



REPORT TO: MORAY COUNCIL ON 17 JUNE 2020

SUBJECT: FINANCIAL MONITORING – IMPACT OF RESPONSE TO COVID-19

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

1. REASON FOR REPORT

- 1.1 To inform the Council of the current estimate of the financial impact of the Council's response to the COVID-19 outbreak, as at 29 May 2020.
- 1.2 This report is submitted to Council in terms of Section III A(8) of the Council's Administrative Scheme relating to monitoring revenue expenditure.

2. RECOMMENDATION

2.1 It is recommended that Council notes:

- (i) the current estimated financial position for the initial lockdown period; and
- (ii) the longer term issues which will impact on the Councils finances.

3. BACKGROUND

- 3.1 The response to the COVID-19 outbreak will have significant financial impact on local authorities. COSLA are lobbying for Scottish Government to meet all costs incurred and as part of the on-going dialogue on this subject have agreed a standard template for gathering financial information. It seeks to gather the gross cost of the response. It is recognised that reporting cost estimates is an evolving area and that these current best estimates will change. There are also costs which are specifically excluded from the template and these are identified in paragraph 3.13 to 3.17. In the first instance estimates were asked from 24 March to 30 June 2020 only. The next iteration of the template will extend costs across the financial year. This will be a more challenging exercise as the costs of service redesign will be difficult to estimate in the early stages of recovery.
- 3.2 The summary costs of Moray's COVID-19 response for the period 24 March to 30 June 2020 as updated on 29 May 2020 are reported in the table below.

The costs estimated at 15 May and reported to COSLA were the subject of a report to the Emergency Cabinet on 21 May 2020. There are still areas where it is known that there will be additional expenditure but we have insufficient information to estimate that cost at present. It should be noted that Integration Joint Boards (IJB) have been reporting estimated costs through the health board since the onset of the outbreak and the costs reported by local authorities therefore exclude any costs on areas within the IJB remit. The net impact of the figures below is anticipated additional expenditure of £2.3 million during the period 24 March to 30 June 2020.

	Para ref	Total (£'000)	
		Recurring	One Off
Mobilisation costs			
Social Care Costs Outwith Remit of IJBs	3.4	138	0
Housing and Support for Vulnerable People	3.5	415	31
Workforce Costs	3.6	72	110
Non-Workforce Costs	3.7	1	13
Total		626	154
Loss of income and other costs			
Closure of facilities	3.8	1,229	50
Fees and charges	3.9	754	0
Other costs		0	0
Savings delayed	3.10	111	0
Total		2,094	50
Overall total cost & lost income		2,720	204
Reduced costs as a result of COVID-19		586	0

3.3 Details of the table above are discussed on a line-by-line basis below.

3.4 **Social care costs:** these costs are for children's services. As previously reported, the main anticipated cost (£90,000) is for Early Learning and Childcare (ELC) for key workers children. The cost included was a very high level indicative estimate but compares well to the actual costs incurred to date. It is anticipated that changing circumstances for carers and looked after children in residential and foster care arising from response to the COVID-19 may result in increased costs. Individual placements are kept under review and the current likely impact is additional cost of £48,000, an increase of £7,000 from that previously reported.

- 3.5 **Housing and support costs:** the costs of the various strands of response to food need - provision of vouchers to families entitled to free school meals (net of savings on the cost of food and other catering supplies); Flexible Food Fund (supporting those financially at risk), Community Food Fund (supporting local community and third sector responses to the vulnerable and marginalised) and food support for shielded people – as currently allocated amounts to £415,000. This cost will be met from the Food Fund. There will be other costs to be met from Moray's Food Fund allocation of £448,000. An amount is being retained in reserve to allow for emerging costs but this will be encroached upon in June to support flexible food fund payments. The cost of PPE for Council's non-social care staff has been included this section as a one-off cost - although further purchase of PPE is anticipated, it will be on an irregular pattern – as has the cost of a mailing to shielded people. This position is unchanged from that reported previously to the Emergency Cabinet.
- 3.6 **Workforce costs:** are primarily one-off costs of provisions of additional ICT, including the extension of access to the VPN. An estimate of additional staff time has been included to cover extension to Contact Centre hours and the Registrars service. These are high level cost estimates as previously reported. A further emerging cost is the cost of additional payments to supply teachers under the guidance issues by Scottish Government. This amounts to £42,000 to date and that sum has been included.
- 3.7 **Non-workforce costs:** As previously reported, £10,000 non-recurring cost is the cost from the software provider of modifying NDR bills to show the 1.6% rebate on the rate poundage which SG announced as part of its package of support for business. In addition to this the Council has incurred £3,000 non-recurring and £1,000 recurring costs for a booking system to allow household waste recycling centres to be re-opened whilst maintaining social distancing, avoiding dangerous traffic build ups in the vicinity of the centres.
- 3.8 The bulk of the cost of the COVID-19 outbreak for the Council in the initial lockdown period is anticipated to be from reduced income. During the lockdown the council will have no income from the closure of its leisure facilities, estimated at £590,000 for the three month period. Lost income from school meals is estimated at £618,000. There are associated cost reductions with both of these – recorded in the next section of the return (see paragraph 3.11). The loan of £50,000 to Moray Leisure Ltd is also included in this section as a one-off cost, although it is anticipated that this will be repaid. These costs have been previously reported. This report also includes a further £21,000 lost income as credit notes are now being issued for music tuition where the charged for level of lessons have not been delivered prior to lockdown. The amount included is the total number of credit notes issued at 29 May 2020.
- 3.9 As previously reported, lost income from waste collection fees and sale of recyclates is estimated at £197,000. Lost car parking income is estimated at £242,000 based on budget. An estimate of £60,000 lost income from roads construction consent is based on budget. Licenses have been given a three month extension and therefore budgeted income for three months (£255,000) is assumed to be foregone. It is known that harbour landings and other harbour income generating activity is reduced but the pattern of harbour

