

Council Report: C/20/02

Additional Appendix

Appendix 7 (issued 24th July 2020)

TECHNICAL NOTE ON LOCAL GOVERNMENT FINANCE COVID-19 PACKAGE

On Friday 17 July, the Government issued a technical note (attached as Appendix 8) on the funding package for councils and an explanation of the funding allocations of the £500m un-ringfenced funding which were announced on Thursday 16 July.

This followed a 2nd July announcement that is attached as Appendix 6 to the Council report.

The 16th July information - in terms of the allocation of the £500m to Ipswich Borough Council - is included within the published Council report (e.g. at paragraph 1.10). The methodology behind this is explained further on the first page of the Technical Note and within Annex A and B,

The Technical Note also refers to Collection Fund deficits within its second page. Traditionally, Ipswich Borough Council has to pay the government for any deficits arising where actual tax receipts (from council tax and business rates) are lower than budgeted levels. Any deficits arising are paid in the year after they arise. The government have instead proposed that deficits incurred in 2020/21 are repaid over a three-year period. This will assist with cashflow but does not affect the budget over the medium term.

The technical note provides some further detail of the proposed scheme to reimburse councils for lost income from sales, fees and charges. As stated in the 2nd July letter the Technical Note repeats the point the first 5% of planned sales, fees and charges would be deductible – i.e. 5% of the original 2020/21 budget for the relevant sources of income would be absorbed by councils – and that thereafter government would reimburse 75p in every pound of relevant loss thereafter.

The government set out three guiding principles on page 3 of its technical note to define relevant claims;

1. Transactional income from customer and client receipts (excluding rents and investment income) which is generated from the delivery of services which was budgeted for in 20/21;
2. As a result of COVID-19, and consequent reductions in economic activity, these income sources have been unavoidably lost and won't be recovered in this financial year;
3. Compensation should be based on net losses, where a local authority has been able to reduce expenditure, or has received over compensation, only the residual loss would be compensated for.

Page 4 of the note also makes clear, among other points, that more detailed guidance will be released in due course and that the first data collection and payments are expected to take place later this summer.

View of the Council's Deputy Section 151 Officer (to supplement Section 7 of the Council Report)

Although this Technical Note provides some more clarity on the sales, fees and charges scheme there is still insufficient detail to provide a reasonable estimate of how much Ipswich Borough Council can reasonably expect to receive. For example, the guidance does not clearly define which services will be inside or out of scope.

Funding will only be provided for income lost as a consequence of factors outside of the Council's control – where the Council has 'chosen' to close a service it will not be reimbursed. It is unclear from the guidance where the threshold for what constitutes 'unavoidable' will be set – it could be to the date when facilities could be legally reopened or it could include services which were operating but where demand was reduced as a consequence of the pandemic.

Finally, the scope of expenditure to be netted off has not been defined – it could be direct costs, for example performer fees at the Regent. Alternatively, it could include any costs attributable to a particular service – the potential range is currently too broad to estimate accurately.

The MTFP approved by council in February 2020 (C/19/19) budgeted a total of £18.644m of Sales and Fees & Charges income – therefore, if all of these services were to be within scope of the final reimbursement scheme, the deductible to be applied to Ipswich Borough Council's income losses could be £0.932m (i.e. 5% of £18.644m).

For the Borough Council to receive the remaining £2.148m of funding assumed in the MTFP Update (Table 9), the net relevant irrecoverable losses would have to total £3.796m.

The latest (June) forecast provided to MHCLG assumed that of the total £5.841m non-Collection Fund income losses (see Appendix 2 of the Council report), the amount of gross irrecoverable losses from sales, fees and charges was estimated to total £4.720m. The remainder relating to Commercial Income or Other Income which is assessed to be clearly out of scope of the reimbursement scheme according to the Technical Note issued by the government. It is possible that other elements of income will also be out of scope when the full details of the scheme are provided by Government.

The MTFP Update also allows for £0.250m of funding from the Government's Job Retention Scheme for furloughed staff (Table 8), which would reduce the relevant losses to £4.470m (as it appears these need to be factored into the 'loss calculation').

Considering that expenditure saved also needs to be deducted from the total relevant lost income to be reimbursed and that the guidance is clear that it will exclude 'commercial revenues' then it is not considered prudent to revise the assumption contained in Table 9 of the MTFP Update upwards.

It is still possible that the Council will not receive the full amount assumed in the MTFP Update when the final details of the scheme are announced.