

CABINET – 15TH OCTOBER 2020

Report of the Head of Financial & Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 6 REVISED BUDGET 2020/21 AND UPDATED MEDIUM TERM FINANCIAL STRATEGY 2020 - 2023

Purpose of Report

The COVID-19 outbreak has had a material impact on the Council's current financial situation and future financial prospects. Reflecting this impact, this report brings forward a Revised General Fund Budget 2020/21 and Updated Medium Term Financial Strategy (MTFS) 2020 – 2023 for consideration by Cabinet and recommendation to Council.

Recommendations

1. That the Revised Budget, as set out at Appendix A, be recommended to Council for approval.
2. That the Updated MTFS 2020 to 2023, as set out at Appendix B, be recommended to Council for approval.

Reasons

1. To ensure that the Budget for 2020/21 reflects the impact of the COVID-19 outbreak and can be approved by Council.
2. To reconsider and update the financial issues affecting the Council and the Borough identified in the original version of the MTFS, and to inform the Council's budget setting process for future years.

Policy Justification and Previous Decisions

The original Budget for 2020/21 was approved at the Council meeting of 24 February 2020, whilst the MTFS for the period 2020 – 2023 was approved at the Council meeting of 20 January 2020. The reports, and the financial analyses and projections therein, were prepared before the impact of the COVID-19 outbreak became apparent and no longer represent a reasonable representation of either likely income and expenditure patterns for the 2020/21 financial year and future financial prospects for the Council in the medium term. The Medium Term Financial Strategy will continue to be updated as relevant matters become clear and a further edition of the MTFS will be presented to Cabinet and Council alongside the Original 2021/2022 budget in due course.

Implementation Timetable including Future Decisions and Scrutiny

This report is scheduled to go to the Council meeting of 9 November 2020 for approval.

In addition to the standard pre-Cabinet Scrutiny process it is also intended that the draft content of this report will be discussed at the Budget Scrutiny Panel meeting scheduled for 29 September 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

The effects of the adoption of the Revised Budget is explained in Appendix A of this report.

There are no direct financial implications arising from the approval of the Updated MTFS.

Risk Management

Risks identified in respect of the Revised General Fund Budget are tabulated below:

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management actions planned</i>
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process are in place.
Further exceptional spending being required during the financial year.	Likely (3)	Major (3)	Moderate (9)	It is considered that the Working Balance reserve (and other revenue reserves) remain sufficient to manage normal and one-off events for the remainder of the 2020/21 financial year.

There are no direct risks associated with the decision Cabinet is asked to make in respect of Updated MTFS 2020 - 2023

Key Decision: Yes

Background Papers: Council report 20 January 2020 – Medium Term Financial Strategy 2020 – 2023

Council report 24 February 2020 - General Fund and HRA
Revenue Budgets and Council Tax 2020-21

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Part B

Background

1. The COVID-19 outbreak has had a major global impact on health, wellbeing and economic prosperity since the virus was originally identified in China in the latter months of 2019. Within the United Kingdom, significant restrictions were placed on day to day life in March 2020 which resulted in a major contraction in economic activity alongside the increasing health and social care impacts of the virus.
2. From a Council perspective COVID-19 created new cost pressures in areas such as community support, increasing demand for homelessness services and distribution of business grants, coupled with significant losses across virtually all of the Council's principal income streams.
3. At the point of drafting this report (September 2020) the full impact of COVID-19 - globally, within the United Kingdom, locally within Charnwood, and on the Council itself - remains very uncertain. Known unknowns at this time include the extent of any 'second wave' of the pandemic and the effectiveness and availability of vaccines to counter the disease. In practice therefore, the full extent of the COVID-19 impact is unlikely to be fully knowable for several months. What is apparent at this time however is that the financial impact on the Council is material and that pre-existing patterns of income and expenditure have been significantly disrupted. Further, the future financial outlook for the Council, already clouded with uncertainty arising from the (delayed) 'Fair Funding' review and the end of the Brexit transitional period, appears even more challenging than previously articulated.
4. Given the impact of COVID-19 on the Council's financial position it was therefore considered appropriate to revise the General Fund Budget for 2020/21 and Update the Medium Term Financial Strategy 2020 – 23 to ensure Council are aware of the current disruption to the budgeted income and expenditure amounts, and the increased risks and financial challenges that are likely to flow from this.
5. It should also be noted that whilst the budget has been revised ***there is no change to the council tax precepts originally set.***
6. Similarly, in respect of the Revised Housing Revenue Account (HRA) budget for 2020/21, ***there is no change to the rent levels originally set.***
7. In previous years a new version of the MTFs has been constructed each autumn (usually presented to Cabinet as a draft for consultation in September and in final version in November for recommendation to Council in January). Due to COVID-19 and other major uncertainties around Brexit and the future shape of the government financial settlement it is planned that a new version of the MTFs will be constructed and presented alongside the Budget for 2021/22, when more information is available.

