

Agenda Item	3
Report No	RES/23/30

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 11th November 2020

Report Title: Corporate Revenue Monitoring report to 30th September 2020

Report By: Executive Chief Officer- Resources and Finance

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first two quarters of financial year 2020/21 together with a forecast year end outturn position. Net spend on services in the first quarter of financial year 2020/21 totalled £225.486m
- 1.2 As has been previously reported to this Committee and the Highland Council the negative impact of Covid 19 on the Council's budget has been and is expected to continue to be significant during 2020/21.
- 1.3 Whilst there still remains a great deal of uncertainty, current projections for the year end outturn position suggest a net budget overspend of £8.7m, an improvement from the £11.3m forecast overspend reported to Council in October. This position takes into account all expected sources of additional government funding.
- 1.4 Whilst in normal circumstances an overspend of this level would be cause for significant concern, in the current circumstances the level of forecast overspend and improving position reflect the positive financial management that has been taking place throughout the Council as well as the additional funding coming to the Council. The Council has a number of feasible options to help manage the forecast year end position and so greater focus will now need to shift to ensuring longer term sustainability as part of the 2021/22 budget process.
- 1.5 Officers will continue to mitigate the level of forecast overspend in the remainder of the year wherever possible, but a number of options are available to the Council to deal with any year end overspend. Those options include the use of reserves, the use of contingencies, or the use of fiscal flexibilities. More detail on these options is provided in Section 8 of this report.

- 1.6 The report also aims to provide Members with an up-to-date perspective on additional funding streams that are coming to, or through, the Council to assist with the Covid response and recovery.

2. Recommendations

- 2.1 Members are asked to:

- i. Consider the financial position of the General Fund and HRA revenue budgets as at 30 September 2020;

3. Implications

- 3.1 Resource implications are as noted in this report. If an overspend position is reported at year end the Council will need to decide how to meet that overspend by using contingencies, reserves or fiscal flexibilities.
- 3.2 At this midway point in the year there is a significant risk that unforeseen events occur which carry an additional cost burden. Services that are demand-led, such as looked after children or winter maintenance may see significant moves in cost forecast over the year from that currently forecast. Other risks relating to Brexit, or unexpected items such as adverse weather or suppliers seeking additional financial support, may emerge during the year for which no specific contingencies are held. The impact of further Covid-related issues could also be significant. Section 9 of the report provides further information on risks.
- 3.3 There are no legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

4. Background

- 4.1 Members have received a number of reports over recent months outlining the estimated impact of Covid on the Council's budget. Links to these reports are provided in the background papers section of this report. At the previous Corporate Resources committee on the 20th August a forecast year end overspend of £28.259m was reported.
- 4.2 Subsequent update reports to the Highland Council on the 1st October and the 29th October provided an updated year end forecast position of an overspend of £11.254m. **Appendix 9** describes the movement between those two reported positions.
- 4.3 This report shows further improvements in the current forecast position with a year end overspend of £8.763m. This improved position reflects further reductions in forecast spend across service budgets, whilst additional funding receivable from government remains as previously forecast.
- 4.4 The format of this report follows that of the usual quarterly monitoring statements and is therefore shown on a service basis. Each reported service position will reflect additional costs and reduced income due to Covid as well as any other non-Covid pressures or underspends. As section 6 below demonstrates, the impact of Covid is more significant in certain services than others. Those services with significant levels of fee and charge income are forecast to suffer a greater impact from Covid.
- 4.5 Detailed service monitoring statements will be taken to the current round of strategic committee meetings to allow respective committee Members to better understand the service financial positions. When available these will also be shared with Members of this committee.

5. Overall position 2020/21

- 5.1 The table below provides a summary of the figures in **Appendix 1** to give an overall forecast position for the 2020/21 year-end outturn. The quarter 1 figures are provided in the rightmost column for comparative purposes.

	Annual Budget £m	Year-end forecast £m	Year-end variance £m Q2	Year-end variance £m Q1
Expenditure				
Service budgets (Appendix 1, Table A- top half)	£525.9m	£551.9m	£26.0m	£36.3m
Other budgets (Appendix 1, Table A- bottom half)	£73.5m	£61.5m	-£12.0m	-£10.7m
Planned contribution to investment funds (Appendix 1, Table C)	£14.1m	£14.1m	£0m	£0m
Total (X)	£613.5m	£627.5m	£14.0m	£25.6m
Income (Table D)				
Government income	£476.3m	£484.0m	£7.7m	£0m
Budgeted Council tax income	£131.7m	£129.3 m	-£2.4m	-£2.6m
Planned use of earmarked reserves	£5.5m	£5.5m	£0m	£0m
Total (Y)	£613.5m	£618.8m	£5.3m	-£2.6m
Difference between expenditure and income- 'Budget gap' (=X-Y)	£0	£8.7m	£8.7m	£28.2m

