

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

**Finance Assets and Performance Scrutiny Committee
17 September 2020**

Report Title: Financial Sustainability and Recovery Plan

Submitted by: Executive Director Resources and Support Services

Portfolios: All

Ward(s) affected: All

Purpose of the Report

To inform the Committee of the actions being taken to formulate a financial sustainability and recovery plan in response to the Coronavirus Pandemic.

Recommendation

- 1. It is recommended that Committee note this report and comment on the work being undertaken to develop a post COVID financial sustainability and recovery plan.**

Reasons

To allow the Committee to consider and comment on the financial recovery actions being undertaken in response to the Coronavirus pandemic to ensure that the council continues to be financially sustainable in the medium to long term.

1. Background

- 1.1** Over the past decade, the council has successfully adjusted to an increasingly difficult financial reality. Between 2010/11 and 2017/18 government grants were reduced by almost a half and revenue support phased out entirely, leaving the council wholly dependent on income raised locally from fees and charges and council tax and business rates revenues to fund service delivery. These reductions have been accompanied by continuing uncertainty about future funding with the delayed of the business rates retention and the Fair Funding review, both of which could fundamentally change how much funding individual local authorities will receive.

- 1.2** The pressures already on council's revenue budget have been exacerbated by the COVID-19 crisis which, notwithstanding the additional funding allocated by government to help the council manage the immediate impact of lost income, reductions in planned savings and additional service delivery costs, is likely to impact council finances for the foreseeable future as the council, local businesses and residents start to recover from the economic consequences of the pandemic. Many of the financial strategies now being developed in response to COVID-19 will set the scene for service planning and budgets years to come.

2. Issues

The Financial Impact of COVID-19

- 2.1 As reported to Cabinet on 9th September, the COVID-19 pandemic continues to have a significant impact on the council's financial position. To date Government funding of £1.743m has been secured (including £170k of new burdens funding to offset the costs of administering Coronavirus business support grant and hardship relief schemes), which has reduced the immediate pressure on Council finances. Additional costs have also begun to fall with the return of a degree of normality and the roll out of the new waste and recycling service. However, the current forecast is still for a net revenue overspend of £321k in this financial year, assuming no further imposition of lockdown measures.
- 2.2 The Council's revenue budget relies on service income from fees and charges of c£850k per month across a wide range of services, with a significant proportion coming from J2 and car parking. The Council has been actively monitoring the impact of the lockdown and the working practices required to ensure safe practice. Across the business, net monthly income losses stabilised at c£276k during the first quarter but have now started to recover as the lockdown has eased. The Government announcement that it will fund income losses above the first 5% at the rate of 75p in the pound in the current financial year will to a significant degree insulate the Council from income related financial risks.
- 2.3 The scheme compensates for income that local authorities generate independently which is defined as a sale, fees and charges, and is unable to be recovered – for example, car parking charges or receipts from museum charges. It does not include commercial income, such as rents. The 5% deductible will be calculated using sales, fees and charges budgets for 2020/21 as this represents what the Council expected to collect from these income sources at the start of the year. Compensation will be provided to mitigate the net budget gap which income losses have created, i.e. after the savings that the Council has made regarding the furlough scheme. It is currently estimated that of the £2.4m forecast income losses in 2020/21 the Government will fund £1.5m leaving the Council with a deficit of £0.9m which will need to be funded from revenue resources or reserves.
- 2.4 Local tax income is collected by billing authorities and paid into local 'collection funds' (the Council is a billing authority). Where there is a shortfall in tax receipts (compared to expected levels), this leads to a deficit on the collection fund. Billing and major precepting authorities are usually required to meet their share of any deficit during the following financial year. In response to forecast shortfalls in tax receipts relating to COVID-19, the government is proposing that repayments to meet collection fund deficits accrued in 2020- 21 will instead be phased over a three-year period (2021-22 to 2023-24) to ease immediate pressures on budgets. The phased amount will be the entire collection fund deficit for 2020-21 as estimated on the 15 January 2021 for council tax and in the 2021-22 NNDR1 for business rates.
- 2.5 MHCLG will continue to work with CIPFA and local government on the detailed operation of the scheme – including the accounting, audit and reporting implications – with a view to providing guidance to councils later in the year.
- 2.6 The current forecast shortfalls in tax receipts, and the proposed repayments under this scheme are shown below:

Tax	Total Deficit Forecast	Council's Share	Repayable 2021/22	Repayable 2022/23	Repayable 2023/24
Council Tax	£1.325m	£0.156m (11.8%)	£0.052m	£0.052m	£0.052m
NNDR	£12.132m	£4.853m (40%)	£1.618m	£1.618m	£1.617m
NNDR Section 31 Measures	(£11.246m)	(£4.497m) (40%)	(£1.499m)	(£1.499m)	(£1.499m)

Total	£2.211m	£0.512m	£0.171m	£0.171m	£0.170m
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- 2.7 The Government announcement made on 2 July referred to a further apportionment between MHCLG and Local Government of irrecoverable tax losses (i.e. debts required to be written off for businesses ceasing to trade), however details of how this will operate in practice are still awaited.
- 2.8 The Council continues to actively lobby our local Members of Parliament and through national networks as part of the wider public sector family, to make the case for further Government support to address Covid-19 related costs and loss of income. Particular emphasis in our lobbying has been the impact on Business Rates and Council Tax collection and the implications for future financial years.

The council's strategic response

- 2.9 As the council formulates its response to the post COVID financial sustainability challenge there are a number of key questions that it needs to consider:
- Are the services being provided by the council still appropriate and valued by the community?
 - Is the council delivering its services in an optimal way, considering new methods of delivery and sourcing options?
 - Does the council have an understanding of costs and performance across the entirety of its service portfolio and how these compare with other similar local authorities?
 - Does the council have a complete and accurate picture of its asset maintenance and renewal costs over the longer term?
 - How does the council allocate its resources against immediate and future requirements and also prioritise the requirements and expectations of the local community?
 - How is the council ensuring that all parts of the organisation are working in concert to an agreed set of strategic priorities and a financially sustainable outcome?

2.10

Work has already commenced on the development of a financial recovery plan including updating medium term financial forecasts and reserves risk assessments in the light of latest intelligence and identification of savings opportunities arising from accelerated delivery of the digital and commercial strategies and exploration of alternative service delivery models. In parallel with this work a review of performance against the Council Plan to date and confirmation of Council priorities post COVID is also being undertaken. The outcome of all this work will be reported to November Cabinet in the form of a refreshed Medium Term Financial Strategy and a set of financial sustainability principles that will guide the development of the MTFS and budget proposals for 2021/22 and beyond as greater clarity emerges about the longer term impact of COVID and the shape of the forthcoming Comprehensive Spending Review and local government funding proposals.

3. **Proposal**

- 3.1 The Committee are recommended to note this report and to comment on the work being undertaken to develop a post COVID financial sustainability and recovery plan.

4. **Reasons for Proposed Solution**

This report serves to brief the Committee on the work being undertaken to address the financial impact of the Coronavirus pandemic and to develop a strategic response that will ensure that the council continues to be financially sustainable in the medium to long term.

5. **Options Considered**

5.1 N/A

6. **Legal and Statutory Implications**

6.1 Addressing the impact of Coronavirus locally has involved adjustment to some service provision. When making such changes there are a number of legal and statutory implications to take into account. These are all appropriately factored into decision taking by the Incident Management Team.

7. **Equality Impact Assessment**

7.1 None directly arising from this report.

8. **Financial and Resource Implications**

8.1 The Council's General Fund balance as at 31st March 2019 was £1.548m. Careful monitoring of the financial position will be required over coming weeks and months leading to prompt corrective action where necessary to ensure that reserves are not exhausted and the Council remains in a position of being able to deliver a balanced budget position in the current financial year and beyond.

9. **Major Risks**

9.1 The Coronavirus pandemic, in the round, represents a significant risk to the Council. This report sets out how the financial dimensions of that risk are being addressed.

10. **Sustainability and Climate Change Implications**

10.1 N/A

11. **Key Decision Information**

11.1 This is not a key decision.

12. **Earlier Cabinet/Committee Resolutions**

12.1 None

13. **List of Appendices**

13.1 Back on Track – Recovery Plan Cabinet 9th September 2020

14. **Background Papers**

14.1 None