Executive Summary

Revised General Fund Budget 2020/21

8. The principal differences between the original and Revised General Fund Budget can be summarized as follows:

- Reduction in budgeted sales, fees and charges, including:
 - Town Hall income streams £1.2m
 - Planning fees £0.6m
 - Markets £0.3m
 - Leisure contract income £0.2m
 - Other – garden waste, etc £1.0m
 - Total budgeted reductions in sales, fees and charges **£3.3m**
- Reduction in budgeted interest and commercial income: **£0.3m**
- In-year cost savings include:
 - Offset reduction Town Hall costs (£0.5m)
 - Salary savings - managed vacancies (£0.7m)
 - Minimum Revenue Provision saving (£0.5m)
 - Total mitigating savings identified **(£1.7m)**
- Additional costs directly attributable to COVID-19 now in budget:
 - Subsidy for leisure centres £0.5m
 - Homelessness £0.2m
 - Community support and similar £0.6m
 - Total projected COVID-19 costs **£1.3m**
- Other cost pressures totaling £0.6m including:
 - Supported living (housing benefit) £0.4m
 - Additional insurance costs £0.1m
 - Other £0.1m
 - Total other cost pressures **£0.6m**
- **Total net additional expenditure budgeted £3.8m**

9. The net additional expenditure of £3.8m is mitigated by additional government funding of around £3.4m reflecting £2.2m already received and an estimated £1.2m due to cover certain categories of income loss, essentially those described under the heading of sales, fees and charges.

10. Whilst some in-year cost saving initiatives have been identified, these principally relate to more aggressive managed vacancy savings and costs avoided in relation to artists fees for Town Hall shows. There are no changes to the underlying Council service configuration reflected in the original 2021/21 Budget arising from the Revised Budget.
11. After allowing for technical changes (principally relating to the treatment of the Minimum Revenue Provision and replenishment of the Reinvestment Reserve) the Revised General Fund Budget shows an additional use of the Working Balance of £0.7m compared to the original budget, giving a revised total use of this reserve of £1.8m (versus £1.1m in the original budget)

Housing Revenue Account (HRA) budget 2020/21

12. The Revised HRA Budget shows a use of reserves of some £0.8m, compared to an essentially break-even position originally budgeted.
13. The principal variances versus the revised budget are largely attributed to COVID-19 as follows:
 - During lockdown, empty properties could not be re-let leading to loss of rent and service charges calculated at £0.4m
 - Further, the increased incidence of voids has created an additional council tax liability of £0.1m
 - Temporary restrictions on evictions due to rent arrears have impacted on the level of rent arrears during the year; additional bad debt charges have been estimated at £0.2m
14. The Revised Budget 2020/21 for both the General Fund and HRA is tabulated in more detail at Appendix A.

Updated MTFS 2020 - 2023

15. In summary the financial projections now show that:
 - 2020/21 will see a £1.8m use of the Working Balance based on the Revised Budget for this year
 - 2021/22 will see a further £2.1m use of the Working Balance
 - 2022/23 will see a further £1.7m use of the Working Balance; at the end of this financial year the numbers show that the Working Balance would be in deficit by some £0.6m – in effect showing that the Council would be insolvent

16. These projections reflect the impact of COVID-19 exacerbating the pre-existing structural issues within the budget. Financially, the direct negative impact of COVID-19 is estimated at:
- FY 2020/21 Adverse £0.8m (additional use of working balance)
 - FY 2021/22 Adverse £1.0m (COVID-19 service pressure total)
 - FY 2022/23 Adverse £0.4m (COVID-19 service pressure total)
17. The principal assumption around Government funding is that it will be similar in total for 2021/22 and 2022/23 as for 2020/21 – this assumption is made due to the absence of other information rather than any specific detail on this matter. There is a risk in particular around New Homes Bonus (which has been scheduled for cessation) where a plausible risk of a £2m shortfall versus the MTFS projections exists, but all projections in this area are somewhat speculative. A new version of the MTFS is planned for the new year when it is hoped a more robust projection of government funding will be possible.
18. It must be stressed that these projections effectively assume that no additional management actions or interventions would occur - which is clearly unrealistic. A financial sustainability work programme (for internal use) has been developed which identifies a number of work streams through which the financial challenges may be addressed. Work on service reviews with associated ‘options for change’ is already underway.
19. The Council’s financial position is serious as a result of the COVID-19 outbreak, but barring further financial shocks (such as a precipitous fall in Government Funding) the remaining reserves are such that if robust management action is taken then the Council can achieve financial sustainability.
20. The MTFS is presented at Appendix B of this document.

Appendices

Appendix A: Tabulation of Revised General Fund and HRA Budget

Appendix B: Updated Medium Term Financial Strategy 2020 – 2023

Appendix A: Tabulation of Revised General Fund and HRA Budget
Summary of Revised General Fund Budget 2020/21

Actual 2019/20 £000	General Fund Budget Summary	Original Budget 2020/21 £000	Revised Budget 2020/21 £000	Variance Original Vs Revised 2020/21 £000
19,176	Net Service Expenditure	19,038	22,643	(3,605)
213	Revenue Contributions to Capital	0	0	0
227	Interest Paid	240	240	0
(562)	Less: Interest on Balances	(500)	(300)	(200)
19,054	Total Borough Expenditure	18,778	22,583	(3,805)
74	Contribution (from)/to Reinvestment Reserve	(36)	(195)	159
(2,200)	Contribution(from)/to Working Balance	(1,069)	(1,822)	753
(173)	Contribution (from)/to Collection Fund	143	143	(0)
(213)	Contribution(from)/ to Capital Plan Reserve	0	500	(500)
395	Contribution (from)/to Other Reserves	(45)	(63)	18
16,937	Precept Requirement	17,771	21,146	(3,375)
5,290	NNDR	4,947	4,947	0
6,893	Council Tax Receipts	7,288	7,288	0
1,213	Loughborough Special Levy	1,271	1,271	0
3,731	New Homes Bonus	4,122	4,122	0
0	DCLG Covid Income Loss Claim	0	1,191	(1,191)
0	DCLG Covid Emergency Grant	0	2,184	(2,184)
(17)	General Government Grants	0	0	0
(173)	Collection Fund Surplus/(Deficit)	143	143	0
16,937	Precept Income	17,771	21,146	(3,375)
£000	REVENUE BALANCES	£000	£000	
Actual		Original	Revised	
2019/20		2020/21	2020/21	
6,871	Working Balance at 1 April	5,900	4,498	
(2,373)	Transfer from/(to) General Fund	(926)	(1,822)	
0	Transfer from Growth Support Fund	0	101	
0	Transfer from/(to) Reinvestment Reserve	(170)	0	
0	Contribution to the LLEP Enterprise Zone	0	(1,100)	
4,498	Balance at 31 March	4,804	1,677	
809	Reinvestment Reserve Balance at 1 April	366	883	
0	Transfers from/(to) Fund one off Item	(36)	(195)	
0	Committed Reinvestment Reserve	0	(270)	
74	Transfers from/(to) General Fund	170	0	
883	Balance at 31 March	500	418	
2,193	Capital Plan Reserve Balance at 1 April	1,288	1,980	
0	Transfer from/(to) General Fund	0	500	
(213)	Funding of Capital Expenditure	0	(630)	
1,980	Balance at 31 March	1,288	1,850	
101	Growth Support Fund Balance at 1 April	5	101	
0	Transfer from/(to) General Fund	0	(101)	
101	Balance at 31 March	5	0	
763	Other Revenue Reserve Balances at 1 April	700	1,158	
395	Transfers from/(to) Fund one off Item	(45)	(45)	
1,158	Balance at 31 March	655	1,113	
8,620	TOTAL BALANCES	7,252	5,058	

