

Committee: **Executive Committee**

Date of meeting: **24th June 2020**

Report Subject: **The impact of Covid-19 on the 2020/2021 Revenue Budget and Update on Bridging the Gap Proposals**

Portfolio Holder: **Councillor N Daniels, Leader / Executive Member Corporate Services**

Report Submitted by: **R Hayden – Chief Officer Resources**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	11/06/2020	16.06.20				24/07/2020		Gold CLT – 7/5/20

1. Purpose of the Report

- 1.1 The purpose of the report is to provide an initial forecast of the impact of Covid-19 on the 2020/2021 revenue budget and to provide an update of progress made against the Bridging the Gap Programme.

2. Scope and Background

- 2.1 This report forecasts the impact of Covid-19 on the 2020/2021 revenue budget. It provides a forecast of revenue cost implications – both in terms of expenditure and income generated by the Council. The report has been informed by the March 2020 monthly return to Welsh Government (WG) in relation to the hardship fund, the WLGA loss of income survey (completed in April 2020) and following discussions with budget holders.
- 2.2 The information provided to the WLGA covered the period to the end of June 2020 and so the main assumption in this report is that the current lockdown period extends to the end of June. Therefore, it has been assumed that some “normal” budget activity will resume from 1st July 2020. Future forecasts will be updated to take account of any revisions to the current situation.

3. Options for Recommendation

- 3.1 **Option 1** (Recommended Option)
- 3.2 It is recommended that Executive considers the current forecast position and provides appropriate challenge to the financial assumptions included in the report.

3.3 It is recommended that Executive note the progress made against the Bridging the Gap programme for 2020/2021.

3.4 **Option 2**

3.5 Do not accept the report.

4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

4.1 This report supports the Council Priority, "Efficient Council", as it is part of the financial planning and reporting arrangements which support the Councils' financial resilience.

5.1 **Implications Against Each Option**

5.1.1 Appendix 1 provides an overall forecast on a portfolio by portfolio basis, taking the following into account:

- additional / reduced expenditure - net increase of £2.4m and
- additional / reduced income – net decrease of £1.6m

5.1.2 This forecast takes into account all known Covid-19 related financial issues. More detailed budget monitoring reports will be produced at a later stage, in line with the annual reporting timetable.

5.1.3 In addition, the forecast includes an estimate of claims to the WG hardship fund and the new Social Services hardship fund, to forecast a net impact on the Council's revenue budget.

5.1.4 The forecast indicates that there is a revenue budget cost pressure of £4m at this point in time, this is before any reimbursement of costs from the WG Hardship fund or support for loss of income. The report assumes all the additional costs incurred for the Council's response to COVID 19 is fully funded, this cost pressure will reduce to £1.465m. However initial indications from Welsh Government indicates that ICT costs will be 50% funded.

5.1.5 Whilst Welsh Government have indicated that funding of £78m is available across Wales to fund loss of income, at this stage it is unclear how this funding will be administered and awarded (criteria for claim). Appendix 1 forecasts that the loss of income to the Council's portfolios for the period April 2020 to June 2020 could be as high as £1.7m (£1.1m external income and £0.6m internal income). The most significant loss of external income is within the Catering Service and school meal income which generates around £90,000 per month (term time).

5.1.6 £1.7m loss of income has been factored into the net revenue budget cost pressure identified in 5.1.4.

5.2 **Detailed points of analysis – additional expenditure**

- 5.2.1 Appendix 1 forecasts that additional costs of £2.737m will be incurred as a direct result of the Covid-19 pandemic. Further comment on significant areas of expenditure are shown below.

Corporate Services

- 5.2.2 Council Tax Reduction Scheme (CTRS) - As a result of the consequential impact of Covid-19 on economic activity, there has been an increase in applications for council tax support. For the period 1 March 2020 to 31 May 2020, the CTRS live claims has increased by 3.1% (277) with approximately 375 new claims outstanding (7% increase).

This is reflective across Wales, whereby the increase in CTRS caseload in April 2020 was estimated to be 3%. However, there has also been an increase in Universal Credit applications, which could lead to an overall increase in CTRS claims of up to 10%.

The budget for CTRS in the 2020/2021 financial year is £9.3m, within the Corporate Services Portfolio.

A 7% increase in claimants would suggest a budgetary cost pressure of £162,000 to June 2020. It has been assumed that caseload will start to fall from July 2020, however if case numbers continue at the higher level this would result in a cost pressure of £650,000 for the full year. At this stage, these costs cannot be reclaimed from the Hardship fund. This significant area of cost pressure has been identified as an issue with WG.

