Rushcliffe Borough Council	**Cabinet** **Tuesday, 8 September 2020** **Covid-19 Budget 2020/21 and Medium-Term Financial Implications**

Report of the Executive Manager, Finance and Corporate Services

Cabinet Portfolio Holder for Finance, Councillor Gordon Moore

1. Purpose of report

1.1 This report provides an expected outturn budget for the year 2020/21 and the remainder of the current Medium Term Financial Strategy (MTFS). This is based upon the latest government guidance regarding the release from lockdown and estimated impact based on current trends and information available such as government funding. The situation is fluid with the anticipated financial deficit this year estimated at £0.422m and for 2021/22 £1.91m. The Council's normal governance arrangements through Cabinet and Corporate Overview Group will report on the changing position and the MTFS will be reported to Full Council in March 2021.

1.2 Full Council approved the 2020/21 balanced budget on 5 March 2020. The Covid-19 pandemic has caused significant financial pressures including loss of income (e.g. property and car parks), additional costs (namely supporting the Leisure Centres and additional anti-social measures) and reductions in Council Tax and Business Rates income. Government funding has been received that mitigates some of the losses however further measures are needed to address the remaining budget gap.

1.3 Officers have reported the potential financial impact of the emerging Covid-19 situation each month to Cabinet since the Covid-19 pandemic began. Although lockdown restrictions have been further eased, gradually returning to normality there will be some irrecoverable losses from the lockdown period in addition to the legacy issues that are likely to impact on the financial position for the remainder of the year. There is also a risk of a second wave of the virus or a local outbreak and therefore a return to a local lockdown cannot be ruled out.

1.4 This report is to be considered by Cabinet with recommendations to Full Council.

2. Recommendation

It is RECOMMENDED that Cabinet approves for Full Council:

a) the revised projections to the 2020/21 revenue budget and remainder of the current MTFS in **Appendix A** as a result of the impact of Covid-19;

b) the revised projections to the Capital Programme for 2020/21 and the impact on the Capital Programme over the MTFS in **Appendix B;**

c) the changes to the Transformation Strategy in **Appendix C;**

d) the Council Tax Hardship Fund Policy Paper at **Appendix D** and its current application;

e) the strategy of utilising in-year budget efficiencies, the Organisation Stabilisation reserve, reviewing the use of existing reserves, reduced use of Voluntary Revenue Provision and therefore use of New Homes Bonus; as fiscal levers so the Council balances the budget and delivers its corporate objectives (**paragraph 4.8.6**); and

f) the transfer of three reserves totalling to £0.524m as stated at **paragraph 4.8.7** to the Organisation Stabilisation Reserve from 2020/21 and the revised anticipated position over the next 5 years (**Appendix E)**.

3. Reasons for Recommendation

To ensure that the expected outturn is incorporated into the 2020/21 budget along with proposals to manage losses ensuring a balanced budget.

4. Supporting Information

4.1. Revenue

4.1.1 A number of changes have been made to the budget projections including additional costs and loss of income. It is too soon to estimate how quickly the pre-COVID situation will return, if at all this year or when in the medium term, with uncertainty surrounding consumer confidence. However, prudent estimates have been made upon the level of income expected in line with current government guidance for the phased release of lockdown.

4.1.2 For the current financial year, the Covid related budget pressure is projected to be £2.564m. This will be partially mitigated by additional Government funding of £1.518m and in-year efficiencies identified as part of the normal budget monitoring process (currently estimated at £0.624m). To mitigate the overall net loss and balance the budget, it is proposed to make a one-off use of reserves currently estimated at £0.422m, based on current projections. This figure is likely to change as further variances arise during the year and potential announcements of additional government funding to support the financial losses. As part of the Strategy for dealing with Covid-19 if there are any in-year revenue efficiencies these will be appropriated to the Organisation Stabilisation Reserve to enable the Council to continue to meet its corporate objectives.

