

Executive Board 29th June 2020

Subject:	Council Financial Position – Financial Risk Assessment
Corporate Director(s)/Director(s):	Laura Pattman, Strategic Director Finance and S151 Officer
Portfolio Holder(s):	Councillor Sam Webster, Portfolio Holder for Finance, Growth and the City Centre
Report author and contact details:	Laura Pattman, Strategic Director of Finance Email:laura.pattman@nottinghamcity.gov.uk
Subject to call-in:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Key Decision:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Criteria for Key Decision:	
(a) <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision	
and/or	
(b) Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No	
Type of expenditure: <input type="checkbox"/> Revenue <input type="checkbox"/> Capital	
Total value of the decision: None	
Wards affected: All	
Date of consultation with Portfolio Holder(s): 19 th June 2020	
Relevant Council Plan Key Theme:	
Nottingham People	<input checked="" type="checkbox"/>
Living in Nottingham	<input checked="" type="checkbox"/>
Growing Nottingham	<input checked="" type="checkbox"/>
Respect for Nottingham	<input checked="" type="checkbox"/>
Serving Nottingham Better	<input checked="" type="checkbox"/>
Summary of issues:	
<p>The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies. Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, for example Adult Social Care and Children in Care. In the period from 2010/11 to 2019/20, the Council has had to make cumulative savings totalling £271.4m and a further £15.623m of savings are included within the 2020/21 budget.</p> <p>Along with many other Local Authorities in the UK the Council's budget is now under severe strain due to the impact of Covid-19.</p> <p>At its meeting on 9 March Council approved a balanced budget for 2020/21. The projected MTFO gaps for 2021/21 and 2022/23 were £24.6m and £30.1m respectively. This report sets out how the overall financial position of Nottingham City Council has shifted due the impact of Covid-19 and makes recommendations regarding addressing the situation. The report considers the following:</p> <ul style="list-style-type: none"> • The impact of Covid-19 on the overall financial position of the Council • April revenue monitoring • Other significant financial issues unrelated to Covid-19 – including our Capital Programme 	

- The response to the overall financial position

Exempt information:

N/A

Recommendation:

1. Executive Board are recommended to note the overall in-year financial position of the Council as set out in this paper. Additionally, Executive Board are recommended to note the significant impact that the Covid-19 pandemic has had on the income and expenditure of the Council.
2. Executive Board are asked to note the substantial lobbying that is underway to secure further financial support from government to stabilise the financial position of the Council.
3. Executive Board are asked to note the financial gap for this financial year and approve the activities underway to address the position in the form of the extension of spending controls, the identification of in-year savings and the review of reserves.
4. Executive Board are asked to note that if additional savings and the review of reserves are believed to be insufficient to ensure a balanced budget position in the professional judgement of the s151 Officer, then a Section 114 Report will be issued.
5. Executive Board are asked to note that the s151 Officer will keep the financial position under continuous review
6. Executive Board are asked to note that a review of the capital programme is underway
7. Executive Board are asked to note that progress on the implementation of a minimum level of £15.5m of savings will be presented to the Board for approval in July.
8. Executive Board are asked to note that an updated Medium Term Financial Strategy will be presented to Executive Board in September

1 Reasons for recommendations and background to the decision

- 1.1 City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies. Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, for example Adult Social Care and Children in Care. In the period from 2010/11 to 2019/20, the Council has had to make cumulative savings totalling **£271.4m** and a further **£15.623m** of savings were agreed within the 2020/21 budget.

1.2 At its meeting on 9 March Council approved a balanced budget for 2020/21. The projected MTFO gaps for 2021/21 and 2022/23 were £24.6m and £30.1m respectively. This report sets out how the overall financial position of Nottingham City Council has shifted due the impact of Covid-19 and makes recommendations regarding addressing the situation. The report considers the following:

- The impact of Covid-19 on the overall financial position of the Council
- April revenue monitoring
- Other significant financial issues unrelated to Covid-19
- The response to the overall financial position

1.3 Given the scale of the financial challenge now faced by the Council it is necessary to refresh the Council's MTFO as well as plan to deal with the immediate in-year issues.

1.4 The response to the Covid-19 pandemic has resulted in immediate and significant financial implications for the local economy, communities and citizens as well as the Council itself. The longer term impact of Covid-19 in Nottingham will continue to emerge over time and will need to be continued to be assessed, monitored and responded to.

