
Report To:	Policy & Resources Committee	Date:	24 March,2020
Report By:	Chief Financial Officer	Report No:	FIN/35/20/AP/LA
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	COVID-19 Financial Considerations		

1.0 PURPOSE

- 1.1 The purpose of this report is to highlight to Committee the current financial pressures and supports relating to COVID-19 and to seek delegated powers where required to release funding.

2.0 SUMMARY

- 2.1 The potential extent and duration period of COVID-19 is not known and the implications this will have for the Council and the community are not certain. It is clear however by the level of support already announced by the Chancellor and the Scottish Government that there is the need for a financial injection from the public purse which is without precedent in recent times.
- 2.2 The Scottish Government announced a significant package of measures to support businesses and communities on the 18th March with the expectation that Councils would have a central role in distributing funding and delivering supports.
- 2.3 Work with Government officials is being co-ordinated by Cosla and Directors of Finance to develop processes and qualifying criteria and this is developing daily. Thereafter the expectation is that much of this funding will be distributed over coming days and weeks by Councils. Details of the funding package and the current understanding of the impact on the Council is shown in Appendix 1. Despite this welcome major package of support the Council will require to incur other costs for which it has not budgeted with the resultant impact on Free Reserves or current earmarked reserves.
- 2.4 It is envisaged that the financial impact on the Council will be in 3 main areas; income loss, expenditure increase and cashflow. Appendix 2 lists those areas not covered by the specific funding streams in Appendix 1 currently identified by the CMT with illustrative potential financial impacts.
- 2.5 The Chief Financial Officer has served notice on a 32 day £10million investment which will come into the Council on the 15 April. In order to ensure the Council has enough cash until that point a further £10 million has been borrowed 3 months earlier than planned.
- 2.6 Two of our key partners; Inverclyde Leisure and The Beacon, are effectively deficit funded by the Council and are heavily reliant on customer income. In line with the Council it is unlikely that their insurance will cover the full extent of any losses they incur and it is expected that they will approach the Council. Officers are engaging with both organisations whilst they assess whether any of the other funding supports announced by the UK and Scottish Governments can assist. In the meantime it is proposed to continue scheduled payments to both organisations.
- 2.7 A further issue relates to requests from some of the Council's suppliers/contractors for guaranteed payment whilst the services for which they contracted with the Council are not being delivered. Work on how councils approach this is being co-ordinated nationally and is also dependant on the application and timing of the very significant financial support announced by the Chancellor on the 20 March.

2.8 Members, Auditors and the public will want to be reassured that the Council has the financial resilience to deal with the short, medium and potentially longer term implications arising from COVID-19. The assessment of the Chief Financial Officer is that due to the level of Earmarked Reserves which could be freed up if required and the £3.8million Free Reserves available, the Council has a robust platform from which to meet the challenges ahead.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the main financial issues identified in relation to the COVID-19 outbreak and the very significant support packages announced by both the UK and Scottish Governments.
- 3.2 It is recommended that the Committee notes the detail of the Scottish Government support package detailed in Appendix 1 and delegates to the Chief Executive in consultation with the Chief Financial Officer and the Corporate Management Team the distribution of funding/support as soon as practicable.
- 3.3 It is recommended that the Committee notes the other financial pressures identified by the Corporate Management Team and delegates to the Chief Executive in consultation with the Chief Financial Officer and the Corporate Management Team to take the required action to support partners, businesses and the community
- 3.4 It is recommended that the Committee agree that any unbudgeted costs associated with COVID-19 not met from Government funding packages be initially met from the £3.8million Contingency Reserve and notes that updates will be provided to each meeting of the Committee.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 COVID-19 is presenting financial pressures for the UK and Scottish Governments that are without precedent. The situation and as a result the financial response is changing almost daily.
- 4.2 The Council approved the 2020/21 Budget on the 12 March. As part of the Budget, the unallocated reserves in excess of the recommended 2% limit were allocated to new projects.

5.0 MAIN FINANCIAL ISSUES TO CONSIDER

- 5.1 The Scottish Government announced a very significant package of measures to support businesses and communities on the 18th March with the expectation that Councils would have a central role in distributing funding and delivering supports.
- 5.2 Work with Government officials is being co-ordinated by Cosla and Directors of Finance to develop processes and qualifying criteria and this is developing daily. Thereafter the expectation is that much of this funding will be distributed over coming days and weeks by Councils. Details of the funding package and the current understanding of the impact on the Council is shown in Appendix 1.
- 5.3 Despite this welcome major package of support the Council will require to incur other costs for which it has not budgeted with the resultant impact on Free Reserves or current earmarked reserves. It is envisaged that the financial impact on the Council will be in 3 main areas; income loss, expenditure increase and cashflow. Appendix 2 lists those areas not covered by the specific funding streams in Appendix 1 currently identified by the CMT with illustrative potential financial impacts
- 5.4 In the immediate term the pressure will be on Council cashflow due to the time lag between funding being paid out for supports and grant being received from the Scottish Government. The Chief Financial Officer has served notice on a 32 day £10million investment which will come into the Council on the 15 April. In order to ensure the Council has enough cash until that point a further £10 million has been borrowed million 3 months earlier than planned.
- 5.5 A further issue relates to requests from some of the Councils suppliers/contractors for guaranteed payment whilst the services for which they contract with the Council are not being delivered. Work on how councils should approach this is being co-ordinated nationally and is also dependant on the application and timing of the very significant financial support announced by the Chancellor on the 20 March.
- 5.6 Two of the Council's key partners, Inverclyde Leisure and The Beacon, are effectively deficit funded by the Council and are heavily reliant on customer income. In line with the Council it is unlikely that their insurance will cover the full extent of any losses they incur and it is expected that they will approach the Council. Officers are engaging with both organisations whilst they assess whether any of the other funding supports announced by the UK and Scottish Governments can assist. In the meantime it is proposed to continue the current scheduled payments to both organisations.
- 5.7 A major challenge during this period is the balance between appropriate checks and balances to ensure that funding goes to those who require the support whilst also recognising the urgent need for many businesses and citizens to get support without delay. The landscape of supports being offered needs more clarity and Directors of Finance are engaging via Cosla to better understand the hierarchy of funding streams and how the Council takes these into account when approached for support.

6.0 IMPLICATIONS

6.1 Finance

Through a combination the Council's healthy reserves, under borrowing position and support from the IJB, the Council should be able to meet the financial impacts of COVID in the medium term albeit this may require members to reprioritise the use of some of the earmarked reserves. .

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no legal implications arising from this report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Equalities

- (a) Has an Equality Impact Assessment been carried out?

<input type="checkbox"/>	YES (see attached appendix)
<input checked="" type="checkbox"/>	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

- (b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

<input type="checkbox"/>	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
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X	NO
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(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

6.5 Repopulation

There are no repopulation issues arising from this report.

7.0 CONSULTATIONS

7.1 The CMT support the proposals in this report.

8.0 BACKGROUND PAPERS

8.1 None

COVID 19 – SCOTTISH GOVERNMENT FINANCIAL SUPPORT

	<u>Measure</u>	<u>Current Position</u>	<u>Council role/impact</u>
1/ a) b)	<p>Non Domestic Rates (Cost £1 Billion)</p> <p>1 Year rates holiday for all retail, hospitality and leisure properties from 1.4.20.</p> <p>1.6% relief on all properties from 1.4.20.</p>	<p>Government to provide clarity on qualifying properties. Relief thereafter to be applied to 2020/21 NDR Bills. Communications to be agreed.</p> <p>Relief to be applied to 2020/21 NDR Bills</p>	<p>Likely to delay annual billing. Significant cash flow impact until funding is received.</p> <p>Likely to delay annual billing. Council will have a one off saving of around £70,000</p>
2/ a) b)	<p>Grants to Businesses (Cost £1.2 Billion)</p> <p>£10,000 grant for all SBBS qualifying businesses and these which qualify for rural relief.</p> <p>£25,000 grant for all businesses in hospitality sector for RVs between £18,000 and £51,000.</p>	<p>Details awaited.</p> <p>Councils to administer and current position is that it will application based. A number of matters to be clarified regarding qualifying criteria (e.g.: empty properties, multiple properties with same rate payer etc.).</p> <p>Government view is that the bulk of the payments are made by early/mid-April.</p>	<p>Once details are publicised there will be a major pressure on the Revenues team and Council cash flow. An initial estimate is that payments could be up to £10 million. Short term borrowing carried out to meet this demand.</p>
3/	<p>Hardship Fund (£50 million)</p> <p>Flexible funding for Councils to meet extra costs not covered in other UK or SG supports.</p>	<p>Letter confirming Council funding received 20/3/20.</p>	<p>Council receiving £749,000 to meet some of the costs outlined in Appendix 2.</p>

4/	<p>Scottish Welfare Fund (£45 million)</p> <p>Funding on top of the annual £35 million funding.</p>	<p>Guidance on some relaxation to current process/evidence received 20/3/20. Awaiting award letter.</p> <p>Unclear how UK Government wage subsidy will impact on this.</p>	<p>Expect to receive around £900,000 extra funding. Team increased in size. Officers reviewing criteria to determine best way to get support to claimants as effectively as possible.</p>
5/	<p>SSSA Benefits & Council Tax Reduction (£50 million)</p> <p>Split unclear at present.</p>	<p>Scottish Government and Cosla drawing up rules on changing evidence requirements and application process to ensure awards are fast tracked.</p> <p>No details on SSSA Benefits as this will not be administered by the Council.</p>	<p>Increased workload for Benefits & Customer Services. 10% CTR increase will cost £600,000 over a full year.</p>
6/	<p>Supporting Communities Fund (£40 million)</p> <p>To address social isolation, distancing and to go to Community Groups.</p>	<p>No further details received.</p>	<p>Unclear what role the Council will have here.</p>
7/	<p>Food Fund (£70 million)</p> <p>For organisations to address food insecurity, especially older people and families who may not be able to rely on free school meals. To be administered by Councils.</p>	<p>Outwith the Free School Meal guidance, little else has been communicated.</p>	<p>Unclear how much the Council will receive a rough estimate is £1 million.</p> <p>Officers developing proposals and engaging with community partners as a matter of urgency.</p>

8/	<u>3rd Sector Partners Fund (£50 million)</u> <u>3rd Sector Resilience Fund (£20 million)</u> <u>Contingency (£25 million)</u>	These will not be administered by the Council. Signposting and eligibility criteria to be clarified.	No role for Council but may reduce requests from 3 rd sector for support.

APPENDIX 2

Financial Pressures & Risks

Budget Areas	Issue	Potential Impact £million
<p>Corporate</p> <p>a/ Cashflow: NDR Income</p>	<p>NDR income will be a fraction of that usually received during 2020/21. The Scottish Government has announced £1 billion substitute funding for Councils. Any impact will be cashflow related aside from additional billing and software costs.</p>	<p>0.020</p>
<p>b/ Cashflow - Council Tax Income</p>	<p>Household income is affected by sickness, home isolation, reduced income and temporary/permanent layoffs. There will be an impact on both the speed of Council Tax and ultimate Council Tax collected. The Council collects roughly £31 million in Council Tax per year. A 10% reduction in in-year collection would mean an average cashflow hit of £1,500,000 which would cost £45k in borrowing costs.</p>	<p>0.045</p>
<p>c/ Lost Income - Council Tax</p>	<p>In-year collection is closely linked to ultimate collection levels and based on a 10% in year collection reduction then it would be possible to experience a 2% reduction in the sum finally collected. 1% Council tax raises £315,000.</p>	<p>0.630</p>
<p>d/ Internal Resources Interest</p>	<p>Poorer cashflow and reduced interest rates will impact on investment income and internal interest income. Whilst some of this will be offset by savings in loans charges a net 50% reduction in 2020/21 IRI is feasible.</p>	<p>0.180</p>

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
e/	Fees & Charges	<p>The Council will lose significant income from the non-provision of certain services as buildings are closed eg: lets, school meal income, wrap around care, Day Centre charges etc. Finally, the closure of the CSC to cash payments allied to lower footfall will further reduce income. There are also requests from tenants of Council industrial & commercial properties to reduce and defer rent payments. A one off 20% reduction in fees and charges will cost £800k</p>	0.800
			1.675

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
2	Service Delivery		
a/	Elderly Care: Care Homes	The Government expects that Councils will use Residential & Nursing Care Homes to free up hospital beds. This will put more pressure on an already stretched area. A 5% increase in placements would cost approximately £700k/year	0.700
b/	Elderly Care: Home Care	Social Isolation could result in increased demand for Home Care. Again 5% increase would cost approximately £600k/year.	0.600
c/	Elderly Care: Employees	If a significant proportion of Home Care staff become sick or if providers services become stretched then a combination of redeployed resources, overtime and agency staff would be required. Based on a 10% uplift for a 3 month period then the cost would be £200k.	0.200
d/	Parking/Enforcement	The Council has suspended parking charges and enforcement for non-road safety matters for 4 weeks on the basis of this being reviewed monthly. A 3 month suspension would cost around £100k.	0.100

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
f/	Cleaning Buildings	Building cleanliness is viewed as a key factor in slowing the spread of COVID. Initially this will result in extra cleaning potentially followed by a period of reduced cleaning were buildings such as schools to close. On the basis that employees will be paid their core salary whether at work or not then this will result in a net cost to the Council. Allowing for potential deep clean costs a 5% increase in the cleaning budget will cost £0.085k	0.085
g/	Environmental Services - Employees	As for Home Care, maintaining much of the current level of front line service delivery will be expected. If sickness levels increase to 20% based on an average 10% increase in employee costs for 3 months the cost for Waste Services, Street Cleaning and Grounds services could cost £140k.	0.140
h/	ICT Licences/Kit	With the spike in remote/home working requests the Council will require to buy more Aventura licences and lap tops. Whilst an element of the kit purchase will be an advance on future years it is inevitable that spend on ICT will be greater than would have been the case had COVID 19 not arisen. Given the small size of the ICT team an allowance for overtime will be required.	0.100
			1.925

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
3	Other		
a/	Inverclyde Leisure	<p>Inverclyde Leisure generates 75% of its income from fees and charges with the Council making up the balance from the Management Fee. The closure of all facilities will have a major impact on income/cashflow. Having frozen Direct Debits IL are losing around £450k/month. Whilst there would be some savings in costs a 3 month close down is estimated to cost around £1.35million. It is unclear what other funding supports would be available to IL.</p>	<p>0.900 (Assumes Council fund 66% of a £1.35k loss)</p>
b/	Beacon Arts Centre	<p>Members have received many reports on the financial position of the Beacon. Whilst the financial position has improved, latest figures show the Beacon cashflow remains tight with the quieter spring/summer period to come. A prolonged reduction in the programme could require extra funding in 2020/21 by the Council and Creative Scotland unless other support is available from the UK/Scottish Governments.</p>	<p>0.100</p>

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
c/	Support for suppliers/contractors	<p>The Council is getting a number of approaches from current suppliers to guarantee contract payments whether or not services are delivered arising from a prolonged service close downs. Already School Transport providers and Early Years Providers are seeking assurances from the Council as are a number in the HSCP. The CMT has set up a process to assess these requests from a legal, procurement and financial perspective but will be guided by the national view which is being co-ordinated by Cosla.</p>	0.000
c/	COVID-19 Lead Officer etc: Costs	<p>There is a large amount of work co-ordinating with both external and internal services. In order to ensure the Council is able to develop plans whilst communicating to all parties, a dedicated senior post is required for an initial 6 month period supported by a co-ordinator from the IJB and extra media resources.</p>	0.120
			1.120

Financial Pressures & Risks

	Budget Areas	Issue	Potential Impact £million
4	Cost Reductions		
a/	<p>There are a few areas where there could be cost reductions depending on future decisions:</p> <ul style="list-style-type: none"> a) Catering provision eg: School Meals b) Overtime and Travel (General) c) Utilities - Schools/Public Buildings d) Ad Hoc Taxi use (Education & Social Care) e) Reduced NDR liability in 20/21. f) Internal transport g) Events 		
b/		Numbers in Care Homes and other forms of support including Home Care could drop at an increased rate.	