Analysis of variance – Total Borough expenditure

Analysis of variance - Total Borough expenditure		
	<i>£000</i>	<i>£000</i>
Sales, fees and charges losses 2020/21		
Fusion Management Contract Income	236	
Town Hall ticket sales	785	
Snacks & Drinks – Breakout	33	
Garden Bins	193	
Sales - Town Hall Bar	168	
Fees & Charges Public Toilets	29	
Fees & Charges Town Hall Room Hire	41	
Fees - Pest Control	10	
Other Misc Fees & charges	10	
Car Parking Charges	486	
Land Charges - search Fee	60	
Hire Charges-Rooms	88	
Building Control Charges	101	
Planning Charges	610	
Booking Fee Income	67	
Markets Rent-Stalls/Sites	322	
Other Small Income losses	61	
Total sales, fees and charges losses		3,300
Interest and commercialisation income losses		
Interest Reduction Pressure cost	200	
Commercialisation Income	130	
		330
In-year savings identified		
Salary savings - net of additional pay award	(666)	
Towh Hall Artist Costs to offset Town Hall Show Income	(400)	
Town Hall Stock not required 2020-21	(59)	
MRP Charge budgeted in 2020/21 not required	(500)	
Other Smaller Savings	(123)	
		(1,747)
COVID-19 related cost pressures		
Fusion Additional Contract Costs relating to Covid	531	
Homelessness £200k	200	
Community support and similar	626	
	<u>1,357</u>	
Other pressures		
Supported Living - increased costs	435	
Insurance increase – revaluation impact	90	
NDR – additional costs due to voids	40	
Total cost pressures		1,922
TOTAL IMPACT		3,805

I. Summary of Revised HRA Budget 2020/21

2019/20 Actual	Housing Revenue Account	2020/21 Original Budget	2020/21 Revised Budget	Variance
£000		£000	£000	£000
	Expenditure			
5,220	Supervision and Management	5,550	5,540	10
6,718	Repairs and Maintenance	6,769	6,824	(55)
191	Rents, Rates and other charges	139	224	(85)
270	Provision for Bad and Other Charges	383	593	(210)
3,249	Depreciation	3,189	3,189	0
(17,892)	Net Revaluation increase of non-current assets	0	0	0
18	Debt Management Expenses	10	10	0
(2,226)	Expenditure Sub-total	16,040	16,380	(340)
	Income			
(20,483)	Dwelling Rent Income	(20,937)	(20,579)	(358)
(366)	Shops, Land and Garages Rent	(360)	(350)	(10)
(55)	Warden Service Charges	(57)	(49)	(8)
(355)	Central Heating and Communal Charges	(350)	(323)	(27)
(143)	Leasehold Flat and Shop Service Charges	(158)	(143)	(15)
(26)	Hostel Service Charges	(31)	(30)	(1)
(11)	Council Tax recharged	(11)	(10)	(1)
(21,439)	Income Sub-total	(21,904)	(21,485)	(420)
(23,665)	Net (income)/Cost of service	(5,864)	(5,105)	(760)
(85)	Transfer from General Fund - Grounds Maintenance	(84)	(84)	0
2,709	Interest Payable	2,706	2,709	(3)
(124)	Investment Income	(66)	(35)	(31)
(21,165)	Net Operating Expenditure/(Income)	(3,308)	(2,515)	(788)
3,659	Revenue Contribution to Capital	3,308	3,308	0
(556)	Pension Adjustment	0	0	0
(1)	Accumulated Absence Adjustment	0	0	0
17,892	Reversal of Gain on Revaluation	0	0	0
20,994	Appropriations	3,308	3,308	0
(171)	(Surplus)/Deficit for the year	0	793	(788)

Appendix B: Updated Medium Term Financial Strategy 2020 - 2023

The updated financial projections for the Medium Term Financial Strategy 2020 – 2023 are set out below.

MTFS Projections 2020 - 2023	<i>2020-21</i> <i>£000</i>	<i>2021-22</i> <i>£000</i>	<i>2022-23</i> <i>£000</i>	<i>Notes</i>
Net Service Expenditure	22,643	18,916	18,916	I
Interest Payable	240	240	240	
Interest Receivable	(300)	(300)	(300)	
	22,583	18,856	18,856	
Service pressures identified	0	2,090	2,038	II
Mitigating savings	0	(1,255)	(1,355)	III
Total Net Expenditure	22,583	19,691	19,539	
Core financing				
COVID-19 funding	3,375	0	0	IV
Business Rates Funding	4,947	4,379	4,466	V
Council Tax Receipts	7,288	7,582	7,886	VI
Loughborough Special Rate	1,271	1,321	1,372	VII
New Homes Bonus	4,122	4,289	4,118	VIII
Favourable movement Collection Fund	143	50	50	
<i>Net movement of other reserves</i>				
Funding from Reinvestment Reserve	195			IX
Contribution from collection fund	(143)	(50)	(50)	
Contribution to Capital Plan Reserve	(500)			X
Other	63			
	20,761	17,570	17,843	
Projected use of working balance in year	(1,822)	(2,121)	(1,696)	

Based on these projections the implications for the Working Balance, the Council's core reserve held to cushion financial shocks, is tabulated below.