4.1.3 There is also a risk that there could be a second wave or a local lockdown and the likely outcome of a 'worst case scenario' is included at section 4.8. Material changes that have been included in the revised projections presented in Appendix A are summarised in **Table 1** below:

Table 1 – 2020/21 Expected Budget Position

	Pressure/(Saving) (£m) 2020/21
Reductions in income	**£1.253**
Return on Investments	*0.030*
Hire of Facilities	*0.183*
Car Parking	*0.450*
Development Control	*0.200*
Land Charges	*0.050*
Commercial Activity	*0.225*
Other Lost Income	*0.115*
Additional Costs	**£1.489**
Anti-social behaviour/PPE	*0.042*
Leisure	*1.033*
Waste Collection/Street Cleansing	*0.177*
Homelessness	*0.069*
Increase in Bad Debt Provision	*0.100*
Other Costs	*0.068*
Total Covid Related Budget Pressure	**2.742**
Covid related savings	(0.133)
Furlough	(0.045)
Government funding	(1.518)
Total additional funding/savings	**(1.696)**
Net Budget Pressure	***1.046***
Projected In year costs/(savings):	
Pay award additional 0.75%	0.070
Vacancies	(0.256)
Rental Income (new property)	(0.122)
Garden Waste Income	(0.076)
Housing Benefit Subsidy	(0.142)
Diesel (price reduction)	(0.029)

	Pressure/(Saving) (£m) 2020/21
Other efficiencies	(0.069)
Total projected in-year efficiency savings	**(0.624)**
Total Net Projected Budget Gap	**0.422**

Income

4.1.4 The impact on fees and charges and commercial income has had a significant impact on the Council's funding over the lockdown period and is estimated at £1.253m for the full year.

4.1.5 The Council re-introduced car parking charges on 29 June 2020 and based on early indications we are assuming 37% of the car parking budget will materialise over the year.

4.1.6 It is assumed that facility hire, development control and land charges will see a reduced income for the remainder of the year due to both restrictions from social distancing measures and the downturn in the economy.

4.1.7 During the lockdown and recovery period some tenants occupying Council owned premises have expressed financial difficulty in keeping to their rental agreements. Being prudent the Council has therefore increased the bad debt provision by £0.1m (at 31/03/20 £0.172m). Billing has now recommenced and therefore the position regarding collection of this income will be updated in future reports. Other losses in commercial income arose from ceasing planned acquisitions due to an increase in risk in the viability of the current tenants due to the economic situation. This resulted in a loss of planned rental income.

Expenditure

4.1.8 The Council has and will continue to incur additional costs (estimated at £1.489m), mostly supporting Parkwood Leisure and details of the leisure contract can be found at section 4.2 below.

4.1.9 Other costs have been incurred on additional anti-social behaviour measures and portable toilets. Further costs have been incurred on agency staff for waste collection and an increase in cleansing of recycling bays due to higher usage.

Funding/Savings

4.1.10 Further government funding was announced on 2 July the first of which was a share of £500 million for which we were allocated £126k. We await further detail of two further pillars of funding and this could affect the overall budget gap and call upon reserves. The detail on these two elements are still to be confirmed and will be covered in future reports:

- co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income; and
- Phased repayment of Collection Fund deficits over the next three years.

If the Council is able to recover a significant proportion of lost income then this could further reduce the need to use reserves in 2020/21 allowing the available reserves to be utilised in 2021/22 when it is unlikely that Government funding will be available.

4.1.11 During the lockdown period the Council had to reduce, and in some cases cease a number of fee earning activities. The Council made the decision to temporarily furlough the affected employees and has subsequently claimed reimbursement from the Governments furlough scheme. The projected budgets shown in Appendix A are shown net of furlough income (£43k).

4.1.12 Savings totalling £133k have been identified including the cost of delivering events, printing costs and training as all face to face events and travel have been cancelled. During lockdown there was an increase in the volume of glass bottles and other recyclables and this has subsequently increased income from recycling credits and glass sales.

4.2 Leisure Services Contract

4.2.1 The Leisure centres have now reopened albeit on a phased basis with strict social distancing measures. The Council has been in dialogue with Parkwood Leisure to discuss the phased return to reopening and the expected position in Appendix A reflects this. However, in the light of extended social distancing measures in this sector the Council continues to assess the ongoing viability of each site individually.

4.2.2 Negotiations are ongoing with the various sports clubs at the facilities with a view to balancing the triumvirate of objectives - health and well-being of the community, maximising the use of the assets and the best economic outcome for the Council. The overall adverse impact on the Council's budget as a result of the leisure centres being closed and the legacy impact of Covid-19 is estimated to be £1.013m for 2020/21. It is worth noting that we continue to remain in dialogue with Mitie (East Leake Leisure Centre's operator) to support their recovery.