- 5.2 The bottom line of the table above shows that the current forecast for the overall year end position is for a deficit (or net overspend) of £8.7m. The paragraphs below, and subsequent sections of this report, will provide an explanation of the elements making up that deficit.
- 5.3 As shown in the top row of the table at 5.1, net service expenditure is forecast to be overspent as the impact of Covid 19 requires unplanned expenditure and has led to significantly reduced service income. Net expenditure is now forecast to be £26.0m above the budgeted level. This figure reflects a significant improvement from the quarter 1 monitoring when a £36.3m overspend was forecast in this area. Section 6 of this report provides more details of the forecast service budget variances.
- 5.4 The second row of the table comprises a number of other budget lines and shows a forecast £12m underspend. This underspend reflects confirmed additional funding received from government to address the financial impact of Covid. This additional income offsets some of the service budget pressures from the line above. More detail on the additional income that has been received from government is provided in section 7 of this report.
- 5.5 The first row in the income section of the table above reflects the funding the Council receives from government. The budget for this row reflects the confirmed level of funding that the Council is due to receive from the Scottish Government. Excess income £7.7m above the budgeted level is forecast on this budget line and reflects additional funding

that the Council expects to receive from Government but has not yet been formally confirmed and included in the grant settlement. This £7.7m comprises:

- £4m expected to be received from the income recompense scheme
- £3m expected to be received for schools return costs (not teaching)
- £0.7m to be received for humanitarian assistance

- 5.6 Covid 19 is expected to have an adverse impact on one of the Council's corporate income streams, Council Tax income. This adverse impact reflects both expected reductions in overall income collectable as well as a slower than expected rate of growth in the council tax base (the number of rateable properties). A £2.4m shortfall in Council Tax income is forecast.
- 5.7 Overall, the combined impact of the net service overspend plus excess corporate income gives a forecast budget deficit £8.7m for the year. Section 8 of this report provides a summary of how this budget gap may be managed.

6. Service budget variances

- 6.1 **Appendix 1** provides the usual monitoring statement format with **Table A** providing variance detail by service and other significant budget heads. Details of individual service positions will be reported to the respective strategic committees. Overall the Council is reporting a net overspend of £25.977m against service budgets.
- 6.2 **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to the impact of Covid 19 on non-staffing expenditure and fee and charge income with considerable mitigation from underspends against staffing budgets.

Vacancy management is an important element in the control of the Council's finances as it enables the delivery of approved savings for current and future years. As an effective management tool, it helps to protect existing jobs supporting the ongoing delivery of services whilst ensuring that statutory responsibilities are maintained. It also helps to avoid redundancy costs when implementing change across the organisation which is paramount to delivering the further savings that are required given the financial outlook.

- 6.3 For the Communities and Place service a year end overspend of £3.272m is forecast. This overall variance is almost entirely accounted for by shortfalls in budgeted income due to Covid 19, most particularly in waste management services and grounds maintenance recharges, but with impacts across all budget areas. Some unbudgeted mobilisation and recovery costs are reflected across the service but these are offset by reductions in expenditure across a variety of budget headings.
- 6.4 For the Education and Learning service a year end overspend of £0.720m is forecast. Many of the unbudgeted costs associated with the schools return are now showing against the relevant service heading (e.g. transport costs showing against the Infrastructure, Environment and Economy budget, cleaning costs showing against the Housing and Property budget). In the quarter 1 monitoring statement all of these costs were showing against the Education and Learning service budget.

The overall Education and Learning position reflects the costs and income related to the Scottish Government funding provided for additional teachers, detail of which was provided to the Education Committee on the 30th September.

A number of budget pressures are reflected in the Education position, including costs related to the provision of key worker childcare, the supply teacher retention scheme, school trip refunds, and additional payments expected to be required to support HighLife Highland.

These budget pressures are predominantly mitigated by a net underspend forecast against the Early Years budget. An extended timescale for the full roll out of 1140 hours early years provision as agreed at Education Committee will deliver a significant budget underspend.

- 6.5 For the Health and Social Care service a year end overspend of £1.874m is forecast. The overspend reflects additional costs seen in the year to date and anticipated in the remainder of the year in response to Covid, chiefly around looked after children. A number of vacancies across this service mitigate the forecast overspend to some extent.
- 6.6 For the Infrastructure, Environment and Economy service a year end overspend of £11.847m is forecast. The majority of this overspend relates to Covid related income shortfalls in planning fees and building warrant income, car parking income, harbour and ferry income, investment property income, roads consents income and quarry income.

In addition to this income shortfall a further significant pressure is forecast in relation to school and public transport contracts, a proportion of which relates to the additional costs related to the schools return. Some slight mitigation of these pressure comes from underspends against staff and other expenditure heads.

- 6.7 For the Performance and Governance service a year end overspend of £0.064m is forecast. An income shortfall, chiefly in licencing income, is almost fully offset by underspends across other service areas.
- 6.8 For the Property and Housing service a year end overspend of £8.412m is forecast. This overspend reflects water safety costs associated with buildings recommissioning across the Council's estate together with wider property return costs. Significant additional costs are also forecast in relation to schools cleaning. Additionally, the service anticipates income shortfalls, principally in school meals income and in staff recharges to the capital programme.
- 6.9 For the Resources and Finance service a year end underspend of £0.447m is forecast. Pressures in relation to lost income, in this case in relation to warrant income and late payment surcharges, and additional ICT costs incurred in relation to the Covid response are more than offset from underspends linked to vacant posts and other contractual underspends.
- 6.10 For the Transformation service an underspend of £0.066m is forecast. The Transformation budget includes the 2020/21 Change Fund which at this stage is anticipated to be fully spent as any uncommitted funds at year end will be added to the Change Fund earmarked balance as happened in 2019/20. Members have agreed that £1m of the Change fund can be held as a contingency and offset against any year-end overspend if required.
- 6.11 For the Welfare service a year end overspend of £0.301m is currently reported. This pressure relates to the Food Fund where spend has been in excess of the additional funding received from Government. Additional government funding should be available to offset this overspend, bringing this budget back into balance by year end.

- 6.12 A underspend of £0.200m is showing against the Valuation Joint Board budget heading reflecting the Board's latest reported position. The Loans Charges budget is currently forecast to be balanced at year end- in line with performance in 2019/20.
- 6.13 **Appendix 5** provides details of the unallocated budgets and savings. Of the £14.935m unallocated budget £12.224m is expected to be available to offset service overspends detailed above- consequently this figure shows as an underspend here. The outturn position reported here assumes that the roads investment funding will be fully spent.

The majority of approved budget savings have been allocated to service budgets and just a small handful remains unallocated to services. Of these it is forecast that £0.486m will struggle to be delivered in-year although work continues to try to deliver a larger proportion.

7. Additional Government Funding

- 7.1 In a normal year the Council's budget does change over the course of the year, normally to reflect usage of the Council's earmarked reserves or additional government funding being received.
- 7.2 This year in particular a significant number of changes to the budget have already taken effect to reflect a number of additional government funding streams coming to the Council to help address the impact of, and response to Covid, both within the Council's own budgets and also in providing support to businesses.
- 7.3 **Appendix 7** provides details of all the additional funding the Scottish Government has confirmed that it will provide to the Council, or that the Council expects to receive to support its own financial position. The appendix outlines where in the Council's monitoring statement that funding is reflected along with a brief explanation of how that funding is being used.
- 7.4 To date the Council has received formal confirmation of £17.202m of additional funding some of which is to address general cost pressures arising from Covid, while other elements are intended to support the costs associated with specific response activity.
- 7.5 The Council has firm expectations of receiving a further £9.997m of additional funding as well a number of other funding streams. At present no value has been attributed to those further funding streams as detail on their value and purpose are still to be provided.
- 7.6 **Appendix 8** contains details of the various funding streams the Council is administering on behalf of the Scottish Government to provide support for business during the pandemic. Available funding of £78.146m has been confirmed for businesses in the Highland Council area and the overwhelming majority has already been paid to eligible businesses. The Scottish Government has been clear that any funding not paid out to businesses should be returned to central government funds and will not be available for local allocation.

8. Contingencies, Reserves and Fiscal Flexibilities

- 8.1 In a normal year if the Council were to overspend, the default position would be that any overspend would be funded from the Council's general fund non-earmarked reserve.

This year a number of options are available to the Council to fund the year end overspend, currently forecast at £8.7m.

- 8.2 At the full Council meeting of the 1st October Members agreed to the creation of £2.6m of contingency budgets, by holding back spend against certain investment funds until greater clarity emerged on the year end position. Those contingencies of £2.6m could be used to reduce the forecast overspend to £6.1m.
- 8.3 At that meeting Council also agreed to set aside £10.9m of funding from its general fund reserves to offset lower than expected funding from the income recompense scheme and flexibility around the use of second homes council tax income. This set-aside funding would more than offset the current forecast year end overspend.
- 8.4 **Appendix 6** shows that non earmarked balances currently stand at £23.249m. This sum is split between the £10.9m referred to in 8.3 above and a residual £12.349m. If the forecast year end deficit is fully funded from these non-earmarked balances they would reduce to a combined £14.486m. If the Council decides to use the contingencies referred to at 8.2 to partially mitigate the forecast year end overspend that year-end balance would reduce from current levels to £17.086m.
- 8.5 As described in the report to Council on the 29th October the Scottish Government intends to make three different funding flexibilities to local authorities to help them manage the impact of Covid on their revenue budgets in 2020/21 and 2021/22. Full detail of the flexibilities is still being determined by the Scottish Government in conjunction with COSLA. **Appendix 10** provides an officer interpretation of the flexibilities pending formal Government confirmation. The use of the 'credit arrangements' or 'loans fund holiday' flexibilities would result in a credit to the Council's revenue budget in whichever year the flexibility was applied.
- 8.6 Members will not be asked to make any decision on whether to use any of the funding flexibilities in financial year 2020/21 until much closer to financial year end. Consideration of their use in financial year 2021/22 will be factored in to the 2021/22 budget process.

9. Risks

- 9.1 As part of the report to Council on the 1st October Members were presented with a table identifying the significant areas of risk that would impact on the Council's outturn position. Those risks were separated into two categories, cost risk, where risks items totalling a worst case £33.095m were identified, and funding risk, where a risk of £14.373m was identified.
- 9.2 The items identified as costs risk reflect the potential issues that may arise that would impact on service budgets. Chiefly these risks are Covid-related and may impact on service-specific expenditure or income streams, but other non-Covid risks also exist.
- 9.3 As the year progresses whilst the likelihood of the risks crystallising may change, either increasing or decreasing, it is more likely that the value of the risks will diminish as the period for the risks to impact has reduced.
- 9.4 The main cost risks identified related to a second lockdown, further enhanced arrangements for the return to schools, increased costs around adult social care, supplier and contractual challenges, increased recruitment, challenges in savings delivery, winter and Brexit. It is considered that the previous worst case figure is the very maximum for

the value of these risks and that the risk impact could fall anywhere in the range from zero to that maximum value.

- 9.5 The funding risk identified related to the potential scenario that actual government funding received would not be at the level of that assumed. As outlined in section 7.5 the Council is still to receive formal confirmation from Government on just under £10m of assumed additional funding. There is a high degree of confidence that all of these funding streams will result in additional funds flowing to the Council- but there is a risk that when confirmed, amounts may be lower than estimated. The near £10m figure reflects the current estimate for this funding however a worst-case scenario may see up to around £2m less coming to the Council.
- 9.6 There is also an upside risk that further additional Government funding for local authorities may become available in the remainder of the year. Any additional funding may however be linked to the provision of additional services (so no net impact on the bottom-line financial position) or be forthcoming because of a worsening in the wider Covid context which may see cost risk factors crystallising. No financial value has yet been attributed to such a scenario.

10. Housing Revenue Account

- 10.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget. Underspends on staffing are forecast to offset non-staffing cost pressures and income shortfalls. Further details on the HRA position will be reported to the Housing and Property Committee in due course.

Designation: Executive Chief Officer- Resources and Finance

Date: 30th October 2020

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/76864/item_4_corporate_revenue_monitoring_report_to_30_june_2020

https://www.highland.gov.uk/download/meetings/id/77128/item_4_revenue_budget_update_report-october_2020

https://www.highland.gov.uk/download/meetings/id/77201/item_11_revenue_budget_update_report

Revenue Expenditure Monitoring Report -General Fund Summary

1 April to 30 September 2020

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Communities & Place	18,855	33,735	37,007	3,272
Education & Learning	84,714	211,904	212,624	720
Health, Wellbeing & Social Care	47,712	148,068	149,942	1,874
Infrastructure, Environment & Economy	12,053	26,770	38,617	11,847
Performance & Governance	2,302	4,468	4,532	64
Property & Housing	35,918	66,670	75,082	8,412
Resources & Finance	13,967	23,848	23,401	(447)
Transformation	1,215	2,887	2,821	(66)
Welfare Services	6,606	7,561	7,862	301
Service Total	223,342	525,911	551,888	25,977
Valuation Joint Board	1,492	2,984	2,784	(200)
Non Domestic Rates reliefs	652	671	671	0
Loan Charges	0	55,795	55,795	0
Unallocated Budget	0	14,935	2,711	(12,224)
Unallocated Corporate Savings	0	(931)	(445)	486
Total General Fund Budget	225,486	599,365	613,404	14,039

Table B: By Subjective

Staff Costs	174,222	368,090	355,090	(13,000)
Other Costs	227,661	532,091	535,874	3,783
Gross Expenditure	401,883	900,181	890,964	(9,217)
Grants	(129,710)	(164,727)	(165,900)	(1,173)
Other Income	(46,687)	(136,089)	(111,660)	24,429
Total Income	(176,397)	(300,816)	(277,560)	23,256
Total Revenue Expenditure	225,486	599,365	613,404	14,039

Table C: Appropriations to Reserves

Contribution to earmarked balances	0	3,427	3,427	0
Contribution to non-earmarked balances	0	7,798	7,798	0
Affordable housing contribution from 2nd homes council tax	0	2,900	2,900	0
Contribution to Other reserves	0	0	0	0
Total Contributions to Balances	0	14,125	14,125	0

Table D: Financed By

Aggregate External Finance as notified	150,586	473,998	473,998	0
Additional resources	0	2,326	9,977	7,651
Council Tax	74,900	131,715	129,340	(2,375)
Use of earmarked balances	0	5,451	5,451	0
Use of non earmarked balances	0	0	8,763	8,763
Use of other reserves	0	0	0	0
Total General Fund Budget	225,486	613,490	627,529	14,039

Revenue Expenditure Monitoring Report -General Fund Summary
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1 April to 30 September 2020

Staff Costs Variance £000	Other Costs Variance £000	Grants Variance £000	Other Income Variance £000	Total Variance £000
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Table A: By Service

Communities & Place	(3,388)	(212)	(32)	6,904	3,272
Education & Learning	(2,968)	4,042	(431)	77	720
Health & Social Care	(1,506)	3,432	(51)	(1)	1,874
Infrastructure, Environment & Economy	(2,242)	1,748	(713)	13,054	11,847
Performance & Governance	(74)	(194)	13	319	64
Property & Housing	(1,807)	6,038	87	4,094	8,412
Resources & Finance	(977)	506	22	2	(447)
Transformation	(38)	(8)	0	(20)	(66)
Welfare Services	0	369	(68)	0	301
Valuation Joint Board	0	(200)	0	0	(200)
Non Domestic Rates reliefs	0	0	0	0	0
Loan Charges	0	0	0	0	0
Unallocated Budget	0	(12,224)	0	0	(12,224)
Unallocated Corporate Savings	0	486	0	0	486
Total General Fund Budget	(13,000)	3,783	(1,173)	24,429	14,039

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 30 September 2020

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	5,117	12,431	10,929	(1,502)
Other Costs	11,108	22,994	24,088	1,094
Loan charges and interest	0	20,997	21,014	17
Gross Expenditure	16,225	56,422	56,031	(391)
House Rents	(26,262)	(52,998)	(52,730)	268
Other rents	(1,540)	(2,987)	(2,964)	23
Other income	140	(375)	(275)	100
Interest on Revenue Balances		(62)	(62)	0
Gross Income	(27,662)	(56,422)	(56,031)	391
Total HRA	(11,437)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 2020

	£m	£m
Budget as Agreed by Highland Council on 5 March		625.834
Less : Contributions to Reserves included in Agreed Budget		
Contribution to non-earmarked balances	(4.909)	
Contribution to earmarked balances (Elections Fund, Highland Deal for Sustainable Future, Rural Transport Projects, Play Parks)	(1.685)	
Affordable housing contribution from 2nd homes council tax	<u>(2.900)</u>	(9.494)
Less : Ring-fenced Grants (Gaelic, Criminal Justice, Attainment Funding, Early Years)		(30.718)
Grant Funding Redeterminations		
Criminal Justice Social Work (ring-fenced grant)	(0.017)	
Covid19 - Additional Funding Support	7.356	
Covid19 - Hardship Fund	2.373	
Covid19 - Food Fund	1.199	
Covid19 - Scottish Welfare Fund Increase	0.738	
Covid19 - Death Registration Service	0.026	
Early Years (ring-fenced grant)	0.044	
Covid19 - Consequential	<u>2.326</u>	
	14.045	
Less : Redeterminations of Ring-fenced Grants	<u>(0.027)</u>	14.018
Use of Non-earmarked Balances		
		<u>0.000</u>
Use of Earmarked Balances		
BRIS	1.095	
1+2 Languages	0.002	
Counselling in Schools	0.754	
Additional Support for Learning	0.667	
Brexit Co-ordination	0.010	
Developer Contributions	<u>0.034</u>	2.562
Use of Other Reserves		
		<u>0.000</u>
Contribution to Earmarked Balances		
Crown Estate	(1.742)	
		<u>(1.742)</u>
Contribution to Other Reserves		
		<u>0.000</u>
Presentational Adjustments		
Offset BRIS income budget against 2019/20 earmarked BRIS	(1.095)	
		<u>(1.095)</u>
Total General Fund Budget at 30 June 2020		<u><u>599.365</u></u>

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 June 2020

Table A : Unallocated Budget

	£m
Roads investment	2.293
Energy	0.309
Rates	0.230
Demographics (increasing school rolls)	0.175
Fuel	0.153
Budget to offset potential shortfall in service income	0.096
Revenue consequences of capital - flooding	0.050
Grant Funding - Access to Sanitary Products - Public Bodies	0.109
Grant Funding - Covid19 - Additional Funding Support	7.356
Grant Funding - Covid19 - Hardship Fund	1.837
Grant Funding - Covid19 - Consequentials	2.326
Roundings	0.001
Unallocated Budget at 30 September 2020	<u><u>14.935</u></u>

Table B : Unallocated Corporate Savings

	£m	Category
Procurement	(0.725)	
Property Asset Management	(0.111)	
Full costs recovery on events and festivals	(0.050)	
HR/recruitment/workforce planning	(0.025)	
ICT corporatisation	(0.020)	
Unallocated Corporate Savings at 30 September 2020	<u><u>(0.931)</u></u>	

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 2020

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
General Fund Balance at 1 April 2020 (unaudited)	20.255	15.451	35.706
(Use of)/contribution to balances included in budget as agreed by Highland Council on 5 March 2020	1.685	4.909	6.594
Removal of earmarking (DSM)	(2.889)	2.889	0.000
Use of balances per Appendix 4	(2.562)	0.000	(2.562)
Contribution to balances per Appendix 4	1.742	0.000	1.742
Movement in balance per Appendix 1	(2.024)	7.798	5.774
Net service overspend per Appendix 1	0.000	(14.039)	(14.039)
Appropriations to other reserves	0.000	0.000	0.000
Additional resources	0.000	7.651	7.651
Council tax shortfall	0.000	(2.375)	(2.375)
General Fund Balance at 30 September 2020	18.231	14.486	32.717

Description	Part of Communities Fund	Highland			Formal Confirmation from SG?	Use of Funding	GRG Redetermination or Specific Grant?	Quarter 2
		2020/21 £m	2021/22 £m	Total £m				Presentation in Monitoring Statement
Hardship Fund	X	2.373		2.373	Y	To increase ward budgets for Covid pressures (£0.536m) and to offset corporate Covid pressures (£1.837m)	GRG Redetermination	Communities & Place (£0.536m) Unallocated Budget (£1.837m) Included in budget and year end estimate columns of "AEF as Notified" in Table D
Scottish Welfare Fund Additional Funding	X	0.738		0.738	Y	To meet additional demand for Crisis Grants and Community Care Grants	GRG Redetermination	Welfare Included in budget and year end estimate columns of "AEF as Notified" in Table D
Food Fund	X	1.199		1.199	Y	To meet demand for food parcels and issue of vouchers during school summer holidays	GRG Redetermination	Welfare Included in budget and year end estimate columns of "AEF as Notified" in Table D
Council Tax Reduction Scheme (CTRS)	X	1.180		1.180	Y	To meet additional demand for council tax reduction	GRG Redetermination	Included in year end estimate and variance columns of "Council Tax" in Table D <i>Presentation to be revised in Qtr 3 as the funding is a GRG redetermination, not a specific grant</i>
Financial Insecurities	X	tbc		0.000	N		Specific Grant	Not yet reflected in monitoring statement
Discretionary Housing Payments Additional Funding	X	tbc		0.000	N		tbc	Not yet reflected in monitoring statement
Additional Funding Support		7.356		7.356	Y	To offset corporate Covid pressures	GRG Redetermination	Unallocated Budget Included in budget and year end estimate columns of "AEF as Notified" in Table D
Discretionary Housing Payments Additional Funding		0.135		0.135	Y	To meet additional demand for DHPs	Specific Grant	Welfare - Funding reflected in year end estimate and variance
Death Registration Service		0.026		0.026	Y	To meet additional demand for registration services	GRG Redetermination	Communities & Place Included in budget and year end estimate columns of "AEF as Notified" in Table D
Community Justice Co-ordinators		tbc		0.000	N		tbc	Not yet reflected in monitoring statement
Digital Inclusion - Revenue		0.205		0.205	Y	For additional spend as per report to Education committee 30/9/20	Specific Grant	Not yet reflected in monitoring statement but no impact on variance as grant income will offset additional expenditure
Provision of Additional Teachers & Support Staff		1.470	0.735	2.205	Y	For additional spend as per report to Education committee 30/9/20	Specific Grant	Education & Learning - Funding reflected in year end estimate and variance
Transitional Support Fund for Childcare Providers		tbc		0.000	N		Specific Grant	Not yet reflected in monitoring statement
Provision of Additional Teachers		0.882	0.441	1.323	Y		Specific Grant	Not yet reflected in monitoring statement but no impact on variance as grant income will offset additional expenditure
Consequentials		2.326		2.326	N	To offset corporate Covid pressures	GRG Redetermination	Unallocated Budget Included in budget and year end estimate columns of "Additional Resources" in Table D
Safe Re-opening of Schools		1.162		1.162	N	To offset Covid pressures associated with the re-opening of schools	Specific Grant	Estimated total of £3m for Safe Re-opening of Schools included in year end estimate and variance columns of "Additional Resources" in Table D <i>Presentation to be revised on confirmation of allocation and receipt of grant funding</i>
Safe Re-opening of Schools - Additional		1.838		1.838	N	To offset Covid pressures associated with the re-opening of schools	Specific Grant	Estimated total of £3m for Safe Re-opening of Schools included in year end estimate and variance columns of "Additional Resources" in Table D <i>Presentation to be revised on confirmation of allocation and receipt of grant funding</i>
Support for People at Risk including those Isolating		0.651		0.651	N	To offset costs of this nature within Communities & Place and Welfare budgets	Specific Grant	Included in year end estimate and variance columns of "Additional Resources" in Table D <i>Presentation to be revised on receipt of grant funding</i>
Free School Meals during Summer Holidays		0.462		0.462	Y	For issue of vouchers during school summer holidays and related admin	Specific Grant	Not yet reflected in monitoring statement Will reduce Welfare overspend
Test and Protect - Supported Isolation		tbc		0.000	N		GRG Redetermination	Not yet reflected in monitoring statement
Free School Meals during Other Holidays		tbc		0.000	N		Specific Grant	Not yet reflected in monitoring statement
Additional Environmental Health Officers		tbc		0.000	N		tbc	Not yet reflected in monitoring statement
Test and Protection – Supported Isolation - Addition		tbc		0.000	N		GRG Redetermination	Not yet reflected in monitoring statement
Local Self-Isolation Assistance Service (LSIAS)		tbc		0.000	N		GRG Redetermination	Not yet reflected in monitoring statement
Loss of Income		4.000		4.000	N	To offset loss of income	tbc	Included in year end estimate and variance columns of "Additional Resources" in Table D <i>Presentation to be revised on confirmation of allocation and receipt of grant funding</i>
TOTAL COVID-19 REVENUE FUNDING		26.003	1.176	27.179				