1.5 As the impact of the Pandemic became clearer the Government announced a series of measure to support the economy, which include the ability to furlough Staff, business loans and grants, targeted business rate relief and deferral of certain tax payments. The Government also recognised the significant financial impact of Covid-19 on Local Authorities and to date has provided £3.2bn to the sector.

1.6 To date Nottingham City Councils' total allocation of un-ringfenced government grant stands at £19m and a Hardship grant to help provide Council Tax relief to vulnerable citizens of £4.022m. Other funding has been provided in the forms of emergency Business grants and Business rates relief in order to support the economy through lock-down, totalling **£63.436m**.

1.7 The Ministry of Housing, Communities and Local Government (MHCLG) has instigated a monthly reporting requirement for Local Government regarding the financial impact of Covid-19. The first of these returns was provided in mid-April, with a second following in May. Subsequently the Council has completed a forecast of its position based upon its April financial results for the remainder of the financial year. A third return was provided on 18th June with a further return expected in July.

1.8 It is not custom and practice to forecast in the first month of the year. However, given the quantum of the financial impact which emerged as part of the first 2 MHCLG returns, on the recommendation of the s.151 Officer monitoring took place, given the significant risk identified within the budget.

1.9 The initial assessment provided to MHCLG in April assumed that the impact of Covid-19 would be limited to a three-month period. Due to the emerging situation it became clear by the May submission that the impact was likely to be for at least a six-month period and in some

cases (e.g. our commercial activity) for the whole financial year. As a consequence, the financial impact of Covid-19 (as reported to MHCLG) rose significantly by £25.539m

- 1.10 Further to the May submission of MHCLG data the Council determined its April forecast position. This included some non Covid-19 related over and under spends.
- 1.11 Prior to Covid-19 the Council was also facing significant financial risks in relation to:
- Historic related Employee issues
 - Risks relating to Group Companies
 - Capital Programme Funding requirements
- 1.12 The impact of Covid-19 on these pre-existing risks has been to act as a catalyst to those risks manifesting as issues in some cases. It is important to stress that the Council could have had more alternatives to deal with those issues, however the current Covid-19 operating context has placed the financial flexibility of the Council under severe strain.
- 1.13 The impact of Covid-19 alone means that the Council is now facing a shortfall in funding of 65.719m in this financial year. This means without additional funding forthcoming from Central Government, changes to local services will be inevitable if the Council's budget is to remain balanced in the medium term.

Financial Impact of Covid-19

- 1.14 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, assessed, monitored and addressed. Some of the assumptions are easier to determine e.g. lost income. Other impacts are more difficult to estimate and are dependent on the length of lock down, e.g. the impact on Council Tax, Business Rates and Universal Credit Claimants. They will impact in 21/22 and potentially beyond.
- 1.15 The current estimates show that the financial impact defined as – lost income, increased expenditure and savings which can no longer be delivered is approximately £85.5m. When the impact of the current level of Covid-19 Government grant is taken into account the Council is facing an un-funded Covid-19 estimated impact of £65.719m. The level of General Fund reserve the Council holds is £11m. This does not take into account the impact of the 2019/20 overspend of £6.754m.
- 1.16 The approach to forecasting the impact will continue to be assessed, refined and monitored as the financial year continues. Vital to this is an assessment of the impact of Covid-19 on collection rates and debt which will emerge in the two significant sources of funding for the council in Council Tax and Business Rates.

1.17 Many of the original assumptions that the 2020/21 MTFP was based upon have now significantly shifted. These include but are not limited to:

- Staffing costs in social care
- Protective Personal Equipment (PPE)
- Furloughing of staff
- The ability to deliver 2020/21 savings
- Commercial Property Income
- Other Commercial Income – e.g. Commercial Waste, Catering Services
- Dividends and returns received by group companies' e.g. Nottingham City Transport and Scape
- Funding assumptions – Business Rates and Council Tax in particular – this will have significant impact in 2021/22 and future years
- The impact of Covid-19 on the capital programme
- The impact of Covid-19 on the HRA

1.18 Given the impact of all of the above it is clear that the shortfall in funding from the government places the Council in such a position that the current ways of working and services will be impacted significantly. This means that in order to ensure a balanced budget position in 2020/21 in year action is required. This action is set out from paragraph 1.27 onwards.

