COVID-19 FINANCIAL IMPLICATIONS – 2020/21 REVISED BUDGET UPDATE

Summary:

This report follows the previous COVID-19 financial update provided to Members in May, at which time a net budget deficit of c£1m was being forecast for the 2020/21 financial year. The anticipated year end deficit is now forecast to have reduced significantly from the previous report to around £0.4m although it should be noted this is still based on a number of assumptions about future funding and income pressures and assumptions regarding further government support which are discussed in more detail within the body of the report.

This second report provides a further update and follows the government announcement made on 2 July in respect of additional support towards lost income. It contains high level proposals for revising the 2020/21 budget to ensure that budget monitoring for the remainder of the year is meaningful, whilst also considering the impact on the Council's medium term financial position.

The coronavirus COVID-19 pandemic continues to represent a significant challenge for the District Council which will continue to impact on the Council's resources and budget during 2020-21 and future years.

Options considered:

This report sets out the current high level forecasts relating to the COVID-19 pandemic taking account of the latest central government support package. There are a number of options considered based on the recommendations made within the previous report in respect of capital resources, budget re-prioritisation, savings and reserves.

Conclusions:

The country continues to face an unprecedented public health crisis which will have impacts on the Council's expenditure and income during the current financial year and future budgets It will continue to be important to continue to engage with Government, MPs and other stakeholders to campaign for adequate and sustainable funding for the District so that we can continue to deliver vital services to residents, businesses and visitors and this includes the current year and beyond.

The current pandemic demands very different ways of working and will require ongoing review and consideration of current and future priorities as well as different and innovative service delivery models. Looking beyond the immediate impacts, the overall level of uncertainty means the financial environment remains extremely challenging for the foreseeable future, none of which is helped by the ongoing delays to the various

	local government funding reviews. The assumptions upon which both the Medium Term Financial Strategy (MTFS) and the 2020/21 budget are based have been significantly undermined by the current crisis. The current projected budget position (c£0.4m deficit 2020/21) is constantly changing and therefore the high level projections contained within this report must be seen in this context and could be subject to significant change depending on further announcements over the coming months. The report contains high level proposals for revising the 2020/21 budget to ensure that budget monitoring for the remainder of the year is meaningful.
Recommendations:	**It is recommended that Cabinet note and agree:** **1. The current package of financial support being provided to the Council by the government to support its response to COVID-19 and the continued importance of central government lobbying for further additional financial support;** **2. The updated forecast cost and income pressures being faced by the Council and the extent to which they exceed the available government funding and therefore the requirement for any deficit to be funded from alternative Council resources;** **3. The proposals for revising the budget at the current time (and the one-off costs to be funded from reserves) to ensure that budget monitoring for the remainder of the year is meaningful, including funding any year end deficit from the Property Reserve (£0.4m);** **4. The various caveats and risks associated with the current forecasts and;** **5. The proposals in respect of updating the Medium Term Financial Strategy (MTFS) and the financial planning framework for the 2021/22 budget.**
Reasons for Recommendations:	To update Members in respect of the impact of COVID-19 on the Council's budget and resource position for 2020/21 and indeed future years.

Cabinet Member(s) Cllr Eric Seward	Ward(s) affected All

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Executive Summary

This report follows the previous COVID-19 financial briefing provided in May, at which time a **budget deficit of c£1m was being forecast** for the 2020/21 financial year. Three tranches of central government funding have now been received totalling c£1.3m with a further announcement made on 2 July in respect of additional government support towards lost income (**currently estimated at £1.1m**). The current pandemic demands different ways of working and requires ongoing review and consideration of priorities. Looking beyond the immediate impacts, the overall level of uncertainty means the financial environment remains challenging for the foreseeable future. The assumptions upon which both the Medium Term Financial Strategy (MTFS) and 2020/21 budget are based have now been significantly undermined by the current crisis although the additional funding support has helped mitigate some of the impact. This update considers the following elements of the 2020/21 budget and MTFS and the challenges and pressures facing each of these (see **Appendix A**);

Costs - service cost pressures from increasing demand such as housing benefit, homelessness and business support. Additional contract costs for areas such as leisure and exceptional costs from things such as Community Hubs, resident communications and staff overtime costs/sickness/re-deployment adjusted for one-off payments unrelated to COVID. **INCREASING COST PRESSURES £0.837m**

Income – significant reductions being seen from fees and charges (parking, planning and building control fees, commercial waste, licensing etc). Reduction in recycling credits/profit share arrangements, rent holidays/waivers being requested. **INCREASING INCOME PRESSURES £1.560m**

Savings – there are no immediate concerns regarding budgeted savings plans or non-delivery in the current financial year. The key challenge however relates to future years which will potentially be impacted as many savings initiatives require a number of years to deliver the expected outcomes so any reduced capacity to consider savings plans now may have a medium term impact. **PRESSURE ON FUTURE YEAR SAVINGS**

Investments – loss of investment income from cash balances due to changes in markets and prioritisation of short-term holdings to maximise liquidity. **REDUCING INVESTMENT RETURNS £0.361m**

Funding streams - a fall in the council tax and business rates collection rate could have a significant impact in terms of both funding and cash flow risk although this is now expected to impact in future years as opposed to 2020/21 following recent announcements regarding the ability to cover Collection Fund deficits over 3 years instead of the usual 1. **PRESSURE ON FUNDING STREAMS**

Reserves – reserves are now forecast to **reduce by £8.4m from £18.7m down to £10.3m over the next 4 years which is a reduction of 45%**. Of the remaining balances many are contingency amounts/grants ie General Fund, benefits and business rates reserves which further reduce the availability of reserves to support the budget. **REDUCING RESERVE BALANCES/OPPORTUNITY**