4.2.3 Positively Edwalton Golf Course since it reopened from lockdown has seen an increase in demand. Usage is up 62% on the same time last year for golf and a 45% increase in driving range usage. How sustainable this recovery is remains to be seen as winter approaches and other leisure facilities re-open. The additional income is built into the current financial projections.

4.2.4 Given the challenges the whole leisure market faces and a lack of Council in-house expertise to manage the leisure centres, continuing with the existing contractor remains the best way forward. This ensures continuity of service provision when the leisure centres do open at a time when there is so much volatility as a result of Covid-19 in terms of customer confidence and minimising the risk of the virus spreading; and the impact for the leisure industry as a whole.

4.2.5 Going forward the variation agreement to the contract will be reviewed at 30 September and 31 December 2020 for each quarter. The expectation is that as revenue begins to return this will reduce the support package from the Council until normality returns. Financial performance is monitored via an open book approach by the Contracts Team supported by Financial Services. The position on the Parkwood contract through the recovery period will continue to be monitored and will be reported via quarterly financial reports throughout the year to Corporate Overview Group and Cabinet.

4.3 Capital Programme

4.3.1 The current Capital Programme totals £38.4m comprising: £18.9m original estimate, £19.2 approved brought forwards, and £0.3m adjustments. The revised projection of £13.5m gives slippage of £24.9m. The significant elements of the slippage reflect three months delay in commissioning and delivering schemes due to the impact of Covid19. Bingham Hub, The Crematorium, and Cotgrave Phase II are the major schemes impacted and account for £18.3m of the slippage.

4.3.2 Officers have identified further schemes in the programme that could be deferred, potentially until 2021/22, without causing any revenue pressures or health and safety issues. Schemes totalling £1.2m have been proffered for deferral and include works to Investment Properties and Operational Assets: buildings, IT equipment, and vehicles.

4.3.3 £1.2m of Support for Registered Housing Providers remains unallocated although the Council has have agreed in principle for a joint bid with Framework to provide five units of Next Steps accommodation (to be owned and managed by Framework) utilising £150k from the provision. There has been slow spend on Better Care Funded Schemes: DFGs and this, together with other minor areas of savings on schemes, accounts for £0.4m projected underspend. The balance of £3.8m variance arises from the unallocated balance of the Asset Investment Strategy. Previously we have reported on the Council’s change in approach and focusing on investing on assets within the Borough, thus this sum is proposed to be removed from the Capital Programme.

4.3.4 The Council was due to receive capital receipts of £20m in the year, primarily from the disposal of surplus operational and investment property: Abbey Road Depot, Land at Hollygate Lane and also from an overage agreement in place for the Sharphill Wood site. Covid 19 has impacted on the progress of these schemes. Capital Receipts are now projected to be £4.6m in year. On 9 June 2020 Cabinet considered a report on the disposal of the Abbey Road site and it was agreed to accept a revised offer for the site which remains a significant receipt in a difficult economic climate. This will potentially not be received until 2021/22. Income from Sharphill Wood has been rephased with only half of the £8m due now expected in 2020/21. The time frame allowed for submission of planning permission, means that the receipt from Hollygate Lane will most likely come in 2021/22.

4.3.5 Delays in capital receipts will not have a material impact on the interest earned on balances as interest rates are low. Furthermore, there will be a reduction in capital outlay due to slippage in the capital programme. Significant delays or reductions to capital receipts will affect the funding of the capital programme and may lead to either internal or external borrowing earlier than planned dependant on the progress of the capital programme and any slippage.

4.3.6 Alternatively projects could be delayed (as stated at 4.3.2) or not proceed with if deemed economically unviable. The Summary Revised Capital Programme projections for 2020/21 at **Appendix B** still show over half of the programme being funded from Capital Receipts with a small recourse to borrow either internally or externally. This will be kept under review as the year progresses and revised accordingly. The Full Council Report in March 2021 will detail the programme over the next five years.

4.3.7 The Capital Programme contains significant schemes where contracts are in the process of being tendered for primarily the Bingham Leisure Hub and the Crematorium. Their viability will continue to be monitored, as tender prices are received and for example whether office development at the Bingham Hub remains in scope. The Council continues to review schemes in the Capital Programme in the light of any new information or changes in the economic/financial climate.