Movement on Working Balance	<i>2020-21</i> <i>£000</i>	<i>2021-22</i> <i>£000</i>	<i>2022-23</i> <i>£000</i>	<i>Notes</i>
Working balance brought forward	4,498	1,677	1,118	
Use of balances (as above)	(1,822)	(2,121)	(1,696)	
Other transfer of reserves	101	0	0	
<i>One-off collection fund adjustments:</i>				
Transfer of EZ business rates to LLEP	(1,100)		0	XI
Adjustment for business rate appeals		1,561		XII
Working balance carried forward	1,677	1,118	(578)	XIII

Notes and comments on the updated financial projections

I. Net Service Expenditure

The Net Service Expenditure projection for 2020/21 has been aligned with the Revised budget for that year (as have all other elements of the financial projections).

In subsequent years the basis of projections is the revised budget, adjusted for items which are considered 'one-offs' in that year. The projections also reflect a detailed review of the salary budget which for both 2021/22 and 2022/23 is included at 2021/22 rates. Additional salary costs for 2022/23 are estimated at 3% and tabulated as a service pressure within that year (as set out below)

II. Service pressures identified

In broad terms, the service pressures identified can be categorised under three headings:

Contractual

Certain pressures are the usual index-linked cost increases associated with major contracts. This would comprise the major part of pressures associated with the delivery of Revenues & Benefits, Environmental Services and Open Spaces.

COVID-19

There are areas of activity that appear to have a clear link with the COVID-19 outbreak, either due to anticipated loss of income or additional costs. Principal assumptions in these areas are:

- Leisure Centres – management fees receivable will be half pre-COVID-19 levels
- Market income – income is assumed to reduce income by 50% in 2021/22 due to the impact of COVID-19, but fully recover in subsequent years

- Town Hall – net revenues are assumed to reduce by 50% in 2021/22 due to the impact of COVID-19, but fully recover in subsequent years
- Car parking – future income is assumed at 85% of pre-COVID-19 levels for 2021/22 and 2022/23
- Homelessness – additional costs are assumed in line with the current increase in homelessness demand, such as for bed & breakfast provision

Other pressures

- Housing Benefit losses relating to supported living centres – at present such accommodation appears at full capacity resulting in costs some £0.4m above budgeted levels; for the purposes of the projections it is assumed that some relaxation in demand or change in provider status may allow some element of current pressure to be mitigated
- Planning and building control fees – whilst some element of reduced fees may be COVID-19 related, pre-existing fee generation suggests that cyclical downturn in demand may also be contributing

Service pressures for the financial years 2021/22 and 2022/23 are tabulated below.

Service pressures identified	<i>2021-22</i> <i>£000</i>	<i>2022-23</i> <i>£000</i>	<i>Pressure type</i>
Revenues & Benefits - Capita	47	47	Contractual
Environmental Services - Serco	419	580	Contractual
Open spaces - Idverde	20	44	Contractual
General salary cost increase	0	428	Contractual
Leisure Centres	123	106	COVID-19
Markets income	147	0	COVID-19
Town Hall	391	0	COVID-19
Car parking	142	142	COVID-19
Homelessness provision	211	151	COVID-19
Supported living - Housing Benefit loss	200	200	Other
Planning	332	332	Other
Building control	50	0	Other
Community Grants	11	10	Other
	2,090	2,038	

III. Mitigating savings

Mitigating savings are tabulated below.