Capital programme - Cabinet have reviewed the capital programme and are satisfied that no further changes are required at the present time although the position will continue to be monitored to ensure that schemes continued to be aligned with current aspirations and demonstrate value for money. Following the 2019/20 outturn position the updated programme is **c£36m** of which approximately 30% comes from external grant sources. **OPPORTUNITY COST**

At the current time the combined impact of the above cost/income pressures results in a **high level**

budget deficit for 2020/21 of c£3.0m. The anticipated government funding of £2.4m will help to address this and, coupled with the one-off reserve funding of £0.284m, reduces it to around c£0.4m which the Council will need to address by looking to make further savings and reallocate resources within the current budget as the reserves are already under pressure and only represent a one-off source of funding which is not sustainable in the medium term. Should the Council not be able to make these adjustments in year then reserves will be required to balance the budget and it is recommended that this is taken from the **Property Company reserve**.

The current position (c£0.4m deficit 2020/21) is constantly changing and therefore the high level projections contained within this report must be seen in this context and could be subject to significant change depending on further announcements over the coming months.

1. Introduction

1.1. This report follows the previous COVID-19 financial update (here) provided to Members in May, at which time a budget deficit of c£1m was being forecast for the 2020/21 financial year and follows the announcement made on 2 July in respect of additional government support towards lost income. The content of the report is based on circumstances that continue to change and evolve at a rapid rate and should be considered in the light of the MTFS 2020/21 to 2023/24 (here), the 2020/21 budget report (here) and previous COVID report.

1.2. Three tranches of central government funding have been received to date totalling c£1.3m. A further announcement was made on 2 July in respect of additional government support towards lost income in respect of fees and charges and is based on the Council covering the first 5% of any loss with the government then topping up 75% of the balance which means the Council has to cover just under £0.3m from every £1m lost. Based on our current full year forecast for lost fees and charges of £1.56m **our provisional allocation would be £1.1m but this is subject to confirmation at the present time and therefore represents a significant risk in terms of the projections.**

1.3. Additionally, the government has confirmed they will allow the spread of any business rates/council tax deficits over 3 years rather than the usual 1 as Councils are seeing reduced revenue from these sources, and these deficits would ordinarily need to be paid for in the 2021/22 financial year. This will help with budgeting and cash flow, making payments more manageable and reducing the impact of deficits on the budget in any one year. It is therefore recommended that the authority and wider sector continue to lobby for support in respect of these funding sources as well.

1.4. The currently identified pressures in terms of additional expenditure but, more significantly for us, pressure on income budgets, currently exceed the grant funding available. It is currently forecast that the Council will incur cost and income pressures of around **£3.0m** by the end of the current financial year as set out in Table 1 below. The package of central government support estimated in total at c£2.4m will reduce this forecast deficit down to just over **£0.6m and there are two isolated costs to be funded from reserves which are unrelated to COVID which will further reduce the anticipated deficit to around £0.4m**. There is a however a high degree of uncertainty about these forecasts and they will continue to be refined as the situation develops and national and local responses are delivered.

1.5. It has also been announced recently that we have been successful in drawing down £330k from the new Norfolk Strategic Fund and the Tourism Sector Support Programme. This funding is very much welcomed but is designed to support additional elements of response to the crisis and is therefore expected at this stage to be matched by additional expenditure so will enable us to deliver a better response but won't support the budget deficit.

2. Corporate Plan and the Medium Term Financial Strategy (MTFS)

2.1. The budget and MTFS are fundamentally linked to the Corporate Plan (here) and the Delivery Plan (here), and supports the delivery of the vision and aspirations contained within the Corporate Plan. An initial review of the Delivery Plan has been undertaken by Cabinet and SLT to identify and confirm priorities given the current pressures. It will be important to continue to keep these and other key policy documents under review over the coming months as there may well be a new or renewed focus and priority given to certain aspects and new areas may well emerge and it will be essential to ensure that the Council's constrained resources are focussed towards these key priority areas.

2.2. The impact of this outbreak in Norfolk is having far-reaching consequences, and has already required a rapid and radical adjustment in both organisational priorities and ways of working. Although there are profound short-term impacts being experienced from the response to COVID-19, it remains to be seen precisely what the medium and longer-term impact will be, and as such the full implications for the Council's Budget in 2020-21 and beyond remain to be confirmed.

2.3. However, the pandemic will unquestionably change the long term shape of some of our services, in relation to joint working, public expectation, demand and digital access. In addition, it is highly likely that key income sources including council tax (through both the Collection Fund and tax base growth) and business rates will be under pressure in 2021-22, requiring a revision to budget planning assumptions for future years. It is therefore essential that the Council continues to lobby for increased financial support to help with ongoing budget pressures and further clarity regarding future year funding provision.

2.4. A number of services are seeing a significant impact from the pandemic, affecting service delivery, demand and ways of working across all parts of the Council. It is unclear how services and demand will need to operate beyond the immediate emergency period, particularly for vulnerable groups and businesses who may be affected for longer.

2.5. The Council continues to evaluate how the likely 2021-22 gap will be funded, without an increased level of Government assistance, there are likely to be significant savings to be found to deliver a balanced Budget in 2021-22 for which we were already forecasting a deficit of some £1.8m as at February 2020. A recent announcement from central government indicated that the Fair Funding review will be slipped for a further year and that central funding will remain in place at current levels. The future years' forecasts below have been updated to reflect this.

2.6. On 21 July it was announced that consultation on the Spending Review will be open until the 24 September and officers are currently woring on a draft response to this along with the next round of consultation in relation to the Business Rates review which has consultation deadlines of 18 September in respect of reliefs and 31 October in regarding all other aspects.

3. Budget 2020/21 - Period 3 (June) budget monitoring

3.1. The Council's 2020-21 Budget was agreed by Full Council in February 2020, but the developing COVID-19 pandemic requires us to fundamentally question a number of the assumptions upon which the budget is now based. When approved the 2020/21 budget was forecasting a surplus of £2.4m, largely due to one-off provision adjustments through the Collection Fund. However, the 2021/22 – 2023/24 projections were already forecasting deficits of £1.8m to £2.2m prior to the added pressures that the pandemic is going to place on the Council's resources.

3.2. The period 3 budget monitoring has been completed which includes consideration of all income and expenditure up to the end of June 2020. Unsurprisingly this first 3 months of the new financial year has seen significant increases in expenditure in a number of areas coupled with sharp reductions in income.

3.3. **Appendix A** shows an updated General Fund position and highlights the year to date variances against the 2020/21 profiled budget, any assumed full year effect (for example where income has been lost that will not now be recovered) and then a forecast outturn position given what we know at the current time.

3.4. The Net Cost of Service level within the General Fund summary is analysed **across subjective headings** ie employee costs, premises costs, supplies and services etc to make it easier to highlight where the key pressures are coming from rather than this being split across various service headings.

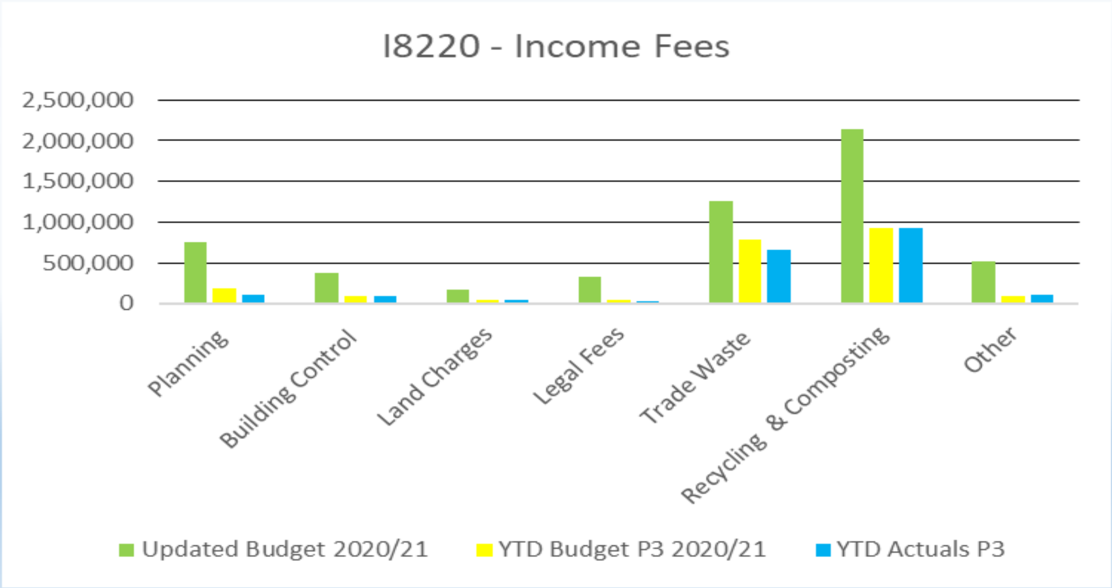
3.5. At the Net Cost of Service level, the year to date overspend against the profiled budget is c£1.2m. At present there are some savings showing against employee related costs, transport and training costs and some premises related costs as a result of facilities being temporarily closed.

3.6. However, there are significant increases in areas such as supplies and services, with temporary accommodation costs already exceeding budget forecasts by £46k as at the end of June and the outturn position for this area of spend was £227k for 2019/20. ICT costs have also increased during the opening months of the year to support additional hardware and software requirements to support new ways of working and increase network capacity and resilience.

3.7. The single biggest challenge is however around the income reductions which total nearly £1.0m to date and the tables blow highlight the variances in terms of the current position compared with the budget. The main fee variances can be seen within the table below and highlighted further in the chart. Some of the key variances to date include shortfalls against planning income (£89k) and trade waste (£123k).

Income - Fees

	Updated Budget 2020/21	YTD Budget P3 2020/21	YTD Actuals P3	YTD Variance
Planning	751,500	187,875	97,961	(89,914)
Building Control	380,000	94,998	85,809	(9,189)
Land Charges	162,190	40,548	42,768	2,220
Legal Fees	329,896	38,772	29,876	(8,896)
Trade Waste	1,255,000	785,000	662,127	(122,873)
Recycling & Composting	2,144,861	930,000	931,255	1,255
Other	508,278	86,996	103,762	16,766
	5,531,725	**2,164,189**	**1,953,558**	**(210,631)**

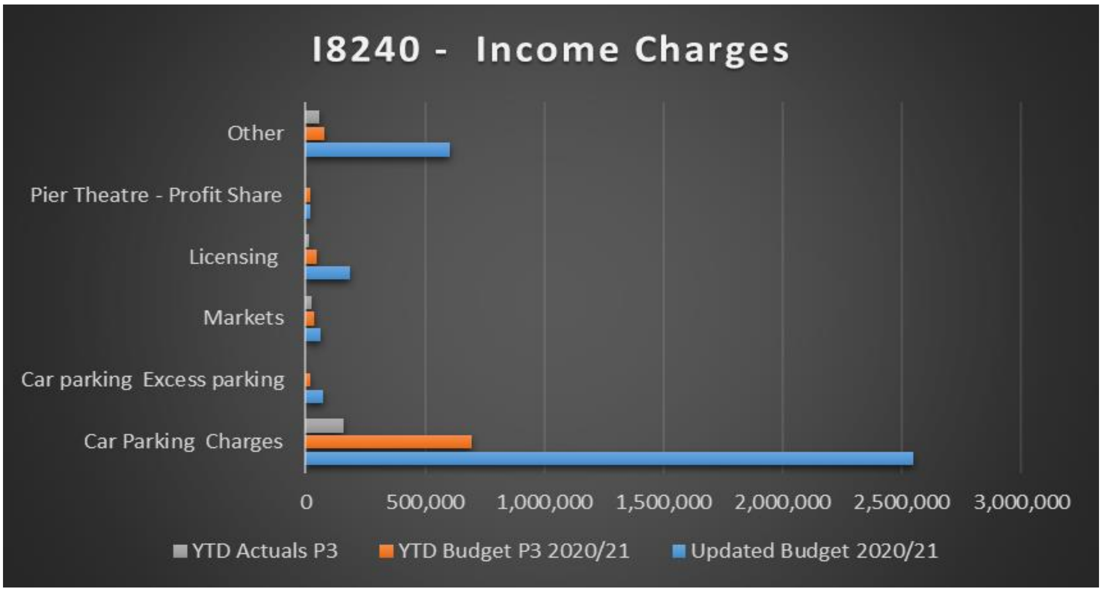


3.8. In relation to income from charges again the main variances can be seen within the table below and highlighted further in the chart. The key variance to date relates to parking income (£557k).

Income - Charges

	Updated Budget 2020/21	YTD Budget P3 2020/21	YTD Actuals P3	YTD Variance
Car Parking Charges	2,544,900	695,852	156,894	(538,958)
Car parking Excess parking	70,490	17,622	(28)	(17,650)
Markets	63,654	36,474	24,105	(12,369)
Licensing	187,000	46,749	12,516	(34,233)
Pier Theatre - Profit Share	20,000	20,000	0	(20,000)
Other	605,610	76,734	54,433	(22,301)

3,491,654	**893,431**	**247,920**	**(645,511)**



3.9. In terms of treasury investments, while the year to date position shows a reduction of c£103k in income receivable compared with the budget this is offset by savings of c£88k in respect of borrowing that the Council has avoided to date. This is due to some major schemes stalling during the initial lockdown period (such as Splash) and also due to the upfront payment from central government of £65m to finance the various grant support schemes announced which have supported the Council's cash flow.

3.10. To date the Council has received three tranches of un-ringfenced grant funding from central government totalling c£1.3m and once this is taken in to account the bottom line impact on the General Fund summary in terms of year to date budget projections of £62k underspent. Had this funding not been received this overspend would have been in excess of £1.2m.

4. Budget 2020/21 - Updated forecasts and full year effects

4.1. The following provides a high level year end forecast covering some of the current cost and income pressures facing the Council in terms of the 2020/21 budget and has been informed by the period 3 (June) budget monitoring process. More details can be found within the General Fund summary at **Appendix A** under the 'full year effect' column.

4.2. As can be seen from the summary the updated budget is showing a **forecast deficit of c£359k** by the end of the year. This current forecasts does however assume that we receive a further **c£1.1m** from central government based on our current full year forecast for lost fees and charges of £1.56m. **This is however still subject to confirmation at the present time and therefore represents a significant risk in terms of the projections.**

4.3. If further savings and efficiencies cannot be achieved by the year end it is recommended that this deficit is funded from the **Property Company** reserve.

General Fund – net cost of services

4.4. ***Costs*** - service cost pressures from increasing demand such as housing benefit, homelessness and business support. Additional contract costs for areas such as leisure and exceptional costs from things such as Community Hubs, resident communications and staff overtime costs/sickness/re-deployment.

4.5. There are however 2 elements of this deficit which are unrelated to COVID and would have been incurred regardless These relate to the final one-off payment of £145k to the contractor in relation to the Cromer hub capital scheme which is no longer progressing and payment to the Local Enterprise Partnership (LEP) of £139k which relates to business rate retention payments connected to the Scottow enterprise zone. The combined impact of these is c£284k, the proposal is therefore to fund these from the Property Company Reserve and Business Rates Reserve respectively. This will have the effect of reducing the forecast expenditure pressure down from £1.12m to £0.837m **INCREASING COST PRESSURES £0.837m**

4.6. ***Income*** – significant reductions being seen from fees and charges (parking, planning and building control fees, commercial waste, licensing etc). Reduction in recycling credits/profit share arrangements, rent holidays/waivers being requested.

4.7. Of the £9.4m gross income forecast for 2020/21, the most significant areas include waste and recycling (£3.4m) which includes things such as garden bins and commercial waste collection, car parking income (£2.7m) and planning income (£0.8m). The chart below shows the budget projections compared to the actuals for the first three months of the year. **INCREASING INCOME PRESSURES £1.560m (see income chart below)**

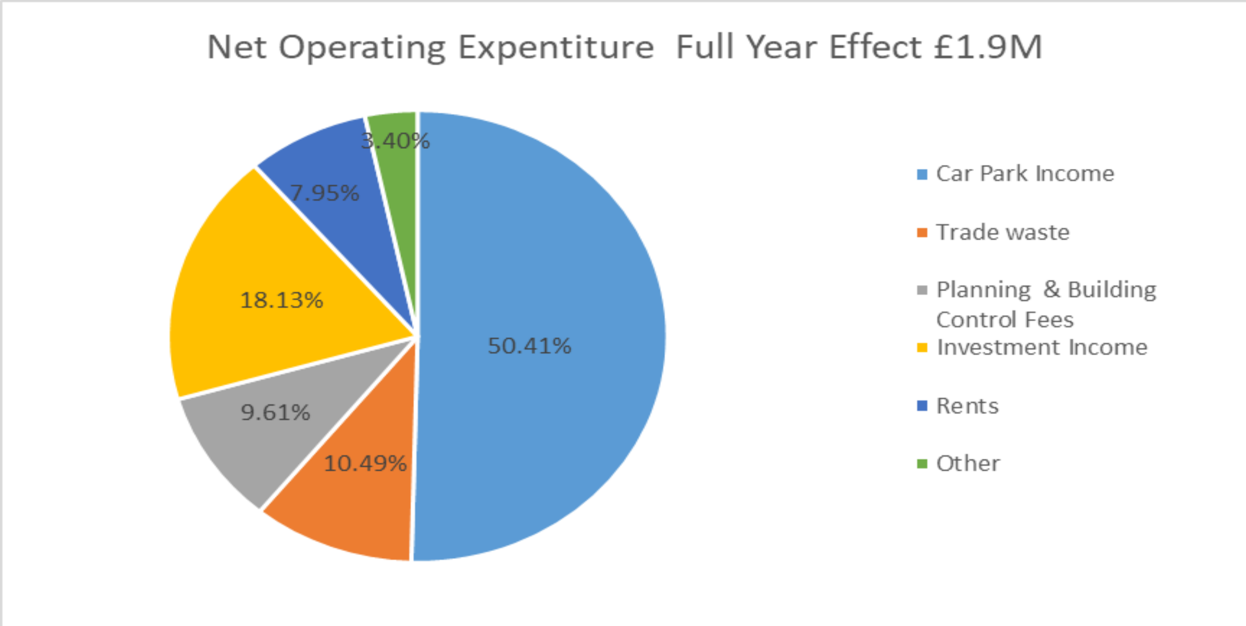
4.8. ***Savings*** – there are no immediate concerns regarding budgeted savings plans or non-delivery in the current financial year although there is still a significant budget shortfall of over £0.8m to try and address without falling back on reserves. The key challenge however relates to the medium term position which will potentially be impacted as the focus has been diverted from the consideration and delivery of savings to managing the immediate COVID-19 crisis as many savings initiatives take place over the medium term, so steps not taken today will have a medium term impact on future budgets.

4.9. This will need to be considered in more detail when the MTFS is updated later in the year and as part of the 2021/22 budget setting process. **PRESSURE ON FUTURE YEAR SAVINGS**

General Fund – investments and borrowing

4.10. Loss of investment income is forecast due to changes in market conditions and the impact on the Council’s investment portfolio. Whilst the Council is experiencing reduced levels of income the potentially negative impact this would have on cash flow has been mitigated due to the government grant payments made to date which includes the £65m provided to support the payment of the Small Business Grant and Discretionary Grant Schemes. **REDUCING INVESTMENT RETURNS AND INCREASED BORROWING £0.361m**

4.11. The chart below shows the reductions in Income over the various areas.

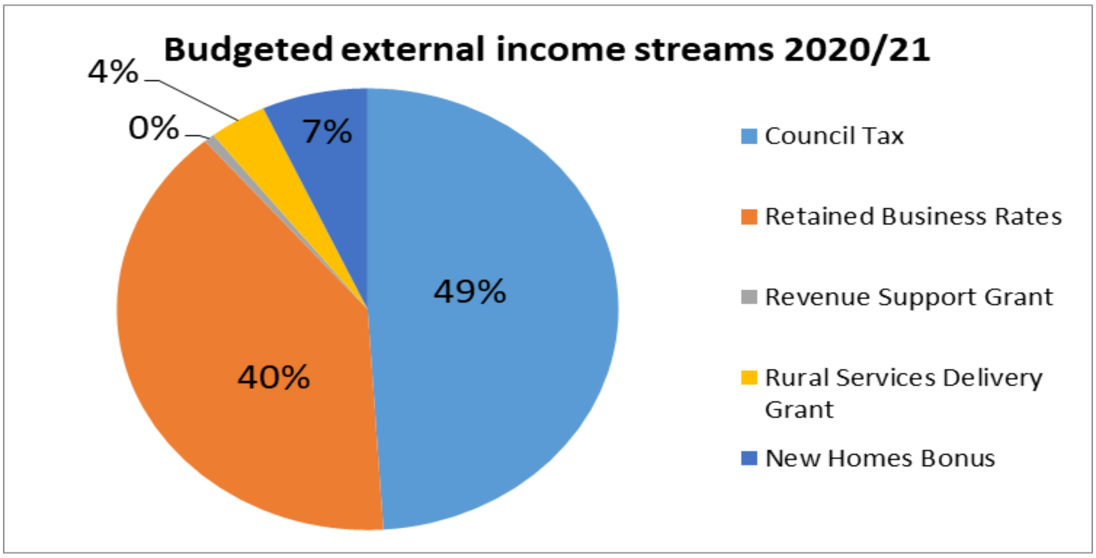


General Fund – funding streams

4.12. A fall in the council tax collection rate could have a significant impact in terms of both funding and cash flow risk although as mentioned above the cash flow risk at the present time has been somewhat lessened following the receipt of the business grant scheme. There's a risk of businesses defaulting on their business rates, with the expectation of higher levels of default/businesses that simply stop trading. The government has recently announced that any Collection Fund deficits experienced can now be adjusted for over a 3-year period rather than one so any resultant impact will be felt in future years and is taken account of within the future year projections below.

4.13. Previous growth assumptions in relation to both of these funding streams are also in doubt. The New Homes Bonus (NHB) may continue for a further year but with reduced building the income derived from this could be significantly reduced.

4.14. The chart below shows the relevant proportions of the various funding streams and highlights the significance of council tax and business rates in terms of the Council's overall funding. Business rates represents the highest value (£7.5m), followed by Council Tax (£6.3m), with the New Homes Bonus, Rural Services Delivery Grant and Revenue Support Grants totalling £1.4m. **PRESSURE ON FUNDING STREAMS – FUTURE YEAR IMPACT**



Reserves

4.15. There are three main reasons for holding reserves:

a) as a contingency to cushion the impact of unexpected events or emergencies;
b) to cushion against the impact of uneven cash flows and to avoid temporary borrowing; and
c) as a means of building up funds to meet known or predicted liabilities (earmarked reserves).

4.16. Based on current spending and funding projections reserves are forecast to **reduce over the next 4 years by £8.4m from £18.7m as at 01/04/20 down to around £10.3m by 01/04/24 which is a reduction of 45%.**

4.17. Of the remaining balances a significant majority are 'contingency amounts', ie the General Fund reserve which would stand at £2.0m (current minimum level recommended at £1.9m), benefits (£0.6m) and business rates reserves (£1.9m), whilst others represent ring-fenced grant allocations for which the use is restricted. If these are removed the funding available for supporting the budget over the coming years from reserves is further reduced.

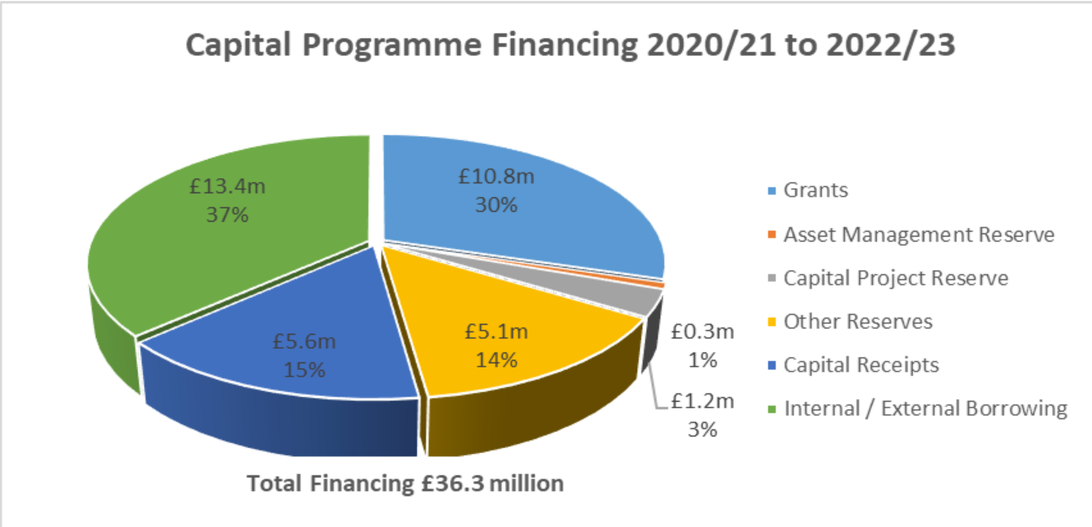
4.18. Depending on future government support announcements for current and future years and the Council's ability to deliver efficiencies and additional income this may mean that there are some difficult decisions to be taken over the short to medium term regarding prioritisation for funding services and service improvement.

4.19. There are additional reserves that could be called on to support any future budget deficits, such as the £2.4m currently earmarked for the Delivery Plan or the £2m set aside for the property company but these should be considered a worst case fall-back position and would ultimately impact on future delivery. The Council took part in the Norfolk-wide business rates pilot during the 2019/20 financial year and, whilst the final figures from this are not yet currently available, any potential gain has not yet been included within the reserves position and would help to support the position. **REDUCING RESERVE BALANCES/OPPORTUNITY**

Capital programme

4.20. Postponed income from asset sales creates cash flow issues and has an impact on the funding and delivery of the capital programme while Force Majeure clauses may impact on live projects. Following the 2019/20 outturn position the updated programme is **c£36m**. **OPPORTUNITY COST**

4.21. Following an initial review of the capital programme the Cabinet is satisfied that no further changes are required at the present time although the position will continue to be monitored to ensure that schemes continued to be aligned with current aspirations and demonstrate value for money. The chart below highlights the current assumptions regarding how the capital programme is financed with 30% of this funding coming from grant sources.



5. Forecast financial pressures – MTFS/2021/22 budget position

5.1. The budget for 2020/21 was approved in February 2020. At the same time financial projections for the following three years to 2023/24 were also reported.

5.2. The forward financial projections from 2021/22 onwards made assumptions around the future funding from government support and known commitments and changes to service expenditure.

5.3. The forward projections of expenditure and income will be updated to take account of the outturn position and also other spending/income pressures that have been identified outside of the budget process. These will be reported to Members in the coming months as part of the Financial Strategy update to enable early preparation for the 2021/22 budget process.

5.4. The table below provides a summary of the reported funding gap for next year as at February 2020 updated for any known changes at the current time. Central government recently announced that central funding will again be provided (rolled forward) as the various ongoing reviews, such as the Fair Funding review, have slipped. The table has therefore been updated with this information and also assumes 2% inflation is added to each of these funding streams.

5.5. The NHB forecast has been assumed to remain at 2020/21 levels plus inflation as no replacement scheme has yet been developed, rather than the previously projected level of £586k. This does however represent an area of risk as this has not as yet been confirmed and is £324k different to the original. Both council tax and business rates have been assumed to reduce by 5% compared with original estimates due to slower growth in the tax base and additional pressure on businesses.