Description	For Funding of Business Grants	Highland			Formal Confirmation from SG?	Use of Funding	GRG Redetermination or Specific Grant?	Quarter 2
		2020/21 £m	2021/22 £m	Total £m				Presentation in Monitoring Statement
Support for Businesses - Initial	X	75.724		75.724	Y	For payments of £10k and £25k business grants	Specific Grant	Infrastructure & Environment and Economy Funding included in actual income offsets grant payments to businesses included in actual expenditure
Support for Businesses - Top-up	X	0.000		0.000	N			
Newly Self Employed Hardship Fund - Initial	X	0.812		0.812	Y	For payments of £2k grants to newly self-employed and £3k grants to B&Bs	Specific Grant	Infrastructure & Environment and Economy Funding included in actual income offsets grant payments to businesses included in actual expenditure
Newly Self Employed Hardship Fund - Top-up	X	0.380		0.380	Y	For payments of £2k grants to newly self-employed and £3k grants to B&Bs	Specific Grant	Infrastructure & Environment and Economy Funding included in actual income offsets grant payments to businesses included in actual expenditure
Covid Restrictions Fund - Business Closure & Business Hardship	X	1.230		1.230	Y	For payments of £1,440 or £2,155 Business Hardship grants to businesses affected by restrictions	Specific Grant	Not yet reflected in monitoring statement
TOTAL COVID-19 REVENUE FUNDING		78.146	0.000	78.146				

Appendix 9

		£m
	Forecast 2020/21 overspend as per Q1 monitoring	28.259
	Less expected changes from the reported position:	
	Improvement in HLH/Eden Court deficit position	-2.150
	Schools return- high level estimate of reductions from original forecast of transport and other costs	-2.500
	Other improvements in reported service positions (per section 4.5)	-0.900
	REVISED BUDGET GAP	22.709
	Less expected further funding:	
	Education funding- additional teachers	-1.431
	Education funding- schools reopening	-1.200
	Education funding- school reopening	-1.800
	HAC funding	-0.651
	Less potential further funding:	
	£50m Barnett consequentials- July announcement	-2.373
	Income recompense scheme- UK government July announcement	-4.000
	Less lobbying for funding flexibility	
	Second homes Council Tax	0.000
	RESIDUAL BUDGET GAP AFTER POTENTIAL ADDITIONAL FUNDING	11.254

Appendix 10- summary of fiscal flexibilities as reported to Council on the 1st October

1. Funding flexibilities

- 1.1 On the 9th September the Finance Secretary wrote to the Chancellor of the Exchequer outlining a number of 'funding flexibilities' that the Scottish Government are looking to offer local government in order to deal with funding pressures arising as a result of the Covid crisis.
- 1.2 At this stage the four different options outlined are conceptual only and the Council has received no further detail than that included in the letter. All the information that follows is officers' interpretation of what each option may entail. Some of these options are technically complex and so at this time it is not possible to ascribe robust values to each option.
- 1.3 All but one of the options are within the gift of the Scottish Government to bring about, the other option requires agreement from the UK Treasury. Some of the options will require regulatory changes and therefore it may take some time before the full detail and availability of these options is confirmed.
- 1.4 It should be made clear that none of these options reflect additional government funding flowing to local authorities, but rather afford authorities a number of accounting flexibilities. In each case these flexibilities would require the Council to take on additional borrowing to support its revenue budget.
- 1.5 As Members will be aware all borrowing requires repayment. The value of any benefit to the revenue budget taken in financial year 2020/21 as a result of the options will need to be repaid, along with associated interest costs. These repayments will be over the long term, potentially up to around 30 years. The longer the term over which repayments are made, the greater the amount of interest cost that will be incurred. Highland already spends over 10% of its revenue budget on loans charges (or over 13% if PPP debt costs are included) which is one of the highest levels in Scotland.
- 1.6 In order to make these debt repayments the Council will have to find equivalent savings in its annual revenue budget. This may come from savings in the costs in the provision of services, or reductions in the amount of capital investment financed through the revenue budget. Either way the requirement to repay debt will mean there is less funding available for the provision of services or investment in assets.
- 1.7 The advice from officers is that Members are not asked to choose between any options at this point but do so later in the financial year when there will be a need to decide upon the balance between the potential use of reserves or contingencies against the use of these funding flexibilities.
- 1.8 The subsequent sections of this report provide further information on each of the following options:
 1. Capital grant funding switched to revenue or Councils borrow to offset Covid revenue costs
 2. Flexibility to use capital receipts to offset Covid revenue costs

3. 'Credit arrangements'- changed accounting arrangement around PPP/PFI schools
4. Loans fund repayment holiday

1.9 Once further clarity on the detail of each option emerges officers will look to fully articulate the associated financial impacts and share with all Members .

2. Option 1- adjustment to capital grant funding

2.1 Option 1 is the option that requires the agreement of the UK treasury as both variants of this option require adjustment to the UK Government's capital settlement to the Scottish Government.

2.2 Two variants of this option are proposed, the first reflects the Scottish Government changing a portion of its capital funding to local authorities to revenue funding, the second allows local authorities the ability to directly borrow to finance revenue Covid costs.

2.3 The UK Treasury has subsequently confirmed that they will not agree to this option and as such it will not be available to the Council.

3. Option 2- capital receipts flexibility

3.1 Option 2 would afford Councils the flexibility to use capital receipts received in 2020/21 and 2021/22 to offset revenue Covid costs. Previous precedents for the use of capital receipts to fund revenue costs do exist.

3.2 This option may not be that useful for Highland given our historically low level of capital receipts. In 2019/20 capital receipts were £0.9m and in 2018/19 receipts were around £0.5m. If the Council were so minded it could seek to dispose of assets in order to generate additional receipts however it may be difficult to identify suitable assets for disposal that are not required for operational purposes and would yield a significant receipt. In any eventuality the market value for assets may be significantly depressed as a result of Covid.

3.3 Capital receipts are currently used to fund the capital programme, so if they are instead used for Covid revenue costs this would increase the borrowing required to fund the capital programme.

4. Option 3- 'credit arrangements'

4.1 This option is the most technically complex of the options presented and relates to the accounting treatment of PPP, PFI and possibly NPD schools. In all these different contractual models for the provision of school properties the annual unitary charge made to the providers covers the annual running and lifecycle maintenance costs of the properties, along with the initial construction and financing costs.

4.2 These contracts with the providers have a lifespan of 25-30 years and at the end of that period full ownership of the properties passes over to the Council with the full

construction cost of the properties paid off. At the point of handover the Council will become liable for the ongoing running and maintenance costs associated with the properties.

- 4.3 This option does not propose any amendments to the respective contractual terms but rather reflects an accounting adjustment around the debt repayment profile associated with the properties. As the properties are considered to have a lifespan in excess of the contractual term (the Council normally accounts for school's lifespan up to 60 years) the accounting adjustment would relate to reprofiling the debt repayments from the contractual 25 or 30 years to a more 'normal' period up to 60 years.
- 4.4 This option may work in either of two ways. Firstly it may just allow any outstanding debt associated with the properties to be spread over a longer term. Secondly it may allow a credit to be taken to reflect 'overpayments' made to date, with that credit then repaid over the remaining asset life. The possibility of taking a credit may mean that this option can release a significant sum of funding into the revenue budget- but the larger the sum released the greater the repayments required in future years.
- 4.5 For context the Council has four schools provided under PPP1 with a 25-year contractual expiry date of July 2027, 11 schools provided under PPP2 with a 30-year contractual expiry date of 2036 and one community campus provided under the NPD model with a 25 year contractual expiry of 2040. Just under £527m of outstanding payments remain to be made under these contractual arrangements, reflecting £149m of outstanding debt liability and £378m of interest and service charges.

5. Option 4- loans fund repayment holiday

- 5.1 Members may recall that the annual loans fund repayment, made through the Council's revenue budget, comprises two key elements. The first element, the 'principal', relates to the repayment of the initial capital investment for which borrowing was undertaken. The second element is the 'interest' element, which reflects the annual interest payable on the Council's external borrowing.
- 5.2 Option 4 relates to the 'principal' element of the annual loans charge and suggests the possibility of reprofiling the planned 2020/21 principal repayment over a period up to 20 years from 2021/22 onwards. This 'repayment holiday' would mean the Council does not pay off its outstanding principal as quickly as planned but would realise an underspend against the loans charges budget in 2020/21 which could be used to offset Covid revenue costs.
- 5.3 Highland's loans fund principal repayment for 20/21 is around £30.8m, so the repayment of that debt could be rescheduled over the period 2021/22 to 40/41. As a rough estimate if the loans fund repayment holiday was taken an underspend of £30.8m would occur against the loans fund revenue budget in 2020/21. If the repayment of that sum took place over the next 20-year period, an additional annual loans charge of around £2.2m could be expected. Over that 20-year period around £13.5m of additional interest charges could be payable.