Mitigating savings	2021-22 £000	2022-23 £000	Comment
Commercial Property investment	400	400	Original MTFS T&E plan ++
Commercialisation – review of fees and charges	40	50	Original MTFS T&E plan
Commercialisation – Trade Waste	10	20	Original MTFS T&E plan
Major contract efficiencies	25	55	Original MTFS T&E plan
Transformation – Accommodation	0	50	Original MTFS T&E plan
Transformation – ICT enabled	30	30	Original MTFS T&E plan
MRP saving - Environmental Services Fleet	350	350	Additional initiative
Other identified corporate savings	200	200	Additional initiative
Review vacant posts; vacancy management	200	200	Additional initiative
	1,255	1,355	

Of note in respect of the above:

- The Capital Strategy 2020/21 and Revised Capital Plan 2020 – 2023 created available funds for investment in commercial property of £25m, profiled such to allow spending in the current (2020/21) financial year
- The saving in Minimum Revenue Provision (MRP) has been achieved by removing or deferring schemes from the original version of the Capital Plan 2020 – 2023, and therefore enabling half of the £4.8m total cost to be funded from earmarked capital reserves; the saving above comprises £0.3m saving in MRP with the balance attributable to using ‘internal’ (rather than external) borrowing

The Transformation & Efficiency Plan within the original version of the MTFS 2020 – 2023 contained a number of initiatives not listed above. These were as follows:

- Review of Treasury Management – completed – but no additional revenue now projected due to outlook for interest rates
- Savings arising from implementation of on-line booking line system – now included within base budgets
- Additional Town Hall seating – removed from savings list due to impact of COVID-19
- Shared building control service – no identifiable savings at this stage
- Continuous improvement – now included within base budgets

IV. COVID-19 Funding

There are two principal elements of the COVID-19 funding:

- £2.1m – unringfenced grant amounts to cover additional COVID-19 related expenses; this amount has been received by the Council
- £1.2m – estimated grant receivable to cover COVID-19 related income losses

Current understanding is that these additional grants will only be offered in respect of the 2020/21 financial year.

V. Business rates funding

In general terms it is assumed that future government funding will be in line with that received for 2020/21. It should be noted that this assumption is not an expectation, but more a reflection of the absence of any information in this area. Significant changes appear very possible and may arise out of the delayed Fair Funding review and prospective fundamental review of the business rates system, but it is highly unlikely that these changes would be reflected in the 2021/22 financial settlement (which would usually be expected in December of any given year).

In respect of business rates specifically, the MTFs assumes a 'safety net' position (92.5% of the government settlement for 2020/21) adjusted for inflation, reflecting the current negative outlook for business rates.

VI. Council tax receipts

A 1.99% year on year increase (in line with historical 'capping' limits) is assumed for the main Borough precept.

VII. Loughborough Special Rate

A 2% year on year increase is assumed for the Loughborough Special Expense area.

VIII. New Homes Bonus

The New Homes Bonus (NHB) scheme had been due to be discontinued, but due to the delay in the outcome of the Fair Funding review, has been extended into 2020/21. The future of the scheme remains very uncertain but MTFs projections assume that NHB receipts will continue at recent levels, at around £4m per annum.

It should be noted that based on the 2020/21 financial settlement that NHB awarded in respect of that year was that year only, rather than for each of a four-year period as had previously been the case with the scheme. Should the Government choose not to extend the NHB scheme (and not to compensate the Council via other funding streams) then NHB receipts would reduce to around £2.2m creating an additional funding shortfall in the order of £2m.

IX. Finding from the Reinvestment Reserve

One-off items of revenue expenditure, not originally budgeted for, were funded from the Reinvestment Reserve.

X. Contribution to Capital Plan Reserve

This £0.5m transfer represents an in-year MRP saving in respect of the purchase of the Environmental Services fleet, and arises due to refinement of the Council's MRP policy which now states (in line with common practice) that MRP charges will commence in the financial year after acquisition.

Given that reserves earmarked for capital expenditure have been allocated against the Environmental Services fleet to reduce MRP charges in future years, this transfer was deemed appropriate to ensure the Council retains some ability to make capital expenditure without incurring MRP in future years.

XI. Transfer of EZ business rates to the LLEP

The Charnwood Enterprise Zone (EZ) was designated with effect from 1 April 2017. Following discussion an agreement to share business rates generated within the EZ site with the Leicester & Leicestershire Enterprise Partnership (LLEP) was approved by Cabinet at the meeting of 9 July 2020. This results in a transfer of business rates generated since the inception of the EZ site being due to the LLEP in this financial year, assuming the final legal agreement is ratified by all parties.