- 5.2.3 IT systems costs for electronic mail and electronic invoicing have been incurred in the sum of £38,000, these have been incurred to support home working.

Social Services

- 5.2.4 The majority of Covid-19 costs arise in the Adult Care sector. Currently estimated at £1.43m, this is the single largest cost element of the Covid-19 response, affecting both internal services (staff overtime £30k) and the external adult care sector - domiciliary/nursing/residential care and Supported Living (these have been estimated to be approximately 10% of the current budget, a cautious estimate of £1.4m). These costs will be re-claimed from the Hardship fund.
- 5.2.5 Employee costs for six month fixed term contracts will be incurred in Children's Services. These costs are being reclaimed from the Hardship fund since they relate to staff covering staff absences due to Covid-19.

Environment

- 5.2.6 It is forecast that the costs of waste collection will rise by £0.5m resulting from the introduction of social distancing measures for staff. This has resulted in additional staff (including agency staff estimated at £180,000) and additional vehicle related costs. These costs will be re-claimed through the Hardship fund.
- 5.2.7 It is forecast that the cost of providing free school meals through a direct payment to families will cost £0.4m. The additional costs above the Council's free school meals budget will be re-claimed through the Hardship fund. Welsh Government are extending this scheme through the summer of 2020 and it is assumed that any costs incurred will continue to be re-claimed from the Hardship fund.

Homelessness

- 5.2.8 The Council has block booked homelessness placements to ensure that there is accommodation available to those who present as homeless at a cost of £26,000 for the period.
- 5.2.9 ***Cross cutting areas of expenditure***

Some areas of expenditure relate to a number of portfolios and have therefore been categorised as cross-cutting expenditure eg ICT, Personal Protective Equipment and sanitiser products. The forecast level of expenditure total £0.37m and includes the cost of ICT provided to Members of £27,000. It has been assumed that these cost can be re-claimed from the Hardship fund.

5.3 **Detailed points of analysis – loss of income**

- 5.3.1 Appendix 1 forecasts that there will be a loss of income of £1.7m (£1.1m external income and £0.6m internal income) as a direct result of the Covid-19 pandemic. Further comment on significant areas of expenditure are shown below.

Corporate Services

- 5.3.2 Council Tax Collection data for April and May 2020 compared to the same period in 2019 indicates an overall reduction in the collection rate of 2.6%, and this is reflective of the position across Wales.
- 5.3.3 Whilst this does not directly impact on the portfolio budgets, Council Tax forms part of the overall funding package that the Council estimates when setting its budget. Reduced collection would impact upon the Council's cash flow and the Surplus on Collection budget of £1.2m within the Corporate Services Portfolio could be affected. It is difficult to quantify at this point in time and will depend upon the 'bounce back' of the wider economy, as lockdown is eased and people return to work their ability to pay their Council Tax and other bills should improve. Therefore, it has been assumed that the £1.2m Surplus on Collection will be achieved, However the increased risk of non-collection of council tax will increase the probability of higher levels of bad debt write-off.

- 5.3.4 The forecast also includes a loss of income from court costs arising from prosecutions and land searches (£13,000) and marriage ceremonies at registrar venues of £24,000.

Social Services

- 5.3.5 The forecast includes a loss of income from domiciliary and respite care of £50,000.

Economy

- 5.3.6 The forecast assumes a loss of income from industrial units of £68,000 for the month of April 2020 only i.e. a one month rent free period for tenants. It also forecasts a loss of rental at the General Offices of £10,000 for the period April 2020 to June 2020. The forecast assumes the 2 month rent deferral will be collected by the end of the financial year.

Environment

- 5.3.7 The four largest elements in this portfolio relate to the forecast loss of income from pupils who pay for school meals (£240,000), the assumed loss of income for school catering and cleaning through service level agreements (£640,000) and the loss / delay of income from the disposal of recycling waste and trade waste operations (£217,000 – this may be recouped in the latter part of the year if market prices improve).
Other areas include the loss of income from bulky waste collection, grounds maintenance, littering and dog control orders (£171,000).

Infrastructure

- 5.3.8 The forecast loss of income includes Technical Service support to other authorities (£96,000 – this may be recouped towards the year-end) and highways permits, RASWA, civil parking enforcement and markets (£90,000).

Planning

- 5.3.9 The forecast loss of income relates to fees for planning applications and development services (£93,000). Following the lifting of lockdown, it is possible that deferred applications may be received and the income generated to the budgeted level.

Licensing

- 5.3.10 The forecast loss of income of £10,000 primarily relates to the decision not to increase taxi licenses for the 2020/2021 financial year (£7,000).

