandemic. Advice from Audit Scotland is that the cost of DLO staff should continue to be charged to the HRA but this may be the subject of challenge at a national level. If a successful challenge is brought that poses a risk to general funds. In parallel with the general fund budget the HRA budgets will be reassessed with a view to reporting to Committee on 1 December 2020.

3.13 Debt Management

As reported to Council on 17 June 2020, the Council experienced significant reduction in income received from Council Tax and from rental from the industrial estate. During lockdown the Council carried out none of its normal debt management procedures. This cannot be sustained and requires to be reviewed as the country moves through Phases 2 and 3 of the recovery route map. Clearly there is significant financial hardship and uncertainty for people but equally clearly this loss of income to the Council is unsustainable and all local authorities are therefore considering this issue or have already approved the recommencement of normal debt management albeit tempered by consideration of individual cases, generally from July 2020.

3.14 Council Tax

A detailed examination of the Council Tax revenues streams received in the first quarter does appear to indicate that with careful and sensitive management, additional income could be generated from Council Tax. It is proposed that following approval by this meeting of the Emergency Cabinet, officers commence the Council Tax debt management process, in the usual manner but with initial reminders reflecting an appreciation of the impact of the pandemic on many of our tax payers. Any indication of potential hardship resulting from the issue of these reminders or any requests to make payment over an extended period will be treated sympathetically. Only once the results of the initial reminder exercise have been assessed will any decision to instigate additional enforcement measures be considered and this will take several weeks.

3.15 Commercial leases

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Following the lockdown being announced and a deluge of rent enquiries being received from tenants it was agreed to defer pursuing new rental debt (if satisfied it had arisen as a result of the coronavirus), with a view to seeking phased repayments (up to 12 months) of monies owed once trading restrictions were eased/lifted. This is consistent with Scottish Government advice and the approach of the majority of other Scottish Councils.

Officers are working constructively with tenants to explore options and consider tenants' evidence and assess what form and level of rental support is required to allow businesses to survive on a sustainable basis. In addition such assessments also consider the likelihood of re-letting each property and any wider strategic importance to the local economy of particular businesses. Following consideration of the tenant's evidence one of the following outcomes is taken forward:-

1. The request for rental assistance is rejected.
2. Defer rent and arrange phased repayment agreements.
3. Rent reductions – specific short/medium term rental reductions, including rental holidays.

This process is delegated to officers with the exception of rent reductions requiring reports to the Policy and Resources Committee.

It is proposed that officers re-start debt management processes, following approval by this meeting of the Emergency Cabinet. The processes will take account of how easing of lockdown trading restrictions impact on businesses on a case-by-case basis but will also consider action following option 1 above and committee referral in terms of option 3.

3.16 For all debts raised and managed through the Council's Accounts Payable system it is proposed that the normal debt management processes of reminders and, if appropriate, agreeing a payment plan, is reinstated.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
Response to and recovery from the COVID-19 pandemic is the Council's current corporate priority. This inevitably impacts on the Corporate Plan and the LOIP.

(b) Policy and Legal
There are no policy or legal issues arising directly from this report.

(c) Financial implications
The financial implications of the pandemic are significant, with a current high-level estimate of unfunded costs of £5.5 million, excluding any additional costs to facilitate service recovery. The cost includes significant reduction in income and this report proposed measures to minimise the impact of lost income by resuming debt management procedures.

(d) Risk Implications
The pandemic creates significant risk to the national and local economy which will impact on Council services. The report highlights risk to achieving savings in 2020/21, risks to Council tax and other income,

risks to reserves and a consequent reduction in financial resilience, which itself creates further risks to services There is also a risk to the Council that Scottish Government funding for the MIJB mobilisation plan is insufficient to meet all costs and that independent of that that MIJB do not meet their recovery plan targets and continue to overspend. The Council would then fall liable for its share of the overspend

(e) Staffing Implications
No staffing implications arise directly from this report. All actions will be taken within the current staffing complement.

(f) Property
There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact
There are no equalities issues or impact on the socio-economic duty arising directly from this report.

(h) Consultations
Members of CMT, the Head of Governance, Strategy and Performance, the Taxation Manager, the Estates Manager, the Payments Manager and Tracey Sutherland, Committee Service Officer have been consulted in the preparation of this report and comments incorporated in the report.

5. <u>CONCLUSION</u>

5.1 The first high-level estimate of the full year effect of the COVID-19 pandemic is a shortfall against funding for the response to the pandemic of £5.5 million. This estimate does not include any costs of recovery of services.

5.2 The Council requires to review its general services and HRA budgets for 2020/21 and commence the financial planning process for 2021/22 in the light of the pandemic.

5.3 To assist in the process of recovery the Council should recommence its normal debt management process with immediate effect

Author of Report: Lorraine Paisey, Chief Financial Officer
Background Papers:
Ref: