

Item: 14

Special General Meeting of the Council: 30 June 2020.

Covid-19 Pandemic – Additional Costs.

Report by Head of Finance.

1. Purpose of Report

To provide information relating to the Council's financial position in the current year as a result of events arising from the COVID-19 pandemic.

2. Recommendations

The Council is invited to note:

2.1.

The significant estimated expenditure and income impacts of the COVID-19 pandemic on the Council and its activities and the offsetting savings identified to date.

2.2.

That the Council will continue to submit regular updates to the Convention of Scottish Local Authorities (COSLA) on these expenditure and income estimates with a view to informing negotiations with both the UK and Scottish Governments.

2.3.

That the revenue and capital budgets will be subject to change as part of the Renewal Programme once the ongoing impacts of the current disruption become clearer.

3. Introduction

3.1.

The impact on the Council's financial position as a result of the current operating conditions under lockdown is still an emerging picture. The Council has been collecting information on additional costs which have been returned to the Convention of Scottish Local Authorities (COSLA), but it is likely with the disruption to staff working from home and consequential difficulties that the information collected to date is incomplete.

3.2.

There has however been a serious detrimental impact on the Council's financial position since the budget was approved on 3 March 2020. Additional expenditure has been incurred in many areas; some small savings have arisen, but the most significant impact has been on income generation as fees, sales and charges have been decimated.

3.3.

The Council has managed to maintain a positive cash position in financial year 2020/21 to date through the following measures:

- Revenue Support Grant – the Scottish Government has reprofiled grant payments for May, June and July providing additional funding for those months. The front loading of general revenue grant will be reversed between January and March 2021.
- The receipt of business grants funding on 1 April 2020 of £8.4 million for eligible local businesses has aided cash flow. To date £6.85 million has been paid out to local businesses from this tranche of funding.
- Council Tax billing and collection has continued although no new recovery action has been started during the lockdown.
- Non-domestic rate bills were issued late on account of last minute Government changes to rates relief and difficulties obtaining software updates. Rate collection has however commenced, although again, no recovery action is being pursued during the lockdown.
- The Council has been allocated a share of £155 million of Scottish Government Barnett consequential funding. This amounts to £1.085 million and has been paid in weekly instalments along with the general revenue grant payments in June 2020.
- Slippage on contractual payments as a result of COVID-19 disruption to contracts has also meant that anticipated cash outflows on the capital programme have not occurred when they were expected.

4. Cost Pressures Return

4.1.

Early on in the lockdown period it was recognised that there would be additional costs incurred in managing the crisis. COSLA therefore set about gathering additional cost pressure information. The intention was to capture costs and savings occurring during the COVID-19 pandemic and which go beyond the usual day to day costs of operating a local authority. The purpose of the return was to inform discussion and negotiation with Scottish Government over additional funding to compensate local authorities for additional costs incurred.

4.2.

The first iteration of the cost pressures template was seeking to capture estimated additional costs and savings for the financial year 2020/21. The second iteration sought to refine the first but was only looking at the period to the end of June 2020, whilst the third iteration sought estimates of costs for the period ending March 2021. A separate exercise has been conducted for health and social care with any additional cost pressures for Council social care services being captured as part of that separate exercise.

4.3.

The initial return figures for Orkney Islands Council submitted on 24 April 2020 were dominated by the loss on Strategic Reserve Fund investments which are “held for profit and loss” so that gains or losses are charged through the income and expenditure account as a revenue cost. The overall total cost and lost income was estimated at £20.7 million with one off costs of £1.2 million. Reduced costs as a result of COVID-19 were estimated at only £0.031 million. Strategic Reserve Fund losses accounted for £20.0 million of the £20.7 million total.

4.4.

The second iteration of the COSLA return completed two weeks later, on 15 May 2020, concentrated on the period to the end of June 2020 and disclosed overall total costs and lost income of £3.6 million with compensating reduced costs of £0.355 million. The significant difference in this return were as follows:

- Inclusion of lost harbours income from cruise liners and reduced wharfage and passenger dues.
- Reduction in income on Orkney Ferries.
- Exclusion of losses on the Strategic Reserve Fund which were omitted following discussion at a moderation meeting of Directors of Finance.

4.5.

The third iteration of the COSLA return, completed on 19 June 2020, sought estimated costs for the period ending March 2021 and disclosed overall total costs and lost income of £28.8 million with compensating reduced costs of £1.3 million. The Strategic Reserve Fund losses were once again included in this return, accounting for £20 million of the £28.8 million total losses. The predicted operating deficit as a result of COVID-19 has therefore been estimated at £8.8 million.

4.6.

Worthy of mention as contributing significantly to the £8.8 million operating deficit mentioned above is the loss of £3.0 million on cruise liner income, £1.0 million wharfage and harbour dues and £2.0 million lost income on Orkney Ferries.

4.7.

Appendix 1 summarises the estimates of the main areas of increased expenditure and reduced income for Council services resulting from the emergency situation. It is anticipated that a further iteration of the cost pressures return will be requested by COSLA in July 2020.

5. Human Resource Implications

5.1.

Staff costs have contributed to additional expenditure with compensation payments made to supply teachers and other casual staff to ensure that they received payment equivalent to the average earned in the first three months of the year. The saving that might have been expected when there were no work opportunities for casual staff has not therefore been realised.

5.2.

All staff have continued to receive their normal pay during these exceptional times even where they have been unable to work, for example, those staff who are shielding, those with underlying health conditions, staff with childcare responsibilities, and those where their services are simply closed.

6. Corporate Governance

This report relates to the Council complying with its financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

The General Fund revenue budget for financial year 2020/21 has been set at £86.465 million.

7.2.

At the Special General Meeting held on 11 June 2020, the Council considered the provisional budget outturn position for General Fund Services for 2019/20 and approved a contribution of £3.997 million to the General Fund non-earmarked balance which has resulted in a non-earmarked General Fund balance of £8.786 million.

7.3.

The Council has been notified that it will receive a share of £50 million of hardship funding, amounting to £0.35 million, and share of £155 million Barnett consequential, amounting to £1.085 million. These additional sums towards the COVID-19 pandemic costs are clearly significantly less than the initial estimate of £8.8 million operating deficit referred to in section 4 above. The Council is however pursuing additional funding for ferry services from Government, seeking parity of treatment with other operators of public transport services.

7.4.

As the Council moves through the recovery and renew phases of this emergency situation the costs of the pandemic will become more apparent and it will be necessary to review revenue and capital budgets and existing savings targets to identify where it is necessary to supplement budgets and where additional savings may be achieved.

8. Legal Aspects

Financial monitoring and reporting help the Council meet its statutory obligation to secure best value.

9. Contact Officer

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10. Appendix

Appendix 1: Summary of Estimated Additional Cost Pressures and Reduced Income.