5.4 Grant Funding

- 5.4.1 In relation to specific grants, the base assumption is that full expenditure can be recorded against specific grants. However, there will be some areas where

goods and services will not be delivered within the 2020/2021 financial years. This will be monitored throughout the year and no doubt will lead to discussions with grant providers.

5.4.2 A further issue arises where the Council passports grants to third party recipients, where those recipients cannot provide services for example where their staff have been furloughed through the central government scheme. There will be many examples of this scenario in Social Services and in grants passported to the Leisure Trust (where the majority of staff are furloughed or re-deployed). Off the record discussions suggest that some government bodies (e.g. Sports/Arts Councils) will allow some flexibility and not re-claim grant in these circumstances.

5.5.1 **Service Level Agreements**

The base assumption is that schools and the Leisure Trust will pay for all service level agreements that they have signed up to – apart from school catering and school cleaning and a cost pressure has been included of £0.6m in the potential loss of income figure of £1.79m.

5.6 **Bridging the Gap proposals**

5.6.1 The target for the financial achievement of the Strategic Business Reviews in 2020/2021 is £1.465m. Many of the proposals relate to income generation / maximisation and therefore these areas have been factored into the fees and charges information contained within Appendix 1. An overall summary of progress within each proposal is attached as Appendix 2 which also provides an update on progress for each Bridging the Gap proposal.

5.6.2 Appendix 2 forecasts that £1.217m (83%) will be achieved, at this point in time. For many of the income related proposals, the base assumption assumes that the lockdown will continue to the end of June 2020.

5.7 **Current Mitigations:**

Additional income:

5.7.1 Based on income receipts in April 2020, the forecast indicates that there will be increased income to the end of June 2020 from the Meals on Wheels Service (£30,000) and from Burial fees (£100,000). At this stage, there is no indication of the financial impact arising from the operation of the Crematorium Joint Committee.

Reduced expenditure:

Education

5.7.2 The forecast relates to a reduction of 25% in the payments made to home to school contract providers, (£121,000).

Environment

- 5.7.3 It is forecast that there will be reduced expenditure for school meals catering, primarily for school meal provisions (£160,000) and in staff sickness cover for school meal catering and school cleaning (£22,000).

Infrastructure

- 5.7.4 The lockdown period has had an impact on the ability to undertake road maintenance. However, at this stage, it is likely that the budget will be fully committed by the year end.

Cross cutting areas

- 5.7.5 The period of lockdown has led to a significant increase in home working. Consequently, there will be a reduction in claims for mileage costs, which at this stage has been estimated at £20,000. In addition, there will be a slowdown in filling non-business critical vacant posts. However, the financial consequence has not been calculated at this point in time.

Re-purposed schools / locality hubs

- 5.7.6 At this stage, there has been minimal direct expenditure coded to the re-purposed schools /locality hubs service areas, apart from costs for protective clothing. This is primarily due to the fact that existing staff have been “re-deployed” for this specific purpose.

Furlough of Council staff

- 5.7.7 Councils across Wales are considering the potential to apply for furlough funding for certain categories of staff – primarily those areas that are directly linked to income generation e.g. for directly provided leisure services. This is an area that Blaenau Gwent is progressing to minimise costs.

Potential Mitigations:

- 5.7.8 All Council budgets will be reviewed to determine whether the budget can be reprioritised to mitigate additional costs and loss of income, examples include:
- budgets linked to vacant posts
 - Supplies and Services budgets – reduced costs of printing, stationery etc
 - Utilities – reduced costs as a result of closure of buildings.

Management Fees

- 5.7.9 The base assumption is that the full management fee will be paid to the Leisure Trust (where majority of staff are furloughed through the central government scheme and re-deployed) and the Education Achievement Service. It is proposed to revisit the 2020/21 Management Fee to ensure there is no double funding from the public purse (via Job Retention Scheme or the Council). This is on the basis that the Trust’s loss of income from visitors is likely to be

offset by the furlough payments to be received from the central government scheme (albeit the scheme does not contribute towards the Trust's running costs, however, the Trust should see some reduction in this area). Discussions relating to the financial implications of Covid-19 on the Trust are ongoing at this stage - the quarter 1 management fee paid to the Leisure Trust for 2020/21 was £753,000.

School Budgets

- 5.7.10 The base assumption is that schools will fully utilise the £45m of funding distributed through the individual Schools Budget (ISB). There is an argument to be made that as schools are currently closed for mainstream education, schools have not incurred expenditure on areas such as supply teaching and other areas of discretionary spend. Following this argument to a conclusion, would suggest that there is scope to ask schools to return elements of funding to the LEA. However, it has been suggested by some schools that there is the potential for increased teacher supply costs in the short to medium term, resulting from Covid-19 staff sickness. Consideration should also be given for the potential for schools to ask for reciprocal arrangements in relation to service level agreements.
- 5.7.11 Councils within the Greater Gwent area have been canvassed for their view in relation to schools' budgets. Responses suggest that whilst school funding is on the radar, no conclusions or firm decisions have as yet, been arrived at.

The Transformation Fund

- 5.7.12 Council agreed on 6th February 2020 to create a cross cutting budget of £492,000 within the 2020/2021 revenue budget, for implementing/delivering opportunities within the Council. This forecast assumes this budget has been fully committed however to date, no requests for funding have been received for consideration.
- 5.7.13 In addition, a cross-cutting Commercial & Contract Management budget of £496,000 was created within the 2020/2021 revenue budget to consider requests for funding in areas where budget holders are unable to maintain contract prices within budget frameworks. To date, no requests for funding have been considered, however, this has been assumed as fully committed in the current forecast.

Pension increase/anticipated pay award

- 5.7.14 The Council anticipated an annual 1% increase in employer's local government pension fund contributions. However, the Council was able to secure a pension increase "holiday" for 2020/2021. In addition, the 2020/2021 budget anticipated a 2% pay award for non-teaching staff. However, indications are that a pay award will be agreed at a higher level (the minimum increase being 2.75%). The net difference will enable a budget differential of @£30,000, which could be used as mitigation for cost pressures, unless a higher pay award is agreed.

5.7.15 Consideration could be given to the introduction of some emergency measures for example reducing/delaying non-essential expenditure.

5.8.1 **Capital Programme:**

For information, the loss of income survey to the WLGA, forecasted that there would be an additional capital cost of £440,000, to the capital programme for the following schemes:

21st Century Schools Schemes
Household Waste Recycling
Industrial Units & Constrained Units
Sports Pitches
Schools Maintenance Projects

5.8.2 It is forecast that these costs will arise from project delay and additional site management requirements.

5.9 **Risk including Mitigating Actions**

5.9.1. There is a risk that the lockdown will continue into the long term and consequently the net revenue and capital cost pressures could increase. This risk will be mitigated by further budget monitoring and the identification / justification of the costs to be re-claimed from Welsh Government's hardship fund. Across Wales, unfunded cost pressures could place significant pressure on reserves and ultimately financial resilience.

5.9.2. There is a risk that not all of the costs claimed from the Welsh Government's hardship fund will be approved. This risk will be mitigated by continued dialogue through professional bodies and with the WLGA.

5.10 **Legal**
n/a

5.11 **Human Resources**

5.11.1. The majority of Accountancy staff who were initially re-deployed to front line services have been recalled to assist in the production of this report and to assist in the ongoing compilation of financial information for various bodies.

6. **Supporting Evidence**

6.1 *Performance Information and Data*

6.2 **Expected outcome for the public**

6.2.1 The report forecasts the financial implications for the Council in providing services to the communities of Blaenau Gwent, arising from the Covid-19 pandemic.

6.3 **Involvement (consultation, engagement, participation)**

6.3.1 The report has been produced in conjunction with portfolio budget holders.

6.4 **Thinking for the Long term (forward planning)**

6.4.1 This report highlights the financial impact of COVID 19 on the Council's 2020/21 budget should additional support from WG re loss of income / CTRS not be forthcoming.

The Council will need to plan for this potential event by identifying additional cost reductions / increased income to ensure the Council's remains financially resilient.

6.5 *Preventative focus*
n/a

6.6 *Collaboration / partnership working*
n/a

6.7 *Integration (across service areas)*
n/a

6.8 ***EqIA (screening and identifying if full impact assessment is needed)***

6.8.1 All proposals will be Equality Impact Assessed.

7. **Monitoring Arrangements**

7.1 Wider Corporate Leadership Team, political groups, Joint Budget Scrutiny, Executive and Council

Background Documents /Electronic Links

- Appendix 1 – Summary of all Portfolios
- Appendix 2 – Bridging the Gap Strategic Business Review – Monitoring Report
 - Strategic Business Review – Third Party Expenditure
 - Strategic Business Review – Fees and Charges
 - Strategic Business Review – Assets and Property
 - Strategic Business Review – Industrial Portfolio
 - Strategic Business Review – Commercial Waste
 - Strategic Business Review – Low Carbon
 - Strategic Business Review – Workplace Transformation
 - Strategic Business Review – Income Recovery