4.4 Treasury Issues

4.4.1 The Council has reported previously to Cabinet that the value of the Council's investments in multi-asset and diversified funds had reduced by £1.2m as at 31 March 2020. Further information relating from April to July has been received and this shows an increase in the value of these assets of £0.643m representing 51.9% improvement. If this trend continues the asset values could potentially recover to pre-COVID levels by the end of the year clearly though there remains much uncertainty going forward.

4.4.2 The impact of Covid-19 on the economy has resulted in a reduction in the Bank of England base rate and subsequently the interest rates earned by the Council on its treasury investments. The estimated average interest rate assumed in the original 2020/21 budget was 1.87%. The assumption on the average return is now an estimated 0.98% with this reduction expected to continue into 2021/22. This will be further updated in the Council's Investment and Capital Strategy presented to both Governance Scrutiny Group and Full Council in 2021.

4.4.3 A report to Governance Scrutiny Group on 30 July 2020 proposed a change in Minimum Revenue Provision (MRP) Policy and subsequent release of New Homes Bonus to either support the budget gap resulting from Covid-19 or to make Voluntary Repayment Provision (VRP) at a later date. This was recommended for approval by Full Council. The current MRP policy is the asset life method. For 2017/18, 2018/19, and 2019/20 the Council decided to set the MRP at £1m.This comprises £0.250m MRP to finance the Arena based on £10m borrowing over a 40 year life. A further £0.750m was provided by way of VRP to meet the Council's commitment to repay the borrowing early. Up until 31 March 2020, the Council released an equivalent sum (£1m) from the New Homes Bonus (NHB) Reserve to offset any impact of the borrowing charge to the tax payer in-year.

4.4.4 The Governance Scrutiny Group recommended to Full Council to take the option to reduce the VRP element of the charge. By reducing the VRP the Council would free up significant resources (up to £730k in 2020/21) and approximately £600k each year to 2024/25. By only making MRP payments this means the length of time payments are being made from the revenue budget for the Arena increase from 10 years to 31 years (three years have already been discharged so 28 remaining). Beyond 2024/25 MRP will then be funded from revenue budgets.

4.4.5 The 2020/21 mid-year review will continue to monitor the implications of Covid-19. The Investment and Capital Strategy for 2021/22 will update changes to the Capital Financing Requirement (CFR) – the underlying need to borrow - and other treasury indicators such as the temporary requirement to exceed the upper limit in investments in MMF's due to the need to keep investments liquid to aid cash flow.

4.5 Business Rates and Council Tax

4.5.1 Four months payment data is now available to further inform estimates regarding collection rates for Business Rates and Council Tax. As at 23 August collection rates for Council Tax had reduced by 1.2% equating to approximately £1.08m of cash not received. Business Rates are currently behind by £675k (0.85%), although £600k of this relates to a newly rated property which is anticipated to be received. We have also awarded a significant amount of reliefs (circa £10.6m) granted to the retail, leisure and hospitality sector. The Business Rates position will need to be closely monitored as the position may still change due to trading conditions.

4.5.2 Any reductions in income due to the collection fund will cause a deficit in the collection fund that would ordinarily need to be recovered in 2021/22 and 2022/23 therefore affecting future income streams and the MTFS. It is important to remember the County as the largest preceptor bear the biggest burden of the likely Council Tax collection fund deficit. Paragraph 4.1.10 refers to Government support in allowing any deficits to be spread over three years which will effectively spread the impact and reduce the burden in each year. Nonetheless there will still be a burden.

4.5.3 At the time of writing the Council has paid out £18.025m in BEIS grants equating to 90.7% of nearly 1,700 eligible businesses. Hardship Fund allocations committing in excess of £389k in relation to Council Tax support have also been made, i.e. circa 2400 payments and 75% of the £515k budget. The application of the Council's Policy is as stated at **Appendix D**.

4.5.4 The Council commenced the discretionary grant scheme on 1 June 2020. Applications for the grant have been much lower than anticipated and the lack of evidence or supporting information provided by the applicants have resulted in delays in the decision-making process. The criteria were reviewed and expanded to ensure the resources reached those in need. The second tranche of the scheme with the revised criteria ended on 31 July 2020. At the time of writing the Council has received 189 claims, decided on 159 and paid 62 totalling £0.814m (84% of the total available funds of £0.972m).

4.6 Transformation Plan

4.6.1 A number of items have affected the planned savings in the transformation plan reported at budget setting in March 2020. The revised transformation plan is shown at **Appendix C**. Table 2 below summarises the main changes and the revised target for the transformation plan.

4.6.2 A savings target has been added from 2021/22 of £0.5m, with officers considering expenditure efficiencies and scope for additional income. The planned acquisition of industrial units at Moorbridge did not go ahead representing projected lost rental income of £0.063m. Other planned acquisitions as part of the Asset Investment Strategy are expected to increase rental income by £0.04m. One of the biggest risks going forward is the legacy impact of Covid-19 on the leisure sector. It is assumed that the planned contractual savings as part of the contract re-negotiations with Parkwood will slip by at least one year.

Table 2 – Revised Transformation Programme Summary

Transformation Programme 2020/21 - 2024/25					
Savings (£'000)	2020/21	2021/22	2022/23	2023/24	2024/25
Original Transformation Plan	**192**	**261**	**518**	**70**	**110**
Adjustments:					
Savings Target		500			
Units at Moorbridge		-57	-6		
Net AIS purchase		40			
Leisure Contract/Bingham Hub	-33	-44	-131	173	-28
Revised Transformation Plan	**159**	**700**	**381**	**243**	**82**

4.7 Covid Legacy issues and risks

4.7.1 The long-term impact upon the market for rental of property and offices is not yet known. The cultural shift of increased remote working could result in a reduced demand and rental income for the Council.

4.7.2 The impact of Covid-19 may have a detrimental impact on some businesses and many may not recover from lockdown. There is a risk that this may have a longer-term impact on the number of businesses in the Borough and the main retail high streets. The business rates tax base will continue to be closely monitored and the Council will continue to encourage economic growth.

4.7.3 The hospitality and leisure sector is one of the hardest hit of lockdown and the recovery in this sector will be further impeded by the strict social distancing restrictions particularly in the leisure industry. Due to the length of time the leisure centres have been closed, many customers may now have found new ways to exercise and the customer base may not fully recover to pre-Covid-19 levels. This may result in further negotiation over the contract with the leisure provider.

4.7.4 The capital programme details a number of large projects planned for this and later years (see Appendix B). There may an effect on the build costs and on the yield should demand be affected by the pandemic. This may affect the appetite to continue with these projects and this will be reported on individually as part of the project management process (separate reports have been presented to Cabinet in relation to Moorbridge Industrial Units, the Crematorium and the Bingham Leisure Hub).

4.7.5 The impact that Covid-19 has had on businesses has been substantial with numerous high street shops closing for good. If businesses are unable to recover the number of customers visiting the town centres will also reduce with a knock-on effect on car park usage.

4.7.6 As referred to in paragraph 4.4.2, the expectation is that interest rates are unlikely to increase in the short term. If this continues past 2021/22 there would be a further impact on the budgeted income from investments returns.

4.7.7 The need to use reserves in the short term to eliminate the budget gap will result in a budget pressure in the medium term in order to replenish the reserves. This has been included in the remaining years of the current MTFS but will impact on the position going forward until the reserves are restored to current levels.

4.7.8 There are a number of items detailed in Appendix C that support the budget (namely rental and contractual income). There is a risk going forward that income from property investments may decline if the market appetite changes and there is also a risk to the savings from the Leisure Contract as the long-term impact on customer usage is not yet known

4.7.9 The Fair Funding and Business Rates Reviews have been deferred for the second year in a row. This causes further uncertainty on the longer-term funding of the Council making planning for the medium term even more difficult.

4.7.10 Business rates and Council Tax collection fund debt will affect future budgets. The government have announced relaxation to the recovery of any deficits to three years. This expected outturn position includes an estimated £100k deficit for Council Tax. Business rates figures are hugely distorted by Government intervention with the retail, leisure and hospitality sector having a full year relief and business grants awarded and therefore this makes it difficult to estimate.

4.7.11 The Governance Scrutiny Group considered Covid-19 Risks at its meeting on 30 July 2020 and these are being incorporated into the Council's risk register.

4.8 Modelling of risks, sensitivity analysis on the budget and the impact on reserves

4.8.1 The table below shows the expected position as used in this report along with a worst-case scenario in the event of a second lockdown. The total Covid-19 related loss would increase from £2.742m to £4.053m with an overall budget gap increasing from £0.422m to £1.733m. The main sensitivity surrounds the generation of income particularly the use of facilities and car parks. A second wave or local lockdown would result in almost a total loss of income in these areas. Furthermore, costs would increase on waste collection, homelessness and maintaining anti-social behaviour measures.