	2021/22 Original Projection	***2021/22 Updated Projection***		**Variance**
Amount to be met from Government Grant & Local Taxpayers	16,666,713	16,666,713	assumes no change	0
Collection Fund - Parishes	-2,523,481	-2,523,481	assumes no change	0
Collection Fund - District	-6,751,054	-6,413,501	assumes 5% reduction	337,553
Retained Business Rates	-4,958,845	-4,710,903	assumes 5% reduction	247,942
Revenue Support Grant	0	-91,595	20/21 + 2% inflation	-91,595
New Homes Bonus	-586,071	-910,038	20/21 + 2% inflation	-323,967
Rural Services Delivery Grant	0	-493,446	20/21 + 2% inflation	-493,446
Income from Government Grant and Taxpayers	- 14,819,451	- 15,142,964		-323,513
(Surplus)/Deficit	**1,847,262**	**1,523,749**		**-323,513**

5.6. The updated forecasts within the table above also **assume that there are no changes within the amount to be funded from grants and taxpayers which is a very big assumption at the present time**. More detailed work will need to be undertaken on these forecasts as part of developing the updated MTFS.

5.7. Our future year forecasts for both council tax and business rates are anticipating a 5% reduction and this reflects the position anticipated nationally and is broadly in line with assumptions made within Norfolk although it should be recognised that these potential impacts will affect the various districts in different ways you to their housing groth end economic positions.

5.8. Again this highlights the need for the Council and local government sector as a whole to continue to lobby for additional funding in future years to help support any reductions from these income streams and this is an issue that will be covered within our response to the Spending Review.

5.9. **The current position is constantly changing and therefore the high level**

projections contained within this report must be seen in this context and could be subject to significant change depending on further announcements over the coming months.

6. Financial and resource implications

6.1. Financial implications are discussed throughout the report. The response to COVID-19 is likely to result in significant cost and income pressures in 2020/21, as well as impacting on the scope to and the capacity to develop new proposals savings proposals for the 2021-22 Budget onwards. The Government's response and decisions about Council funding in 2021/22 will be hugely significant. Government has an opportunity as part of the COVID-19 response to deliver a permanent step change in the recognition of the importance of adequate funding for local authorities to continue to provide a key contribution as part of the national recovery.

6.2. Government's initiatives to reform local authority funding (including the Fair Funding Review), as well as pressures linked to COVID-19 have the potential to materially impact on the Council's budget planning assumptions for 2020/21 and future years. The update of the MTFS later this year will provide a further update in relation to the current forecast position.

7. Legal implications

7.1. There are legal implications as a result of this report.

8. Communications issues

8.1. This report has been shared with the communications team and a web article and press release has already been made regarding the current budget pressures. The communications team will continue to be engaged as the financial picture becomes clearer over the coming months.

9. Risks

9.1. The figures set out within this report reflect the current updated estimates; these will be further refined as more information becomes available. The ultimate impact and financial cost of the response to the COVID-19 outbreak will be highly dependent on a wide range of factors including the length of time that the pandemic continues, the severity of the impact (both nationally and in the District), and the wider actions taken in response.

9.2. The continuing coronavirus situation may impact on the Council's budget setting process in a number of ways, most significantly:

- The Council's available resources and capacity to plan robust future year savings while responding to a rapidly changing operating environment;
- The availability of both Members and Officers and the ability to adhere to the proposed process and timetable;
- The need to provide for any immediate cost pressures emerging for the Council; and
- The medium to long term financial implications including the impact on the wider economy and business rates base and income

9.3. The table below provides a summary of the risks which were highlighted as part of the 2020/21 budget report. There are update comments in red highlighting any COVID-19 related issues as appropriate.

Risk	Likelihood	Impact	Risk Management
1. Future available resources less than assumed.	~~Possible~~ Likely	High	Annual review of reserves and reserves policy to identify future resources. Assumptions on funding for 2020/21 and beyond are based on best estimates at this time. A prudent approach has been adopted based on previous years' experience as well as using regional network contacts to inform modelling. Previous assumptions significantly undermined as a result on the ongoing lockdown and future economic certainty. To be considered over the coming months as part of the update of the MTFS and the 2021/22 budget process.
2. Volatility of business rates funding given uncertainty around impact of appeals	Likely	High	Volatility of funding stream outside of council control but impact mitigated by establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning. Positive initial outcome in respect of NHS case. Unknown impacts of proposed additional reliefs for 2020/21. Additional uncertainty highlighted as a result of potential default in payments and failure of businesses due to current economic climate.
3. Pay Awards, fee increases and price inflation higher than assumed	Possible	Medium	Impact of potential increases mitigated by central contingency budget for pay, price increases and care fees. Where pay awards have been agreed these will be factored into the future estimates.
4. Future spending plans underestimated	~~Possible~~ Likely	~~Medium~~ High	Service planning process identifies future budget pressures and these will inform the indicative budget forecasts. An effective budget monitoring framework is in place to identify in year and potential future cost pressures. We have already identified significant additional service costs due to both increasing demand and the

			exceptional costs of the COVID-19 outbreak.
5. Anticipated savings/ efficiencies not achieved	Possible	High	Regular monitoring and reporting takes place but the size of the funding cuts increase the likelihood of this risk. Non-achievement of savings would require compensating reductions in planned spending within services. Greater scrutiny of savings has taken place since 2016/17 through the revenue monitoring process. History of delivery savings. There is little risk that the current 2020/21 savings will not be achieved. However the greater pressure is on future savings at a time when resources are re-deployed and focused elsewhere.
6. Revenue implications of capital programmes not fully anticipated	Unlikely	Low	Capital bid approval framework identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning. The current capital programme remains affordable but will be kept under review to ensure that it continues to be aligned with emerging priorities and delivers value for money.
7. Income targets not achieved	~~Possible~~ Likely	~~Medium~~ High	Current economic climate likely to impact. Regular monitoring and reporting takes place. Full review of fees and charges scheduled for 2021/22 along with an annual review process. Levels of income from fees and charges are already seeing significant reductions with the current forecast reductions being around £1.9m.
8. Budget monitoring not effective	Unlikely	Medium	Regular monitoring and reporting in line with corporate framework. Action plans developed to address problem areas. Regular reports to Cabinet and to O&S. Track record of delivering budget and savings. This paper provides an update in respect of the current period 3 budget monitoring position.
9. Exit strategies for external funding leasing/tapering not	Possible	Medium	Regular monitoring and reporting. Government policy to remove ring fencing provides greater flexibility.

