

PERTH & KINROSS COUNCIL

30 September 2020

REVENUE BUDGET 2020/21 UPDATE

Report by Head of Finance (Report No. 20/173)

PURPOSE OF REPORT

This report provides an update on progress with the 2020/21 Revenue Budget, considering, in particular, the additional financial pressures arising from Covid-19 and the potential mitigation measures. This is an interim position with further updates being provided throughout the financial year.

1. BACKGROUND

- 1.1. On 24 June 2020, the Council considered Financial Update – Covid-19 (Report No. 20/102) refers. That report provided an update on the potential financial implications of the Covid-19 pandemic upon the Council's overall financial position (as was known at that time).
- 1.2. At the meeting on 24 June 2020, the Council was advised that the potential overall cost of Covid-19 on the General Fund could be £27.615 million (gross) as well as a further impact on the Housing Revenue Account and Car Park Trading Account. The Council was also advised of the additional funding that was known at that time.
- 1.3. This report provides the Council with the latest forecast year end position for financial year 2020/21 based on actual expenditure and income to June 2020 (month 3 ledger) for the General Fund and Housing Revenue Account, update for subsequent material changes.
- 1.4. This report also provides a further update on the funding that has been made available to the Council.

2. LATEST PROJECTED FINANCIAL IMPACT OF COVID-19 ON COUNCIL

- 2.1 The projections included within this report are based on the most up to date information available at the time of writing. Undoubtedly assumptions will change as new information comes to light, as any further funding announcements are made or the Council's response to Covid-19 evolves.
- 2.2 Elected Members will be kept fully apprised of the latest projections at Council or Strategic Policy & Resources Committee meetings scheduled over the coming months.

2.3 The Executive Officer Team has reviewed the projected outturns based on the June 2020 (month 3 ledger), updated for any material movements, and these are set out in more detail below. The impact of Covid-19 has been summarised in the following categories:

- Impact on –
 - Expenditure
 - Income
 - Approved Savings
 - Local Taxes
 - Arm's Length External Organisations (ALEOs)
 - Other Areas

Impact on Expenditure

2.4 Using the latest information available, the projected impact of Covid-19 on Council **expenditure** is currently estimated at approximately **£10.8 million**. Examples of the pressures contributing to this position are set out in the following table.

<i>Giving every child the best start in life</i>	<ul style="list-style-type: none"> • Provision of free school meals - £0.795m • Provision of childcare / activity centres - £0.645m
<i>Developing educated, responsible and informed citizens</i>	<ul style="list-style-type: none"> • Additional teaching and support staff - £1.784m • Return of Schools - £0.592m • Additional property costs - £0.250m
<i>Supporting people to lead independent, healthy & active lives</i>	<ul style="list-style-type: none"> • Commissioned services within social care - £3.286m • Other social care - £0.601m • Food support - £0.115m
<i>Organised to deliver</i>	<ul style="list-style-type: none"> • Payments to Tayside Contracts - £1.8m • PPE / Cleaning / Supplies - £0.470m

Impact on Income

2.5 Using the latest information available, the projected impact of Covid-19 on Council **income** is currently estimated at approximately **£4.9million**. Examples of the income sources contributing towards this position are set out in the following table.

<i>Giving every child the best start in life</i>	<ul style="list-style-type: none"> Kids clubs - £0.390m
<i>Developing educated, responsible and informed citizens</i>	<ul style="list-style-type: none"> School meals - £1.040m Instrumental music - £0.179m
<i>Promoting a prosperous, inclusive and sustainable economy</i>	<ul style="list-style-type: none"> Planning & building warrant fees - £1.2m Licensing - £0.3m
<i>Supporting people to lead independent, healthy & active lives</i>	<ul style="list-style-type: none"> School lets - £0.085m Contributions Policy - £0.480m
<i>Creating a safe and sustainable place for future generations</i>	<ul style="list-style-type: none"> Greenspace (North Inch Golf / events) - £0.110m Waste (commercial / sales) - £0.415m
<i>Organised to deliver</i>	<ul style="list-style-type: none"> Recharges to Capital - £0.372m Statutory Additions - £0.1m Tayside Contracts Surplus - £0.3m

Impact on Approved Savings

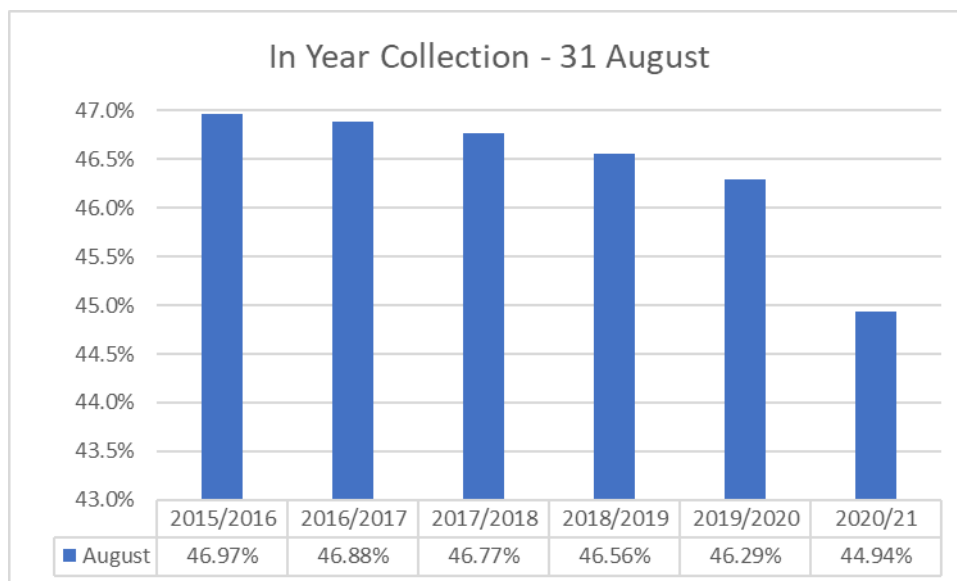
- 2.6 Using the latest information available, the projected impact of Covid-19 on Council **approved savings** is currently estimated at approximately **£1.6 million**. More information on this is set out in the following table.

<i>Promoting a prosperous, inclusive and sustainable economy</i>	<ul style="list-style-type: none"> Economic Development – sponsorship / advertising - £0.075m
<i>Supporting people to lead independent, healthy & active lives</i>	<ul style="list-style-type: none"> Older People – residential placements - £0.230m Learning Disabilities - £0.395m Income Contributions - £0.273m
<i>Creating a safe and sustainable place for future generations</i>	<ul style="list-style-type: none"> Recycling performance - £0.120m Review of cultural trusts - £0.150m
<i>Organised to deliver</i>	<ul style="list-style-type: none"> Review of support services - £0.250m Review of communications / design - £0.025m

Impact on Local Taxes

Council Tax

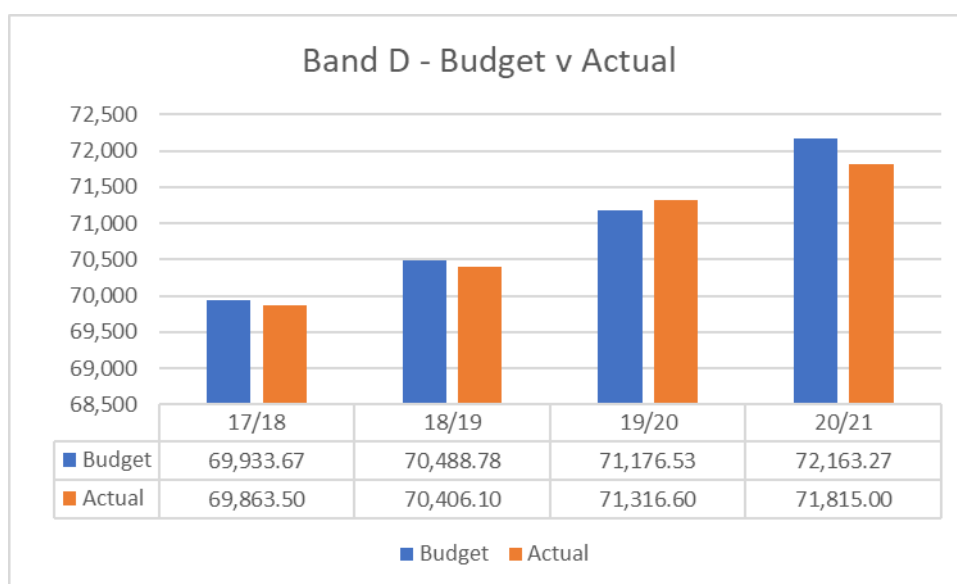
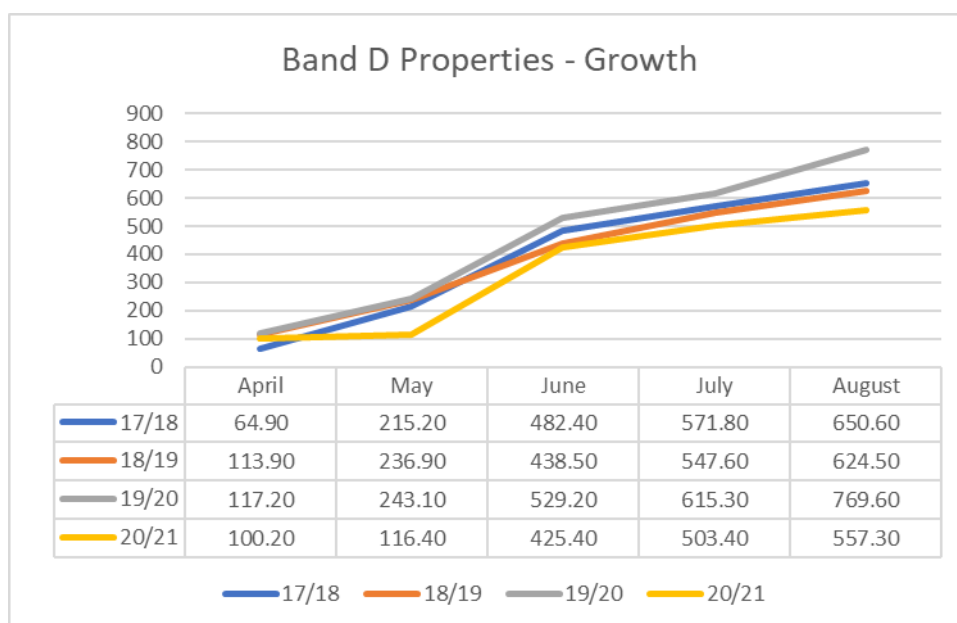
- 2.7 The amount of income the Council will generate from Council Tax is dependent on two main factors, firstly the collection levels and secondly, the number of Band D properties on the Valuation Roll.
- 2.8 Monitoring of Council Tax collection levels is carried out on a monthly basis. The graph that follows sets out collection performance to the 31 August 2020.



- 2.9 Collection levels have reduced compared to previous years. Between 2015/16 and 2019/20 the average collection figure by 31 August was 46.69%. The actual collection figure for August 2020 is 44.94% which is a reduction of 1.75% compared to the historical average and 1.35% on August 2019.
- 2.10 However, there is a risk that this position is over stated and showing an artificially high collection rate due to the impact of the Job Retention Scheme. As the scheme concludes, household budgets may come under pressure which may lead to a further reduction in collection levels. On that basis, three scenarios have been developed demonstrating reductions of 2%, 4% and 6% and the financial impact is shown in the following table.

2% reduction	£1.9m
4% reduction	£3.8m
6% reduction	£5.7m

- 2.11 Secondly, in setting the Council's Revenue Budget, assumptions are made on increases in the number of Band D equivalent properties. The two graphs set out below suggest that there is a risk that the level of growth will be less than budgeted assumptions. This potentially affects not only current year budgets, but also future years because of the impact on the base level of income. The other factor of note is that the growth in the current year appears to be flattening.



- 2.12 The potential financial consequences of a reduction in the budgeted assumptions of between 100 and 300 properties are set out in the following table.

100 properties	£0.132m
200 properties	£0.264m
300 properties	£0.396m

Non-Domestic Rates

- 2.13 There were significant changes to the Non-Domestic Rates (NDR) system, particularly around the introduction of a range of new reliefs to support the hospitality, leisure and retail sectors. This meant that the NDR bills were not issued until the end of June 2020.
- 2.14 The actual collection rate to 31 August 2020 was 15.24% compared to 43.03% for the same period in 2019.
- 2.15 The Scottish Government have recently asked for monthly returns on non-domestic rates income collection so that they can more fully understand the national position. This is a new development on previous years.

Impact on Arm's Length External Organisations (ALEOs)

- 2.16 Council officers have been working with all three ALEOs (Live Active Leisure, Culture Perth & Kinross and Horsecross Arts Limited) to more fully understand the implications of Covid-19.
- 2.17 Monthly payments by the Council have been maintained to all three ALEOs to assist with cashflow. Live Active Leisure and Horsecross Arts have also received support from the Job Retention Scheme. In addition, all three ALEOs have attracted further financial support that is set out in the table below.

	Live Active Leisure £'000	Culture Perth & Kinross £'000	Horsecross Arts Ltd £'000
Business Grants (retail, hospitality, leisure)	25	25	-
Third Sector Resilience Fund	-	17	100
Creative Scotland Venues Fund	-	-	750
TOTAL	25	42	850

Live Active Leisure

- 2.18 Live Active Leisure have developed a range of scenarios with a potential financial impact of between £650,000 and £1 million. The range of loss is dependent on when they will be allowed to start delivering services, any restrictions placed on services and several income assumptions.

Culture Perth & Kinross

- 2.19 With the Council continuing to provide its budgeted service level agreement contribution to Culture Perth & Kinross, the financial impact has been less significant with a reduction in income from sales, fees and charges. However, there may be additional restructuring costs incurred as the organisation prepares to deliver approved savings. For financial planning purposes it has been assumed that the Council may have to contribute £200,000 on top of the application of Culture Perth & Kinross reserves. The final non-recurring contribution will be dependent upon the outcome of any reviews.

Horsecross Arts Ltd

- 2.20 Horsecross Arts Ltd. have undertaken a comprehensive workforce management review over the last few months. With the funding outlined in the table above and the consequences of the workforce management review it is hoped that no additional funding will be required from the Council. This position will be kept under review in light of updated projections and Government advice.

Impact on Other Areas

Housing Revenue Account

- 2.21 It is anticipated that the Covid-19 pandemic will result in additional costs / reduced income for the Housing Revenue Account (HRA) of c£1.2 million. The majority of this is due to a projected reduction in Council house rent collection with some additional expenditure (PPE, cleaning, equipment). It is anticipated that this will be met from within existing HRA resources.

Car Park Trading Account

- 2.22 Between 1 April and 31 July, and in common with most Scottish local authorities, the Council did not charge for on or off-street parking. It is anticipated this will result in lost revenue of **c£1 million**. Initially this will be funded by the Car Park Trading Account Earmarked Reserve which, at 31 March 2020 stood at £1.183m million, but this level of reduced income will reduce it to less than £200,000. This may then have implications for the General Fund beyond the current year.
- 2.23 The following table summarises the potential gross financial impact of Covid-19 in a range between **£22.4 million and £26.8 million**.

	£m
Expenditure	10.8
Income	4.9
Approved Savings	1.6
Council Tax – number of Band Ds	0.1 to 0.4
Council Tax – collection levels	1.9 to 5.7
ALEOs	0.9 to 1.2
Housing Revenue Account	1.2
Car Par Trading Account	1.0
TOTAL POTENTIAL GROSS IMPACT	22.4 to 26.8

- 2.24 **ACTION:** The Council is asked to note the potential gross financial impact of Covid-19 of between £22.4 million and £26.8 million.

Other Financial Information

Business Grants

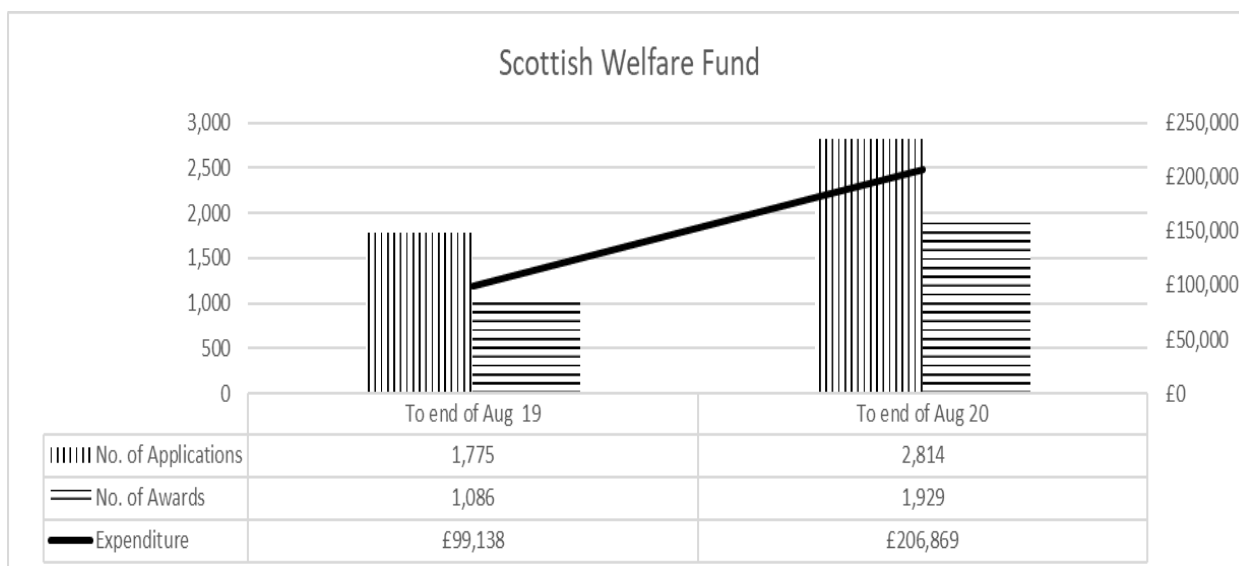
- 2.25 The Council received 4,568 applications to the Business Grants Scheme. Of those applications, 3,432 were paid and, 1,136 were rejected in accordance with guidance from the Scottish Government. Total grants of £37.034 million were paid.

Self Employed / Bed & Breakfast Hardship Grants

- 2.26 The Council received 313 applications for Self Employed / Bed & Breakfast Hardship Grants. Of those applications, 220 were paid and 93 were rejected. Total grants of £479,000 were paid.

Crisis Grants

- 2.27 As at 31 August the Council had received 2,814 applications for Crisis Grant funding. Of those applications, 1,929 have been paid, with a total value of c£207,000.
- 2.28 This area of activity has seen a significant growth in demand, and this is demonstrated in the following graph.



School Trips

- 2.29 To date, the Council has notified its insurers of 41 school trips that have been cancelled due to Covid-19 with a value of c£200,000. Of these claims, 39 have been settled and claims of c£193,000 agreed. It is anticipated that further school trips will be cancelled over the coming months, but the Council's insurer has confirmed that these will be covered too.

3. POTENTIAL MITIGATION MEASURES

- 3.1 This section of the report sets out several mitigation measures that could be applied to the Covid-19 response. For the reasons set out at paragraph 2.1 above, these measures will be refined as the projections evolve. It may be much later in the financial year before levels of confidence increase in areas of activity such as Council Tax collection.

Scottish Government Funding

- 3.2 The Council has received additional funding from the Scottish Government to support the response to Covid-19. The funding notified to date is set out in the following table.
- 3.3 Of the **£12.579 million** of funding allocated to date, £5.579 million is directed towards specific areas of activity and £7 million is to support the Council's wider response.

Funding to support specific initiatives / meet specific demand	
Scottish Welfare Fund	£0.410m
Food Poverty (1)	£0.621m
Food Poverty (2)	£0.595m
Registration Service	£0.017m
P&K IJB	£2.060m
Teachers / Support Staff	£1.284m
Education Logistics Funding	£0.592m
Sub-Total	£5.579m
Funding to support Council Response / Impact on Council	
Hardship Fund	£1.378m
Barnett Consequentials (1)	£4.272m
Barnett Consequentials (2)	£1.350m
Sub-Total	£7.000m
TOTAL (to date)	£12.579m

- 3.4 **ACTION: The Council is asked to approve the allocation of £12.579 million of Scottish Government funding towards the Council's Covid-19 response.**
- 3.5 The Scottish Government has provided confirmation that Early Learning and Childcare funding received in 2020/21 can be utilised towards the Covid-19 response across all Local Authorities in Scotland. Following an analysis of known commitments and the roll out of 1140 hours in Perth and Kinross being complete by the end of the year, it is proposed that £2 million be utilised to cover costs in relation to the Covid-19 response, in particular contributing to additional costs / reduced income within Education & Children's Services set out above.
- 3.6 **ACTION: The Council is asked to approve the utilisation of £2 million from Early Learning & Childcare towards additional costs / reduced income related to the Council's Covid-19 response.**
- 3.7 The Scottish Government has notified Councils of other funding e.g. Council Tax Reduction Scheme or Scottish Welfare Fund but these have not been allocated to individual Councils.

- 3.8 In addition, the Council received £37.328 million and £481,000 to support the Business Grants Scheme and Self Employed / Bed & Breakfast Hardship Funds respectively. However, this funding is passed straight to eligible businesses / organisations and therefore is not available to support the Council's response. Further details on this are set out in the following table. The under spend on the Self-Employed / Bed and Breakfast Hardship Fund has already been returned to the Scottish Government and it is anticipated that the same will be true with the Business Grant Scheme.

Funding that the Council will pass through to businesses (no direct benefit)		
	Allocation	Spend
Business Grant Scheme	£37.328m	£37.034m
Self Employed / Bed & Breakfast Hardship Fund	£0.481m	£0.479m

Non Covid-19 Revenue Monitoring

- 3.9 At this time the Council's response to Covid-19 has generated a net under spend of £3.863 million across other expenditure budgets – this figure will change as the financial year progresses. This is summarised in the following table.

Projected Over / Under Spends	
	£'000
Staff Slippage	(267)
Emotional & Behavioural Disorders	(241)
Property Costs – energy / water / maintenance	(1,375)
Partner Providers	(225)
Slippage on vehicle replacements	(365)
Housing Support / Care & Repair	(400)
Slippage on vehicle activated signs	(300)
Other Social Care	(848)
Other Education	(211)
Other Corporate	(436)

GROSS PROJECTED UNDER SPEND	(4,668)
School Transport	291
Additional Support Needs	212
Foster / Kinship Care	302
GROSS PROJECTED OVER SPEND	805
NET PROJECTED UNDER SPEND	(3,863)

3.10 ACTION: The Council is asked to approve the application of £3.863m of other under spends towards the Covid-19 response.

3.11 In summary the potential size of the financial challenge facing the Council is currently estimated at between **£1.7 million and £6.1 million**. These figures will be updated and refined as the financial year progresses and more information becomes available e.g. local tax collection. This position is summarised in the following table and includes the measures identified to date by officers reduce, as far as possible, the impact of Covid-19 on the current year Revenue Budget. This work will continue over the coming months and beyond.

POTENTIAL FINANCIAL CHALLENGE	
	£m
Total Potential Gross Impact (see 2.22 above)	22.4 to 26.8
Scottish Government Funding (see 3.4 above)	(12.6)
Early Learning & Childcare (see 3.6 above)	(2.0)
Other projected under spends (see 3.10 above)	(3.9)
HRA Contribution	(1.2)
Car Park Trading Account	(1.0)
REMAINING POTENTIAL GAP (NET)	1.7 to 6.1

3.12 ACTION: The Council is asked to note a remaining net financial gap of between £1.7 million and £6.1 million.

4. OTHER POTENTIAL COST PRESSURES

4.1 As well as the known costs identified in section three above, as the Council progresses with Renewal and Recovery, there are several other potential expenditure pressures that the Council may face over the short and medium term. At this time, it is not possible to quantify the totality of these additional costs, or indeed when the funding will be required. The following section provides further information on these areas.

Recovery & Renewal

- 4.2 Although lockdown restrictions are gradually being lifted, local outbreaks provide a reminder that the pandemic is by no means over. The Council continues to gather data on the events of recent months in a variety of ways, therefore the impact of COVID 19 on Perth and Kinross is becoming clearer. This information will be helpful in informing the development of the recovery and renewal plans and whilst each of the workstream plans are at different stages of development, a significant amount of investment will be required, particularly about the support to communities, businesses and to address the impact of climate change. The way in which the Council delivers its services will also change, which will also have a bearing on its resources, and it is hoped that by adopting a Perth and Kinross Offer approach, services will be more targeted and efficient, which in some cases could lead to savings.
- 4.3 Nevertheless, it is too early to accurately quantify the level of resources needed, or any savings which could be achieved, however it is important to note that recovery and renewal plans should be seen in the context of delivering the Offer, and Council's objectives and priorities in the longer term. As such, investment requests or saving proposals may be delivered over a number of years.

Digital Investment

- 4.4 Perth & Kinross Council's ambition is to be Scotland's leading digital local authority. Since 2016, the Council's Building Ambition programme has been delivering positive digital change, including embedding organisation-wide platforms for Mobile Working / Scheduling and Online Services / MyAccount. Over time, these initiatives (funded through non-recurring resources) are helping the Council change its business operating model.
- 4.5 The Council's increasing digital maturity has highlighted four fundamental building blocks required to ensure it progresses with embedding digital at the core of all it does and to ensure it is able to realise benefits from transformational change:
- a shared data management platform;
 - further embedding of Online and Mobile Working solutions as shared Council platforms from which to deliver a broader range of digital services; accelerating / extending existing workstreams; and taking advantage of emerging opportunities;
 - creating new digital products and services through technological innovation and integrating these with shared platforms; and
 - delivering the digital skills support needed to ensure staff have the confidence and know-how required to use new platforms effectively and adopt new ways of working.
- 4.6 To ensure the Council is best placed to optimise benefit from its digital investment, there will be a requirement for more resources in each of these key areas to further embed our Online, Mobile and Data platforms.

Further Education costs

- 4.7 With schools reopened from 12 August 2020, future cost pressures have been estimated but the level of these will depend on several factors as we navigate the 2020/21 school session. These factors include the level of Covid-19 cases in our communities, including self-isolation, as they will impact on available workforce capacity at any time likewise whether further local or national lockdowns are required to be implemented. The costs associated with operating schools under Covid-19 measures are likely to increase until such time as the education recovery planning mitigations are no longer necessary. The cost pressures identified include additional teachers and support staff, additional cleaning, PPE and infection control resources and required changes to home to school transport.
- 4.8 Funding has been allocated to Perth & Kinross Council for some of the cost pressures identified and flexibility within the terms and conditions of some ring-fenced funding has been granted to support meeting Education Covid-19 costs. This additional funding and flexibility, however, currently does not fully cover the known or projected costs anticipated. It is understood that there is a further £30 million available nationally to support education but that this will be allocated on the basis of actual costs.

Wider welfare provision

- 4.9 During the period of lockdown, the Council has invested in a number of community-led or community-supported initiatives in response to COVID-19 and lockdown to provide wider welfare support. This includes the provision of food, awareness raising, and volunteer support and co-ordination.
- 4.10 The Council has also worked with the Local Area Partnerships to support several initiatives, particularly focussed on food insecurity. It is anticipated that community food initiatives will continue over the medium to longer terms.
- 4.11 It is also anticipated that wider community / welfare support will be required for a number of years. The Council will continue to work with Local Area Partnerships and our communities, but further investment may be required as the Perth and Kinross Offer develops further.

Business & Economy

- 4.12 The impact of the pandemic on local businesses was sudden and severe, as many were forced to close or restrict their operations significantly. Those key businesses that did continue to operate often struggled with staff absence due to staff requiring to shield or self-isolate. Many employees were furloughed, and a number of businesses made some staff redundant or actually had to close due to lack of trade. The total number of people employed in Perth and Kinross who are furloughed is currently 22,200, representing 33% of all eligible employees, this is the 2nd highest rate in Scotland just behind Highland on 34%, compared to a Scottish average of 30%. Across Perth and Kinross, unemployment has risen sharply in the period from March to August,

with the overall claimant count increasing by 151% from 1,860 (2%) to 4,670 (5.1%), with the highest increases reported in the female rate (+172%) and those in the 18-24 age range (+181%). The Scottish rate is currently 8%, but the rise in the same period was 103% compared to the Perth and Kinross which was 151%.

- 4.13 In late March, the Council established a Business Taskforce with a number of key economic development partners. The Taskforce's focus has been on providing advice and guidance to numerous businesses looking for support. The Council has administered a number of the Scottish Government Funded Business Grants Schemes and, to date, has supported 3,432 businesses to secure £37.034 million of grant. The Council has to date published 48 Business Bulletins to provide regular updates to businesses, conducted two Business Barometer surveys to gauge local impact, and increased support available to businesses (particularly on-line). In addition, an Economic Bulletin was published which highlighted the early economic impacts of Covid 19 on the local economy.
- 4.14 The current focus is on developing a comprehensive partnership Economic Wellbeing Plan to help the local economy recover and grow. The consultation period on the Draft Plan has just closed, and it will be revised to take on board comments received.
- 4.15 The Council has developed a draft programme of actions under three main headings of support for People, Business and Place. Identifying short, medium and long term responses; emerging themes include: digital, connectivity, skills (including craft, modern apprenticeships and graduate opportunities), entrepreneurship, engagement and co-production, clean growth, natural capital, community wealth building and re-imagining our City and town centres.