activity is complex and cost estimates have not yet been developed and so are not yet included in this section

- 3.10 As the Council concentrates its efforts on critical service to respond to the COVID-19 outbreak, some savings approved in the budget will be delayed. The Council approved savings from increased commercialisation of its leisure facilities and clearly this cannot happen during lockdown. £21,000 projected lost income is included. The Council also approved indicative savings of £360,000 from the Improvement and Modernisation Programme and slippage of £90,000 has been assumed for the first quarter.
- 3.11 Reduced costs from four areas have been estimated: savings on catering supplies (£260,000); savings on fuel of inactive vehicles (£51,000); utilities costs for closed facilities (£230,000); reduction in staff travel expenses (£45,000). These are all based on costs incurred in 2019/20 for the first quarter of the year. The savings in utilities costs for closed buildings has been reduced by £26,000 from that previously reported, to reflect the re-opening of schools to teachers in June. These savings total £586,000.
- 3.12 In addition to the above costs, the Council will see reduced income from Council Tax and rental from the industrial estate. The initial assessment of reduction in Council Tax income as reported to the Emergency Cabinet on 21 May was made based on Direct Debit payments at the beginning of April. Over three quarters of Council Tax income is collected by Direct Debit. This indicated a reduction of around £80,000 and was in line with the model used by COSLA to estimate the impact on Council Tax nationally. Further analysis including non Direct Debit payments indicates a reduction in income from Council Tax compared to April 2020 (after adjusting for growth in the Council Tax base and increases in the rate of Council Tax) of over £300,000. The total reduction in in-year Council Tax income in April was therefore £400,000. If this is replicated for May and June the Council faces a £1.2 million reduction in income. Some of that income may be collectable in future, but applications for the Council Tax Reduction Scheme have increased and so at least some of the loss will be permanent. Discussions are ongoing across Scotland as to the appropriate point at which to resume collection routines.
- 3.13 Debt on industrial premises rose by £90,000 from the end of March 2020 to the end of April 2020. The actual shortfall for these receipts will be dependent on the length of the lockdown and the impact on the Moray economy and people's individual circumstances. Cash flow for the quarter is likely to be reduced by £300,000.
- 3.14 There will be a further impact on the Council's finances from the COVID-19 outbreak. Scottish Government gave a concession for local authorities to use capital receipts to fund expenditure to bring about service change and make budget savings. This concession is time limited and ends in March 2022. The Council planned to use £2,000,000 capital receipts in 2020 to fund its Improvement and Modernisation Programme. Only emergency property transactions are being processed by the Register of Sasines. Furthermore, the significant capital receipts which the Council budgeted for are likely to be reduced by the impact of COVID-19 on property prices after the outbreak as the economy recovers.

- 3.15 The Council also budgets to capitalise the cost of staff involved in roads construction work and certain capital projects. This cost will become a charge to revenue in 2020/21 for the duration of lockdown. £6 million is budgeted to be charged to capital for the year, mainly from the roads DLO, and around half of that would relate to staff costs. This work is strongly seasonal and an exercise is being carried out between the roads service and the accountancy service to estimate the impact on the General Fund. Audit Scotland have confirmed that staff costs cannot be capitalised unless capital work to which they are correctly attributable has taken place. A rough preliminary estimate of the likely impact on the General Fund is £1.6 million for the period April to June 2020.
- 3.16 There will be further impacts from the current cessation of construction work. These will not all be evident in 2020/21. For example, the delay to the NESS energy from waste plant will require costs to continue to operate the Council's landfill site for longer than estimated. Those costs are currently estimated to be in the order of £300,000, but will not be seen for three years. Contract inflation is also likely to increase the cost of capital works but again this may not show until future years.
- 3.17 Clearly the longer the lockdown lasts the higher the cost for the Council. The financial impact at present remains a fluid estimate. However, it is important to recognise that final costs cannot be extrapolated from the current estimates of cost for 24 March to 30 June. The cost impact is likely to increase proportionately as time goes on. The Council will be asked to estimate full year costs for 2020/21 to COSLA shortly, and a template is being gathered to collect costs. It is unlikely that these can be estimated with any degree of certainty until detailed plans for service delivery have been developed.
- 3.18 Scottish Government in March 2020 confirmed an initial tranche of funding for local authorities to cushion the impact of the COVID-19 outbreak (the hardship fund). Moray's share of the hardship fund is £853,000. A further tranche of funding from Barnett consequential has now been confirmed and Moray's share of that funding was confirmed on 26 May as £2,644,000. The position reported above can be summarised thus:

	Para	£000s
Additional expenditure / loss of income	3.2	2,924
To be met from Food Fund	3.5	(415)
Reduction in expenditure	3.11	(586)
Council Tax	3.13	1,200
Industrial Estate rental	3.14	300
Unable to capitalise costs incurred	3.16	1,600
Hardship fund allocation		(853)
Tranche 2 funding		(2,644)
Estimated net cost to the Council (three months only)		1,526

3.19 Movement from previously reported position:

	Para	£000s
Estimated cost for three month period		1,510
Increase in social care costs	3.4	7
Increase in workforce costs	3.6	42
Booking system	3.7	4
Music instruction credits	3.8	21
Reduced savings from running costs	3.11	26
Council Tax receipts	3.13	960
Unable to capitalise costs incurred	3.16	1,600
Government grant	3.19	(2,644)
Total impact Q1		1,526

- 3.20 The COVID-19 pandemic as a significant post balance sheet event will be referred to in the Council's accounts for 2019/20. It creates a level of uncertainty around the value of the Council's property assets in particular. The Coronavirus Scotland Act 2020 allows an element of relaxation in the statutory timetable for publishing and auditing the accounts. It is intended that the unaudited accounts (under exception of the management commentary) will be reported to Council on 1 July 2020, with the start of the four week inspection period for the unaudited accounts delayed until 1 August to allow for completion of the management commentary. The variance analysis report which customarily accompanies the unaudited accounts will be reported in August and the auditors intend to finish their audit in time for the audited accounts to be reported in November 2020.
- 3.21 Although the pandemic impacts on the annual accounts, the more significant impact will be going forward. A road map for financial planning during 2020/21 has been drafted and the Council's short term financial strategy will be revised in early course. Both will be reported to Council as the first stage in reshaping our financial strategies to reflect the realities of the recovery stages from the pandemic.

4. **SUMMARY OF IMPLICATIONS**

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Response to the COVID-19 outbreak is the Council's current priority, with other activities on hold. This inevitably impacts on the Corporate Plan and LOIP.

(b) Policy and Legal

There are no policy and legal issues arising directly from this report.

(c) Financial implications

Financial implications are addressed throughout the report, which indicates a projected gross cost of £2.3 million in the first quarter of 2020/21, plus reduction in Council Tax income of £1.2 million, reduction in Industrial Estates rentals of £0.3 million, increased costs to revenue of £1.6 million from ceased capital works during lockdown which after

funding from Scottish Government is taken into account results in a net additional cost to the Council arising from the COVID-19 outbreak of £1.5 million. Reduction in capital receipts to fund improvement and modernisation is anticipated. There will be further impacts arising from the capital programme which are not yet quantified. Additional costs will be incurred as delivery of services is recovered. The impact will extend into future years.

(d) Risk Implications

There are risks to the Council's planned savings noted in the report. The COVID-19 poses risk to the local and national economy which will have wider ramifications for the Council's services.

(e) Staffing Implications

There are no staffing implications arising directly from this report.

(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 and Tracey Sutherland, Committee Services Officer have been consulted in the preparation of this report and any comments incorporated in the report.

5. CONCLUSION

- 5.1 The current estimated financial cost of response to the COVID-19 outbreak by the Council for the period 24 March to 30 June 2020 is estimated at £2.3m. There are areas of known cost not included in this estimate.**
- 5.2 Further cost of £1.2 million is being incurred in that period from lost Council Tax income and £0.3 million from reduced industrial estate rental.**
- 5.3 The impact of being unable to capitalise staff costs where staff have been unable to work on capital projects during lockdown is estimated at £1.6 million for the period April to June 2020.**
- 5.4 The current estimate outstrips the funding which has been made available by £1.5 million. In addition to this there will be reduced and delayed capital receipts, and impact on the capital programme which will have revenue consequences.**
- 5.5 The Council's financial planning processes and strategies require to be revised to reflect the impact of the COVID-19 pandemic and work is underway to do that.**

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Background Papers:

Ref: