

**REPORT OF THE SERVICE DIRECTOR FINANCE, INFRASTRUCTURE AND
IMPROVEMENT & SECTION 151 OFFICER****UPDATE ON THE COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY****Purpose of the Report**

1. The purpose of this report is to provide an update on the financial impacts of the Council's response to the Covid-19 emergency, consider these impacts upon the Medium Term Financial Strategy (MTFS) and the actions being taken by the Council.

Information

2. The Coronavirus crisis has required a significant shift to the focus of Council activities to enable the Council to respond effectively and support those who are most vulnerable, both using its own resources and as part of a broader public service response to the emergency. The Council has prioritised its Adults and Children's social care functions, and its related work with health and community partners to support those most vulnerable to the virus
3. As a consequence of responding to Covid-19, services, resources, functions, plans and programmes have been re- and de-prioritised as the Council has responded to a rapidly changing and fluid situation that has included the regular provision of new guidance and legislation. National measures in place to stop the spread of COVID-19 mean some services have necessarily been altered, reduced or suspended. This update reports against the departmental Improvement and Change Portfolios contained within the Council's refreshed Departmental Strategies approved by Policy Committee in May 2019 with effect from end May 2020
4. Policy Committee has received a number of reports over this period setting out the details of the Council's response which have included setting out the consequential financial implications and the Government grants that have been provided.
5. Considerable work has been undertaken throughout the Council to understand the overall financial impact of Covid-19. It is important to caveat the estimates, given that the impacts continue to be part of an emerging picture and will continue to be refined and monitored. Some of the assumptions are easier to determine whilst others, such as Home to School Transport, can only be estimated for now. Other impacts, such as council tax and business rates, are more difficult to assess as we are reliant upon information from the District and Borough Councils for estimation and these will be dependent on the length of lock down and the impacts upon the local economy. They will impact in 2021/22 and potentially beyond.

Funding Announcements Timeline

6. 11th March 2020 – the Rt Hon Rishi Sunak MP delivered the 2020 Spring Budget. At the time the UK had only 373 confirmed cases of coronavirus and 6 deaths; the impact of the virus on the UK was not expected to be significant. The Chancellor said that to “support the NHS and other public services, I am also setting aside a £5bn emergency response fund – and will go further if necessary”. He set out a number of funding arrangements, the most significant being.
 - £500m hardship fund - distributed to billing authorities to support vulnerable people in their area. The fund is expected to take the form of council tax relief.
 - Coronavirus Business Interruption Loans of up to £1.2m for small and medium sized businesses.
 - Extended Retail Discount – later extended further by removing the £51,000 Rateable Value cap
 - Those businesses will also be eligible for grants of £3,000 – later increased to £10,000
 - Temporary Discount for pubs on their business rates bill increased from £1,000 to £5,000
7. 17th March – the Government announces £3.2m for homelessness to help rough sleepers self-isolate.
8. 19th March – the Government announced the first tranche of £1.6bn of additional funding to support local authorities in responding to the COVID-19 pandemic. (£1.39bn distributed via the Adult Social Care Relative Needs Formula and the remaining £0.29bn via the Settlement Funding Assessment (SFA)). The un-ringfenced funding was intended to help local authorities “address any pressures they are facing in response to the COVID-19 pandemic, across all service areas”. Government expected that this funding would be spent on social care in councils and would complement the £1.3bn allocated to the NHS.
9. 24th March - The Local Government Secretary confirmed that, to ease cashflow problems, the Government was bringing forward the payment of the £3.4bn of grants that were due to be paid to local authorities through 2020-21. The £3.4bn consists of the already announced £1.6bn of support for local authorities for COVID-19 pressures, and the initial £1.8bn grant for business rates reliefs measures.
10. 16th April – To help with cashflow; councils were allowed to defer £2.6bn of Business Rates payments to Central Government and £850m in Social Care Grants will be paid up front.
11. 18th April – a second tranche of £1.6bn funding for local authorities is announced. Allocations were not published until the 28th April and this time the grant was distributed on a per head basis, which was then split 65:35 between upper and lower tiers (with 3% for fire & rescue).
12. 13th May - A new £600 million Infection Control Fund is announced to tackle the spread of coronavirus in care homes. The funding, whilst allocated to local authorities (based on the number of care home beds adjusted by the Area Cost Adjustment as a share of the national number of care home beds), is to be passed directly to care homes. However,

administration of the scheme is problematic due to grant conditions and European state aid considerations.

13. 22nd May – £300m announced for local authorities to implement Track and Trace. Allocations were eventually published on 11th June and are based on the 2020-21 Public Health Grant allocations.
14. 24th May - £50m from the European Regional Development Fund (ERDF) to support the safe re-opening of high streets. Allocations to billing authorities are calculated on a per-head basis (as a proxy for high street footfall) with a minimum grant of £30,000.
15. 11th June - £63m announced for local authorities in England to help those who are struggling to afford food and other essentials due to coronavirus. Although it is anticipated that this funding will be allocated to Upper Tier authorities, at the time of writing allocations are yet to be announced.
16. 2nd July – a Comprehensive Package of support to authorities is announced. This includes £500m to be distributed to meet additional costs and further monies to support lost income above a 5% threshold and co-payment basis of 75p in the £. Council tax and business rates deficits arising in 2020/21 will be allowed to be deferred over the following 3 years. Details on allocations and income definitions expected to be announced in coming weeks.

Financial Impacts upon the Council

17. Work continues across all service areas looking at the additional costs and lost income. In many areas it is still only possible to make estimates of the likely additional costs
18. Based on Government guidance around the monthly financial return to MHCLG, the initial work has been extended to assess the impact over the first 4 months of the financial year (April to July) of 2020/21, although clearly the impact is going to go on well beyond this date and some estimates include additional costs extending for some months beyond July.
19. The figures include an estimated 50% slippage or loss of savings proposals built in to the 2020/21 budget. Further work is being undertaken to review each saving proposal and to more accurately estimate the 2020/21 impact.
20. As requested by Government the County Council's figures do not include the impact of any shortfall in council Tax or Business Rates, this information has been provided by collection authorities on behalf of all preceptors. An estimate of the possible impact on the Council is set out below.
21. The anticipated additional pressures and loss of income for the County Council will be updated through the normal financial monitoring processes and regularly reviewed by the Corporate Financial Resilience Group (see paragraphs 33 and 34). It is anticipated that a further financial return to Government will be required mid-July. The summary table below sets out the estimated additional costs by Department as at 19th June 2020 as submitted to MHCLG.

Additional Costs By Department (19/06/20)

	£000
ASC&H	19,809
C&F	10,335
Place	10,198
Chief Executives	5,143
Savings at risk	4,000
Total	49,485

22. The Council has received a total of £37.0m in two tranches of funding towards these additional costs and lost income. An initial tranche of £1.6bn of additional funding was announced in March 2020. The NCC share of this was £22.3m and this was received in late March. A second tranche of a further £1.6bn for Local Government was announced on 20th April. This allocation is based on a per capita basis, and there is a 65:35 split between county and district authorities. The NCC share of this is £14.6m and was received on 14th May.
23. The Government has also announced a further £600m to support infection control in care homes. The NCC share of this is £11.4m, however it should be noted that this must be passported to care homes based on Government criteria and cannot be used to fund additional costs.
24. As at the 19th June the Council is facing a shortfall in funding of £12.5m; however, this is before any consideration of impacts upon council tax and business receipts during 2020/21. In addition, the latest Budget Monitoring Report, shown elsewhere on the Agenda, indicates some financial issues are arising that may not be related to Covid-19. Presently these are forecast to be £3.9m by year-end; however, it is early in the year and Management will be taking action to understand and minimise the effect of these on the Council.
25. Last February Budget Report established the amounts due from District Councils for council tax and the adult social care precept at £388m in 10 instalments. Once set these are legally binding and any delays mean that the County Council can charge interest on the overdue amount. In normal circumstances Districts would pass over the scheduled amounts and any over or under collection would be corrected in the following financial year. Districts have raised concerns that if there were to be a significant reduction in collection rates, they would be unable to make the payment unless they received support from Central Government. District Councils have reviewed May collection rates and have assessed the likely impact on collection during 2020/21. Overall the County Council share of the shortfall is estimated to be circa £8m, although this figure will be regularly updated as each month's collection data is reviewed.
26. Similarly, District Councils have indicated a potential shortfall in Business Rates. The estimated impact on County Council based on May's collection rates is £2m. As with Council Tax this will be subject to regular review.
27. There may be an ongoing impact on both Council Tax and Business Rates of a reduced tax base due to e.g. increased council tax discounts, slowdown of new housing developments, reduction in physical premises required by businesses which will need to be reflected in an updated MTFS.

Implications to the Medium Term Financial Strategy (MTFS)

28. Given the scale of the financial challenge now faced by the Council it is necessary to refresh the Council's MTFS. The response to the Covid-19 emergency has resulted in immediate and significant financial implications for the local economy, communities and residents as well as the Council itself. The longer-term impact of Covid-19 in Nottinghamshire will continue to emerge over time and will need to be continued to be assessed. When the Council set its Budget last February and approved the Medium Term Financial Strategy it had achieved a balanced budget in 2020/21 through 2021/22. With shortfalls in funding appearing in 2022/23 and 2023/24 of £28.3m. The Council had already identified a number of savings and was developing a longer-term strategy for transformation to meet the shortfall in the later 2 years of the MTFS.
29. Many of the original assumptions in the Council's MTFS will have significantly altered. These include but are not limited to:
- Staffing, placement costs and care packages in social care
 - Protective Personal Equipment (PPE)
 - The ability to deliver savings identified in 2020/21
 - Commercial Income from sold services to schools
 - Dividends received from subsidiary and associated companies
 - Collection and tax base related to council tax, adult social care precept and business rates
 - Home to school transport costs
30. Although more work is required to review all the assumptions in the MTFS and assess the fuller impacts of COVID-19 upon the Council's finances it is possible to provide an indication of the likely impacts based on the current revised assumptions based on our experience so far. This would consider:
- The likely impact of the latest announcement on the Comprehensive Support Package to Local Government, with an estimate on funding and the ability to spread the cost of the likely deficit on the Collection Fund over the following 3 years
 - Reflect the potential impacts upon our services in future years where possible
 - Pressures emerging in 2020/21 that are not yet identified as being Covid-19 related
 - The likely erosion of the tax base that may take some years to recover
31. The anticipated shortfall of funding in the current year is anticipated to be £10.8m based on an assumed grant as set out in paragraph 30, which will require to be met from a combination of the Council's General Fund Balance and other Earmarked Reserves.
32. Although it is too early to estimate beyond 2021/22 the combination of the factors set out in paragraph 30, would see an anticipated shortfall in funding appearing in 2021/22 of over £26m. Further work is required to monitor the impacts of responding to the Covid-19 emergency together with all the assumptions in the MTFS and the Council will continue to press Government for the funding to meet the additional costs the Council has faced, and potentially will face in 2021/22.

	Temporary	Permanent			3 year total gap in base £m
	2020/2021 £m	2021/2022 £m	2022/2023 £m	2023/2024 £m	
Opening MTFS Funding Gap	0.0	0.0	14.9	13.4	28.3
CV19 additional gap (incl. CT/BR)	22.5				
Assumed additional Govt Grant	-6.0				
CT/BR Deficit 2020/21 spread over 3 years	-10.0	3.3	0.1	-0.1	
<u>Ongoing Funding Issues from CV19</u>					
Potential Tax Base erosion		6.0	-3.0	-3.0	
Estimated ongoing costs of CV-19		15.0			
2020/21 Overspend Non-CV19	4.3				
Use of reserves	-10.8	2.0	1.6	1.2	
Impact on MTFS	0.0	26.3	13.6	11.5	51.4

Actions Taken by the Council in light of the financial challenges

33. A Corporate Financial Resilience Group consisting of senior finance staff, key Departmental Service Directors and Legal Services has been established to assess the impact of additional costs and lost income arising out of the COVID-19 emergency on the MTFS of Nottinghamshire County Council.

34. The Group will review all aspects of the financial impact and will report regularly to Corporate Leadership Team and to Members and Committees. The Terms of Reference for the Group are set out below:

- To review all ongoing, routine spend by the Council and identify any savings or cost reductions that might be available to offset additional costs
- To undertake a review of the reserves held by the Council and identify any that could be utilised to fund additional costs if required
- To review the capital programme and capital receipts forecast and assess the impact on the revenue budget
- To review the cashflow position of the Council and ensure sufficient balances are available to fund additional costs
- To identify and review any other areas which may impact on the MTFS (tax base, move back to 'business as usual' etc.)
- To update the Council's MTFS for the short and medium term and provide regular updates to Corporate Leadership Team and Members on the financial implications
- To complete the monthly MHCLG financial returns on additional spend
- To review revised ways of working arising out of the emergency and identify good practice that should be

35. The Leader of the Council continues to directly press Government Ministers to ensure adequate funding is provided in this year and through the Local Government Settlement for 2021/22. The County Councils Network commissioned work with the support of the Society of County Treasurers (SCT) from Grant Thornton to demonstrate to MHCLG the anticipated financial implications now and the longer-term financial implications that member counties will face because of responding to the Covid-19 emergency. In addition, the Chief Executive

and the Service Director for Finance, Infrastructure & Improvement also, through their relevant professional associations, are lobbying hard to MHCLG for the appropriate financial support.

Reason for Recommendations

36. To ensure the Committee is kept up to date on the financial implications of responding to the Covid-19 emergency and the potential implications upon the MTFS.

Statutory and Policy Implications

37. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

38. It is recommended that the Committee:

- 1) Considers the financial implications of the Council's response to the Covid-19 emergency and the likely impacts on the Council's MTFS.
- 2) Recognises and comments upon the approach and actions being taken by the Council.

Nigel Stevenson

Service Director Finance, Infrastructure and Improvement & Section 151 Officer

For any enquiries about this report please contact:

Nigel Stevenson (0115 9773033)

Constitutional Comments (KK 08/07/2020)

39. The proposals in this report are within the remit of Finance and Major Contracts Management Committee

Financial Comments (NS 7/7/2020)

40. The report details the financial challenges facing the Council in responding to the Covid-19 emergency and the actions it is taking.

41. Under section 151 of the Local Government Act 1972 there is a requirement for Local Authorities to put into place appropriate arrangements for the financial administration of each Authority. Each authority has an individual responsible for discharging those statutory arrangements, known as the Section 151 Officer (S151 Officer). If, in the professional judgement of the S151 Officer, based upon the best information available to them, the Council is unable to deliver a balanced budget in 2020/21, they are required to issue a Section 114 Report.

42. The S151 Officer will keep the financial position of the Council under constant review. If a professional judgement is made that the issuing of a Section 114 notice is necessary, a report will be prepared and issued after suitable consultation within the Council and with the External Auditor. It would also be necessary to provide updates to Governance & Ethics Committee and the Opposition Leadership. After the issue of such a report further spending controls would be in place to cease all but spend on statutory activity

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None

Electoral Division(s) and Member(s) Affected:

All