Further local lockdowns

- 4.16 As has been the case in other areas of Scotland, there is an ongoing risk of local lock downs over coming months and beyond impacting on areas across Perth and Kinross. If this does occur, there may be additional costs if it is necessary for the Council to provide immediate welfare support to communities. There may also be a negative impact on local economies.

Other Areas for Consideration

- 4.17 In terms of ongoing pressures on the Revenue Budget, the Council also needs to be aware of the potential implications of decisions on the Capital Budget. There is also a risk that staff slippage targets across the Council become increasingly challenging as external employment opportunities deteriorate and that there is an impact on local taxes collection and growth in the number of Council Tax properties into future years.

- 4.18 As all the areas set out above are developed, the financial implications will be reported to future meetings of the Council or Strategic Policy & Resources Committee or included in future years' Revenue Budget Submissions.

5. OTHER POTENTIAL MITIGATION MEASURES

- 5.1 As set out in paragraph 3.12 and in section four, the Council faces significant financial challenges over the short, medium and longer term. The purpose of this section is to set out how the Council could respond to the challenge set out above.

Further Scottish Government Funding

- 5.2 COSLA continues to lobby the Scottish Government for additional financial support for Councils. At this stage there is no specific information on any further funding.
- 5.3 There are several funding streams that have still to be distributed by the Scottish Government which may further contribute towards the financial challenge facing the Council.
- Education Recovery - Ringfenced funding to meet further costs - £30m
 - School Transport - £1.5m
 - Council Tax Reduction Scheme - £50m
 - Scottish Welfare Fund - £23m
- 5.4 In addition, the UK Government has launched a local government income compensation scheme for lost sales, fees and charges. The scheme compensates English local authorities for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services in 2021/22. Under the scheme, Councils are expected to absorb the first 5% of losses with compensation of 75p in the £ being paid on the balance thereafter. The scheme relates only to budgeted income and is based upon the submission and approval of claims. Council Tax income, investment income, income from housing rent and income generated by Arms Length External Organisations (ALEOs) are all excluded from the scheme.
- 5.5 The Convention of Scottish Local Authorities (COSLA) are currently in discussion with the Scottish Government over the introduction of a similar scheme for Scotland. COSLA have stressed the importance of including ALEO income within a Scottish scheme given the considerable financial pressure these organisations have experienced as a result of Covid 19. At this time, the details of a Scottish income compensation scheme are still to be confirmed and elected members will be updated as and when further information becomes available.

Reserves

- 5.6 As at 31 March 2020, the Council had £49.296 million of General Fund Reserves. Of these Reserves, £36.375 million was earmarked for specific

purposes as set out in the 2019/20 Audited Annual Accounts. This means that the Council has c£12.9m (or 3.7%) of unearmarked Reserves.

- 5.7 Officers have undertaken a further analysis of the earmarked Reserves and identified several areas that could be unearmarked, up to c£8 million potentially. Any proposals to unearmark Reserves will have an impact on future plans to varying degrees. This work will continue and be refined as the totality of the potential funding gap becomes clearer and be included in future updates.

Treasury Management

- 5.8 The Cabinet Secretary for Finance, supported by COSLA, wrote to the Chancellor of the Exchequer on 9 September 2020. This letter set out a number of financial flexibilities to allow Councils to manage funding pressures they may face due to Covid-19 as follows –

- Capital Grant / Borrowing – permission for Councils to use 25% of capital grant towards revenue pressures or for them to borrow up to £156 million for Covid-19 costs.
- Capital Receipts Received in 2020/21 & 2021/22 – allow capital receipts to meet funding pressures.
- Credit Arrangements – reform the statutory framework for leases by reverting back to property accounting practices, i.e. no statutory adjustments for leases.
- Loans Fund Repayment Holiday

- 5.9 Slippage in the current year capital programme has already resulted in savings in Loan Charges of £302,000 this year, and a further £1.552 million projected for next year when repayment of current year expenditure would have commenced. These savings, totalling £1.854 million could be applied in the Revenue Budget in the current year by managing the contributions to the Capital Fund. It is anticipated that further slippage and savings as a result of the current (and ongoing) restrictions will be identified once the full impact of the pandemic can be determined.

Other Savings

- 5.10 Work will continue across the Council to mitigate the financial impact of Covid-19 on the Revenue Budget, both in the current financial year and in future years.
- 5.11 **ACTION: The Council is asked to note the options that may be available to contribute towards the financial consequences of Covid-19.**
- 5.12 There is a further Elected Member briefing session scheduled for Monday 26 October to provide an update on the latest developments. Additional briefings

will be provided to elected members in December and January or when significant information is received such as clarity on the Income Compensation Scheme.

6. OTHER 2020/21 ISSUES

- 6.1 In order to ensure that the 2020/21 Management Budgets continue to reflect the operational requirements of the Council, there are a number of adjustments required. These are summarised below and set out in detail in Appendix 1.