April Monitoring

1.19 As mentioned in paragraph 1.8 the s151 Officer took a decision to undertake full forecasting and financial monitoring activity in April, which in normal circumstances would not take place. The forecast overspend position of the Council as at Period 1 is £76.085 m. The financial position is shown in Table 1 below.

1.20 The results of April's monitoring have been reconciled to the information supplied to MHCLG. However, the two positions will be slightly different as business as usual impacts are also taken into account in the forecast position.

Table 1 – April 2020 Monitoring Forecasting

TABLE 1: 2020/21 BUDGET GAP	
Budget Item	Original Savings £m
Covid-19 increased costs & lost income	77.379
Unachievable saving proposals as agreed in March 2020	8.162
Gross Covid-19 Impact	85.542
Government Grant	(19.823)
Net Covid-19 Impact	65.719
BAU forecast overspend	3.612
Forecast 2020/21 Gap	69.331
Carried over 2019/20 Overspend	6.754
Total Gap	76.085

1.21 As can be seen from the above the results of the first monitoring period represent a significant forecast over spend position for 2020/21. This means the options for the Council are:

1. Seek assurance that the full financial impact of Covid will be covered by Central Government as was promised at the start of the lock down period;
2. Or if this is not forthcoming produce a revised Medium Term Financial Strategy to implement immediate savings and a review of the adequacy of the Council's reserves;
3. To consider in light of the two actions above whether a time may be reached when the s151 Officer issues a statutory s114 notice – the last resort option. The Chartered Institute of Public Finance have recently published updated guidance regarding this process in light of Covid-19.

Other Significant Financial Issues

1.22 There are a number of other significant financial issues which were being faced by the Council prior to Covid-19. The fact that the operating context is so impacted by Covid-19 has meant that some of these financial issues are being realised.

1.23 In accordance with IFRS 9 the Council has made available a significant provision to cover the loans, parent guarantees and equity in relation to Robin Hood Energy (RHE). (RHE is a wholly owned subsidiary of the Council run on a not for profit basis, set up to tackle fuel poverty. It supplies gas and electricity to residential and business customers.

1.24 In addition there have been significant impacts in relation to the Council's Capital Programme schemes. Pre-Covid-19 Business cases will now be reviewed to ensure their continued viability and affordability.

The potential impact of this is not captured in the current Covid-19 financial impact.

- 1.25 There are currently salaries which are capitalised, such as those staff working in Development and Growth and Commercial and Operations. These are staff that are working on capital schemes. A significant proportion of these schemes are now not progressing or have been delayed. These salary costs will now be charged to revenue for which no budget exists. Work is underway to identify the value of the revenue pressure, an estimate of this has been included in the costs of Covid-19 returned to the Government.
- 1.26 The Council also had been forecasting an over-spend in relation to its Children's Services budgets amounting to £3.6m some of which is in relation to the recent Children's Services focused visit from OFSTED.

Response to the Overall Financial Position

- 1.27 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. In Nottingham City Council the role that carries those responsibilities is the Strategic Director of Finance.
- 1.28 If, in the professional judgement of the s151 Officer, based upon the best information available to her, the Council is unable to deliver a balanced budget in 2020/21, she is required to issue a Section 114 Report.
- 1.29 The s151 Officer will keep the financial position of the Council under constant review. In the event that 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 Audit Committee, Scrutiny 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.

2 Other options considered in making recommendations

- 2.1 As this report is for information and noting no alternative options have been considered.

3 Finance colleague comments (including implications and value for money/VAT)

- 3.1 Financial comments are included throughout this report.

4 Legal Comments (including Crime and Disorder Act implications)

- 4.1 The reference to a notice under s114 is to a duty conferred by section 114 of the Local Government Finance Act 1988. That section sets out the duties and

responsibilities that are required of the s151 officer in certain defined circumstances. In all other regards the proposals contained in the report raise no significant legal issues, nor do they raise any crime and disorder implications.

5 Strategic Assets & Property colleague comments (for decisions relating to all property assets and associated infrastructure)

5.1 None.

6 Social value considerations

6.1 None

7 Regard to the NHS Constitution

7.1 Not applicable.

8 Equality Impact Assessment (EIA)

8.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required because:

There are no decisions within the report which require an EIA.

9 List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

9.1 None.

10 Published documents referred to in this report

10.1 Medium Term Financial Plan (MTFP) considered at Council on 9th March 2020