Table 3 – Budget Scenario Planning

	Pressure/(Saving) (£m) 2020/21 EXPECTED CASE	**Pressure/(Saving) (£m) 2020/21 WORST CASE**
Reductions in income	1.253	1.957
Additional Costs	1.489	2.096
Total Covid Related Budget Pressure	**2.742**	**4.053**
Total additional funding/savings	**(1.696)**	**(1.696)**
Net Budget Pressure	***1.046***	***2.357***
Total projected in-year efficiency savings	**(0.624)**	**(0.624)**
Total Net Budget Gap	0.422	1.733

4.8.2 Table 4 below shows the current estimated net impact of Covid-19 on the MTFS as reported in March 2020. The staff and members allowances pay award costs resulting from an increase of 0.75% (budgeted 2% actual 2.75% and thereafter 2%).

4.8.3 Due to the uncertainty surrounding the remaining NDR tax base into next year it has been assumed that the Council will only receive income to the Safety Net Position and for 100% renewable energy premises. Business rates estimates are further complicated by anticipated changes to the system originally planned for 2021/22 and now at the earliest to be implemented by 2022/23.

4.8.4 Fees and charges are unlikely to return to pre-Covid-19 levels in the short term and as more is known about the recovery locally assumptions will change going forward. It has been assumed that there will be an under recovery on budgeted income levels by 20% in 2021/22 and 10% in 2022/23.

4.8.5 Current information from Council Tax shows that there is a deficit of around £1m of which the Council's share is circa £100k. This has been included for 2021/22 and 2022/23.

Table 4 – Covid 19 Impact on the MTFS

	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
Net (Surplus)/Deficit Original Budget	437,800	298,200	130,400	(208,500)
Net (Surplus)/Deficit Revised	1,900,800	918,200	200,400	(138,500)
Variance	**1,463,000**	**620,000**	**70,000**	**70,000**
Assumptions:				
Investment Income	30,000	0	0	0
Pay Award	70,000	70,000	70,000	70,000
Business Rates	363,000	0	0	0
Fees and Charges and Commercial income	900,000	450,000	0	0
Collection Fund Deficit	100,000	100,000	0	0
Total	**1,463,000**	**620,000**	**70,000**	**70,000**

4.8.6 The proposed council strategy for dealing with both the immediate and legacy issues of Covid-19 are proposed as follows:

(a) identification of Transformation Programme efficiencies and the use of in-year underspends should they arise;

(b) use of the Organisation Stabilisation Reserve and New Homes Bonus Reserve (if necessary) and not applying the Voluntary Revenue Provision in relation to the Arena;

(c) A review of earmarked reserves and their use, and where possible transfer those reserves not being applied, to the Organisation Stabilisation Reserve, as necessary, to improve resilience going forward in the event of a 'second wave' of Covid-19; and

(d) Ultimately use of its £2.6m General Fund Balance.

4.8.7 With regards to the latter point Cabinet in July 2020 agreed the transfer from three unused reserves totalling £0.524m, **for Full Council approval**. These earmarked reserves have been reviewed in terms of both their previous and potential use and as they are not planned to be used it is recommended that these are transferred into the Organisation Stabilisation Reserve:

- Council Assets and Service Delivery £0.274m;
- Invest to Save £0.15m; and
- Planned Maintenance £0.1m.

This brings the opening 2020/21 balance to £2.401m.

4.8.8 **Appendix E** shows the Organisation Stabilisation Reserve balance is expected to reduce from a planned £2m to £0.284m, at its lowest, in 2021/22. This then increases each year as the reserve is replenished. £0.150m is assumed to be transferred each year into the reserve from 2022/23. Furthermore, going forward it is expected that any in-year revenue efficiencies will also help replenish the reserve.

4.8.9 It should be noted the newly created Climate Change Reserve of £1m remains to ensure we deliver on our key objectives. The level of overall reserves are estimated to be £16.3m in 2020/21 and 2021/22. The revised position on all reserves will be reported to Full Council with a fully revised MTFS in March 2021.