Issues arising from financial year 2019/20

- 6.2 In completing the 2019/20 Audited Annual Accounts, several issues have been identified which require adjustments to be made to the 2020/21 Management Budget as follows:
- Devolved School Management - £554,000
 - Revenue Grants - £2.528 million – see Appendix 1
 - Transformation - £985,000 – see Appendix 1
 - Bridge Studies - £132,000
 - Public Sector Network Compliance - £17,000
 - Micro Business Funds - £60,000
 - Communities -£40,000
- 6.3 The proposed carry forward of revenue grants includes the Pupil Equity Fund, General Revenue Grant (including 1 + 2 Languages, Additional Support Needs and School Counsellors) and various other grants across the Council.
- 6.4 **ACTION: The Council is asked to approve the adjustments totalling £4.316 million to Management Budgets, funded from earmarked Reserves, to reflect issues arising from the 2019/20 Annual Accounts. These adjustments have no overall impact on the budgeted level of uncommitted Reserves.**

Movements in Funding (Non-Covid)

- 6.5 Since the 2020/21 Revenue Budget was set by the Council on 6 March 2020 (Report No. 20/57 refers), notification has been received of additional resources in the current financial year.

Scottish Government: Revenue Support Grant (£757,744)

- Discretionary Housing Payments: £664,057 (Corporate & Democratic Services)
- Teachers Induction Scheme: £80,687 (Educations & Children's Services - ECS)
- Community Justice Partnership: £13,000 (ECS)

- 6.6 The Scottish Government has advised that this increase in funding will be made through a redetermination of the Council's Revenue Support Grant. It is, therefore, necessary to adjust the budgets for Education & Children's Services, Corporate & Democratic Services and Revenue Support Grant.

- 6.7 **ACTION: The Council is asked to approve the adjustments set out at 6.5 above.**

Scottish Government Ring Fenced Grant (£43,245)

- 6.8 The Scottish Government has advised that the final amount allocated for Pupil Equity Funding will be £27,593 greater than previously advised; and that the amount for Criminal Justice will be £15,652 greater than previously advised. It is therefore necessary to adjust both the budget for Education & Children's Services and Ring-Fenced Grant.

- 6.9 **ACTION: The Council is asked to approve the adjustments set out at 6.8 above.**

Other Funding (£3.583 million)

- 6.10 Other funding amounting to £3.583 million will be paid outside the Revenue Support Grant mechanism as Other Grant income and is therefore cost neutral in terms of the budget summary. The detail of this other funding is set out in Appendix 2.

- 6.11 **ACTION: The Council is asked to note the receipt of £3.583 million of additional resources.**

Movements in Reserves

- 6.12 Within earmarked Reserves there is £1.506m to support the Remodelling of Residential Care (Children and Young People). Of this, £1.090 million has already been committed to the project. Approval is sought to draw down the balance of £416,000 over two years to fund four additional social worker posts to support the additional demand pressures of the children and families social work service.

- 6.13 **ACTION: The Council is asked to approve the allocation of £416,000 over two years to meet additional demand pressures on the children and families social work service.**

Virements

- 6.14 There are several internal virements that, in line with financial regulations, require approval. The approval of these virements will ensure that the 2020/21 Management Budgets reflect operational responsibility.

- 6.15 **ACTION: The Council is asked to approve the adjustments to management budgets set out in section 6.12 and Appendix 3.**

7. CONCLUSION AND RECOMMENDATIONS

- 7.1. Covid-19 has resulted in the Council facing a significant financial challenge, in terms of additional expenditure, reduced income and non-achievement of savings.
- 7.2. To date the gross financial impact of Covid-19 is estimated at between £22.4 and £26.8 million. Mitigation measures of £20.7 million have been identified resulting in potential financial gap of £1.7 million to £6.1 million.
- 7.3. In addition, there will be further cost pressures and possibly other mitigation measures that will up change this position which will be reported to Elected Members over coming months.
- 7.4. The Council is requested to:
- (i) Note the potential gross financial impact of Covid-19 of between £22.4 million and £26.8 million.
 - (ii) Approve the allocation of £12.579 million of Scottish Government funding towards the Council's Covid-19 response.
 - (iii) Approve the utilisation of £2 million from the 2020/21 allocation for Early Learning & Childcare towards the additional costs / reduced income related to the Council's Covid-19 response.
 - (iv) Approve the application of £3.863m of other net under spends towards the Covid-19 response.
 - (v) Note a remaining net financial gap of between £1.7 million and £6.1 million.
 - (vi) Note the options that may be available to contribute towards the financial consequences of Covid-19.
 - (vii) Approve the adjustments to management budgets set out in section six.

Author(s)

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Scott Walker	Chief Accountant	chxfinance@pkc.gov.uk

Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	23 September 2020
Karen Donaldson	Interim Chief Operating Officer (Corporate & Democratic Services)	23 September 2020

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.2 This report relates to all these objectives.

2. Resource Implications

Financial

- 2.1 There are no direct financial implications arising from this report other than those reported within the body of the main report.

Workforce

- 2.2 There are no direct workforce implications arising from this report other than those reported within the body of the main report.

Asset Management (land, property, IT)

- 2.3 There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3 Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

Internal

- 4.1 The Executive Officer Team have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 –	2019/20 Final Accounts Adjustments
Appendix 2 –	2020/21 Other Funding
Appendix 3 –	2020/21 Virements