XII. Adjustment for business rate appeals

Following a review of the provision held for business rate appeals in conjunction with other local authorities in the Leicestershire business rates pool it was concluded that the provision held was excessive which will result in a release of funds into the Working Balance in 2021/22.

XIII. Working balance

The financial projections show the Working Balance falling below the minimum target level of £2m set by the s151 Officer.

At 31 March 2021 the projected balance of £1.7m may be viewed as acceptable given that the fall below £2m is essentially created by the timing differences around the collection fund (see points XI and XII above). It is also worth stressing that the Council has other reserves (principally the Capital Plan Reserve and Reinvestment Reserve which have projected balances of £0.4m and £1.8m respectively at 31 March 2021) which can also be used to support services, albeit at the expense of investment in the capital programme and the Council's internal capability.

However, there is no doubt that the projected Balance at 31 March 2022 is dangerously low whilst the numbers indicate that – **if action is not taken** – the Council effectively may become insolvent in the following financial year.

The approach that the Council is taking to mitigate the above is described in subsequent paragraphs.

Risk and sensitivity analysis

The COVID-19 outbreak, overlaying pre-existing uncertainties around the outcome of the delayed Fair Funding review and the impact of Brexit has created a volatile financial landscape such that meaningful sensitivity analysis is extremely difficult.

For the health of the Council's finances in the near future much will depend on the progression of COVID-19, its impact on communities and the economy, how that plays out in respect of demand for Council services and the income that the Council generates, and to what extent Government decides to provide additional financial assistance.

Notwithstanding the above, the following are perhaps the key financial risks:

- **Income streams** – the above projections project income stream losses arising from COVID-19 in the order of £0.8m in 2021/22 but with a £0.6m recovery in the following year; an extended period of social restrictions, and/or changes in customer demand could put that recovery at risk
- **Government funding** – this remains very much opaque at the time of drafting this report but the New Homes Bonus funding could be a particular risk area with a potential shortfall versus the MTFS projections of £2m

Financial sustainability work programme

The Council has developed a financial sustainability work programme to address the financial challenges evident from the above analysis.

This document sets out initiatives that will be undertaken for the remainder of the 2020/21 financial year to support the Council's move towards financial sustainability with the output of the initiatives supporting cost savings and/or income generation within the 2021/22 budget and informing future iterations of the MTFS. The focus of these initiatives will be (generally) the Council's General Fund.

Workstreams identified are as follows:

- A. Service reviews - all service areas will be subject to review
- B. Assets and fixed costs – including critically the future of the Southfields office accommodation
- C. Commercialisation and income generation – including commercial property
- D. Procurement – including reviews of major contracts as they come up for renewal
- E. Regeneration and economic growth
- F. Other - Technical and tactical approaches – examples here would include a review of the vacancy levels

It is envisaged that outputs from these initiatives will be assist in the construction of the 2021/22 budget, draft papers for which will be presented later in calendar 2020.

Housing Revenue Account

This update to the MTFS (like the original version) very much focusses on the General Fund. The HRA has also been impacted by COVID-19 but can be regarded as in more robust health than the General Fund.

The most recent 30 Year Housing Business Plan, which effectively represents the MTFS for the HRA, was approved by Council in November 2014. It is intended that this will be updated in due course following the announcement of the ending of the HRA debt cap.

Concluding remarks

There is no doubt that COVID-19 has had a material, adverse effect on the Council's financial outlook. Whilst the prospects for 2020/21 are worse than budgeted, with the estimated use of the Working Balance Reserve increasing from £1.1m (as originally budgeted) to £1.8m in the Revised 2020/21 budget, this would not be in itself exceptionally serious. However, the continuing impact of COVID-19, projected at over £1m in 2021/22, on top of pre-existing structural budget issues creates a very challenging environment in the short and medium term.

Given the COVID-19 outbreak, it was considered useful to prepare an updated version of the previously approved MTFS in order to take stock of the financial outlook in this much changed environment. Much however, remains very uncertain, both in terms of how the pandemic will play out, and in the Government's ability and desire to fund local authorities in future. Moving forward, it is hoped that the 2021/22 budget (a draft of which will be available in December 2020) and the next full iteration of the MTFS (planned for February 2021) will benefit from some increased information in these areas.

Even if the precise quantum of the financial challenges faced by the Council is not known, it is certain that work to address these is now a matter of urgency and the financial sustainability work programme must be a top priority for both officers and members.