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10. Loss of principal deposit	Unlikely	Medium	Limited by the controls in the Treasury Management Strategy which balance security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions. Principle of pooled investments has reduced but risk of losses mitigated through liquid cash reserves and medium term strategy of not disposing of investments during unfavourable market conditions.
11. Interest rates lower than expected	~~Unlikely~~ Likely	~~Low~~ Medium	Regular review, monitoring and reporting on interest rates. Prudent assumptions on likely interest rates for 2020/21 are incorporated into the budget.
12. Collection rates for retained business rates and council tax lower than anticipated	~~Possible~~ Likely	High	Impact mitigated by the review of bad debt provisions and availability of reserves. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process. In the current environment there is an increased risk of bad debts and delayed payments from both council tax and business rates which could significantly impact on cash flow (leading to increased borrowing costs), increased collection costs and reduced levels of income overall. Future year impact through Collection Fund adjustments.
13. Financial budget impacts of UK's vote to leave the European Union (Brexit)	Likely	Medium /High	Continue to work collaboratively with treasury advisors and central government departments to assess potential budget impacts whilst the Government attempts to ensure an effective transition to a new economic relationship between the U.K. and the EU, including clarifying the procedures and broad objectives that will guide the process.
14.Devolution/Unitary status –	Possible	Medium	As the devolution deal has been rejected locally no further work is ongoing in respect of this and no changes have been factored in to the budget or future year projections as a result. The Unitary issue will undoubtedly be discussed further again in the future following the recent General

			Election. Officers and Members will keep a watching brief in respect of this but again at present no budgetary impact is being assumed. White Paper on Devolution recently announced.
15. All MTFS/budget risks not adequately identified	~~Unlikely~~ Likely	~~Low~~ High	Council's Risk Management Framework ensures all operational and strategic risks are identified as part of the annual service planning process. An ongoing world-wide pandemic was not one of the scenarios considered as part of the MTFS/budget process although the actual impacts are generally covered individually above.

10. Conclusions and Recommendations

10.1. The country continues to face an unprecedented public health crisis which will have impacts on the Council's expenditure and income during the current financial year and future budgets.. It will continue to be important to continue to engage with Government, MPs and other stakeholders to campaign for adequate and sustainable funding for the District so that we can continue to deliver vital services to residents, businesses and visitors and this includes the current year and beyond.

10.2. The current pandemic demands very different ways of working and will require ongoing review and consideration of current and future priorities as well as different and innovative service delivery models. Looking beyond the immediate impacts, the overall level of uncertainty means the financial environment remains extremely challenging for the foreseeable future, none of which is helped by the ongoing delays to the various local government funding reviews. The assumptions upon which both the Medium Term Financial Strategy (MTFS) and the 2020/21 budget are based have been significantly undermined by the current crisis.

10.3. The report provides details of the central government funding received to date, which will need to be kept under review as the response to COVID-19 continues to evolve. In particular, in respect of the impact of COVID-19 on underlying local authority costs and income sources, and further funding announcements and responsibilities from Government. In addition, it helps to set the context for the Council's MTFS and budget planning process for 2021/22, which will be reported to Cabinet later in the year.

10.4. At the current time the combined impact of the above cost/income pressures results in a **high level budget deficit for 2020/21 of c£3.0m. The funding provided of £2.4m will help to address this and reduce it to just over c£0.6m and the use of earmarked reserves for one-off costs unrelated to COVID reduce the deficit further to c£0.4m, which the Council will need to address by looking to make further savings and reallocate resources** within the current budget as the reserves are already under pressure and only represent a one-off source of funding which is not sustainable in the medium term. Should the Council not be able to make these adjustments in year then reserves will be required to balance the budget and it is recommended that this is taken from the **Property Company reserve**.

10.5. The anticipated year end deficit is now forecast to have reduced significantly from the previous report to around £0.4m. **The current position is however constantly changing and therefore the high level projections contained within this report must be seen in this context and could be subject to significant change depending on further announcements over the coming months and are based on the assumptions made on future income and expenditure levels along with further government support.**

It is recommended that Cabinet note and agree:

- **The current package of financial support being provided to the Council by the government to support its response to COVID-19 and the continued importance of central government lobbying for further additional financial support;**
- **The updated forecast cost and income pressures being faced by the Council and the extent to which they exceed the available government funding and therefore the requirement for any deficit to be funded from alternative Council resources;**
- **The proposals for revising the budget at the current time (and the one-off costs to be funded from reserves) to ensure that budget monitoring for the remainder of the year is meaningful, including funding any year end deficit from the Property Reserve;**
- **The various caveats and risks associated with the current forecasts and;**
- **The proposals in respect of updating the Medium Term Financial Strategy (MTFS) and the financial planning framework for the 2021/22 budget.**

11. Sustainability

11.1 There are no sustainability implications as a result of this paper.

12. Equality and Diversity

12.1 There are no equality and diversity implications as a result of this paper.

13. Section 17 Crime and Disorder considerations

13.1 There are no Section 17 crime and disorder implications as a result of this paper.