4.9 Conclusion

4.9.1 Undoubtedly, this is the most testing of times in relation to Council finances and ensuring budgets and balanced and excellent services continue to be delivered. It is important the Council retains reserves commensurate with its risks and despite the planned use of reserves they remain sufficient in value at this time to ensure both upside and downside risks are managed. As a Council, we clearly cannot be complacent and continue to look at our own business efficiencies before using reserves. Whilst Government funding is welcome there is not a 'bottomless pit' of cash that can support authorities going forward.

4.9.2 Whilst the easing of lockdown should relieve some pressure on the Council's budget, additional expenditure is likely to continue particularly in support of the leisure centres with reduced usage for some time due to social distancing measures. It is yet unknown how quickly income levels from facilities such as car parks will improve, and this will be closely monitored. Income streams are likely to remain lower than budgeted for some time before returning to anticipated levels. The threat of a further local spike or 'second wave' of Covid-19 is something we should be prepared for in a worst-case scenario.

4.9.3 It remains to be seen if there will be further government support to help bridge the budget gap. If further support is not forthcoming, then the likely scenario for the Council is a £0.422m budget gap just for the current year (net of current government support) and £1.9m in 2021/22. There will be an updated MTFS presented to Full Council in March 2021 in what can be a fast changing picture.

4.9.4 This report identifies a financial strategy for dealing with the current Covid-19 budget with a range of measures that can be taken from proactively utilising in-year budget efficiencies, continually revising the Transformation Programme (looking at further budget efficiencies), utilising Reserves (particularly the Organisation Stabilisation Reserve and, the General Fund Balance); and changes in Minimum Revenue Provision, which potentially unlocks New Homes Bonus to support the budget.

4.9.5 The timing and value of capital receipts is now uncertain, as is the progress on the capital programme owing to potential difficulty in commissioning work along with potential variations in costs, which may inhibit scheme progress. The timing of borrowing is likely to be sooner rather than later.

4.9.6 The Council has managed its resources well and as a consequence has in the past held a healthy level of reserves. In addition, the outturn position for 2019/20 reported to Cabinet 14 July 2020, showed a net transfer to reserves of £1.348m resulting from in year efficiencies further improving the level of reserves. This enables the Council to, at least in the short term, deal with this pan-global economic crisis and continue delivering its Corporate Objectives. The financial resilience of the Council going forward is being severely challenged but we are in a better position than most to move forward at this most difficult of times.

5. Alternative options considered and reasons for rejection

The alternative option is to do nothing. The budget approved 5 March 2020 is now unrealistic and, therefore, doing nothing will result in a budget gap, which is not permissible by law.

6. Risks and Uncertainties

6.1 Risk that a balanced budget position is not achieved if mitigating action is not agreed by Council.

6.2 Risk that the Council may have to issue a Section 114 notice if the Council is unable to replenish lost income or make additional savings and a balanced budget is not achievable. The proposals in this report make this low risk, but this could change dependent on the legacy issues, the event of a second wave and what arises from the 2021/22 financial settlement.

6.3 Further delays to the Business Rates System and Fair Funding Reviews (now delayed until at least 2021) add even more uncertainty to the Council’s MTFS going forward.

7 Implications

7.1 Financial Implications

Financial Implications are covered in the body of the report.

7.2 Legal Implications

The Council is required to have a balanced budget. The additional pressures on expenditure and on lost income puts at risk the 2020/21 balanced budget position and puts the Council at risk of issuing a S114 notice. As a prudent authority, a review of the MTFS is appropriate at this time.

7.3 **Equalities Implications**

There are no direct equalities implications.

7.4 **Section 17 of the Crime and Disorder Act 1998 Implications**

There are no direct crime and disorder implications.

8 Link to Corporate Priorities

Quality of Life	The budget resources the Corporate Strategy and, therefore, resources all corporate priorities.
Efficient Services	
Sustainable Growth	
The Environment	

9 **Recommendations**

It is RECOMMENDED that Cabinet approves for Full Council:

a) the revised projections to the 2020/21 revenue budget and remainder of the current MTFS in **Appendix A** as a result of the impact of Covid-19;

b) the revised projections to the Capital Programme for 2020/21 and the impact on the Capital Programme over the MTFS in **Appendix B;**

c) the changes to the Transformation Strategy in **Appendix C;**

d) the Council Tax Hardship Fund Policy Paper at **Appendix D** and its current application;

e) the strategy of utilising in-year budget efficiencies, the Organisation Stabilisation reserve, reviewing the use of existing reserves, reduced use of Voluntary Revenue Provision and therefore the use of New Homes Bonus; as fiscal levers so the Council balances the budget and delivers its corporate objectives (**paragraph 4.8.6**); and

f) the transfer of 3 reserves totalling to £0.524m as stated at **paragraph 4.8.7** to the Organisation Stabilisation Reserve from 2020/21 and the revised anticipated position over the next 5 years (**Appendix E)**.

