

30 JUNE 2020

LOCAL COUNCILS CORONAVIRUS RECOVERY PACKAGE

1. CORONAVIRUS REVENUE ACCOUNT IMPACTS & SOLUTIONS

Many local councils are dealing with financial impacts arising from the Coronavirus; at present they result from a reduction in the estimated levels of income and/or increased and unexpected expenditure due to actions taken to support their communities during the pandemic. The pandemic struck after local councils had set their precepts for 2020/21 and therefore the impact on their revenue accounts will not have been budgeted for and the next opportunity to reset their revenue accounts will be in 2021/22.

The size of the financial loss will vary across the sector, those most at risk are likely to be those that have significant levels of revenue income in proportion to their precept and level of their general revenue reserves. 95% of local councils generate up to 60% of their income from sources other than precept. Over 100 local councils estimate a short-term first quarter of the year loss of between £25,000 and £500,000. 75% of local councils estimate total additional costs as a direct result of the pandemic for the first quarter of the year of up to £5,000.

PROPOSAL

*Permit councils to create their own "Covid-19 Revenue Recovery Package" through the capitalisation of specific revenue impacts (both increased expenditure and losses of income) arising from the Coronavirus pandemic. This is, in simple terms, an appropriate accounting treatment to address the unprecedented financial impacts of the virus. It would require **no financial commitment from central government** by allowing local councils to make a capital contribution to revenue accounts in order to protect their long-term financial viability.*

It is proposed that such capital contributions are either funded from existing capital reserves or are eligible for local councils to take out Public Works Loan Board (PWLB) loans. This will spread the adverse revenue impact over time rather than impacting the 2021/22 precept. Whilst it involves additional Government support in the short term, these loans will be repaid over, for example, the next ten years. An additional advantage is that PWLB loans can be monitored by the National Association of Local Councils (NALC) who are currently required to support all applications and who can ensure that applications are valid and supported by a Medium-Term Financial Plan that demonstrates the longer-term affordability.

This measure mirrors the Government's actions at a national level, whereby borrowing is increased in order to protect the economy in the short term. It is also specific to those local councils that require financial support enabling them to take control over their own longer-term destiny.

2. COUNCIL TAX BASE IMPACTS & SOLUTIONS

Whilst there may be many local councils across the country which do not require financial support arising from the impact of Coronavirus, they may not yet have anticipated the longer term impact that it may have on their council tax base and hence their ability to raise the income they require from their precept to sustain existing services.

As the cost of meeting council tax benefit payments is a charge against Billing Authorities' collection funds, any significant increase in the number of claimants – and thus the overall cost – will result in a reduction in the council tax base and an increase in Band D council tax charge if the precept is maintained at the same level as the previous year.

In reviewing the number of furloughed employees proportionate to the electorate (e.g. it is understood that in Newark & Sherwood District Council there are currently some 14,000 people – over 10% of the total population) it is fair to conclude that there will be a significant increase in the level of unemployment and a knock-on increase in the level of council tax benefit being claimed.

As a broad-brush example, a 5% reduction in council tax base will result in a similar 5% increase in the Band D Council Tax Charge, if the precept figure remains unaltered from this year.

In summary, there will be considerable pressure on authorities to raise precepts in 2021/22 contrary to the Government's strong preference to maintain them at low, single digit levels of increase.

This will make longer term financial recovery for local councils far more difficult as they try to get their revenue accounts back into balance against a background of a declining tax base.

PROPOSAL

A re-instatement of the government grant to meet an increase in Council Tax Benefit payments from this years' baseline estimated figure. This grant is to be accounted for in each Billing Authorities' Collection Fund not their general fund revenue account and is phased over a number of years in line with a return of employment rates to the levels prior to Coronavirus.

This proposal would protect local councils from experiencing significant reductions in their ability to raise council tax income without large increases in the Band D charge.