For more information contact:	Peter Linfield Executive Manager Finance and Corporate 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Report to Full Council - March 5 2020: 2020/21 Budget and Financial Strategy Report to Cabinet 12 May – Budget Update Report to Cabinet 9 June – Budget Update Report to Cabinet 14 July – Budget Update Report to Governance Scrutiny Group 30 July – Covid 19 Risk Register Update
List of appendices:	**Appendix A** – Budget Impact of Covid19 – Sensitivity Analysis **Appendix B** – Revised Capital Projections **Appendix C** – Revised Transformation Plan **Appendix D** – Council Tax COVID-19 Hardship Fund Policy 2020-21 – Update **Appendix E** – Revised Organisational Stabilisation Reserve

Appendix A

	2020/21 ESTIMATE £	**Projected 2020/21 ESTIMATE £**	2021/22 ESTIMATE £	2022/23 ESTIMATE £	2023/24 ESTIMATE £	2024/25 ESTIMATE £
Communities	2,907,200	**3,355,400**	3,023,200	3,078,500	3,121,000	3,160,200
Finance and Corporate Services	3,442,800	**3,467,300**	3,668,300	3,764,000	3,992,800	3,860,900
Neighbourhoods	6,520,700	**8,122,300**	6,655,800	6,391,300	6,383,500	6,337,100
Transformation	2,000	**138,000**	(147,000)	(231,000)	(197,700)	(155,300)
Net Service Expenditure	12,872,700	**15,083,000**	13,200,300	13,002,800	13,299,600	13,202,900
Capital Accounting Adjustments	(2,130,600)	**(2,130,600)**	(2,130,600)	(2,130,600)	(2,130,600)	(2,130,600)
Minimum Revenue Provision	1,000,000	**1,000,000**	1,074,000	1,247,000	1,247,000	1,247,000
Revenue Contribution to Capital	146,800	**146,800**	154,800	180,400	180,400	184,600
Transfer to/(from) Reserves	1,859,200	**1,589,200**	(312,400)	(531,400)	(1,215,900)	(1,015,900)
Total Net Service Expenditure	13,748,100	**15,688,400**	11,986,100	11,768,200	11,380,500	11,488,000
Funding						
Other Grant Income	(17,500)	**(1,535,500)**	0	0	0	0
Localised Business Rates, includes SBRR	(3,984,300)	**(3,984,300)**	(3,058,300)	(3,119,500)	(3,181,900)	(3,245,500)
Collection Fund (Surplus)/Deficit	(444,500)	**(444,500)**	0	0	0	0
Council Tax Income						
- Rushcliffe	(6,278,800)	**(6,278,800)**	(6,626,500)	(6,985,500)	(7,356,300)	(7,739,100)
- Special Expenses Areas	(711,900)	**(711,900)**	(711,900)	(711,900)	(711,900)	(711,900)
New Homes Bonus	(2,311,100)	**(2,311,100)**	(1,151,600)	(653,100)	0	0
Total Funding	(13,748,100)	**(15,266,100)**	**(11,548,300)**	**(11,470,000)**	**(11,250,100)**	**(11,696,500)**
Net Budget (Surplus)/Deficit	0	**422,300**	**437,800**	**298,200**	**130,400**	**(208,500)**
	2020/21		2021/22	2022/23	2023/24	2024/25

	ESTIMATE £	**Projected 2020/21 ESTIMATE £**	ESTIMATE £	ESTIMATE £	ESTIMATE £	ESTIMATE £
Investment Income		0	30,000	0	0	0
Pay Award		0	70,000	70,000	70,000	70,000
Business Rates		0	363,000	0	0	0
Fees and Charges and Commercial income		0	900,000	450,000	0	0
Collection Fund Deficit		0	100,000	100,000	0	0
Total budget pressure		**422,300**	**1,900,800**	**918,200**	**200,400**	**(138,500)**
Transformation Plan		0	33,000	(439,000)	137,000	(173,000)
MRP – reduction in VRP ie use of NHB		0	(626,000)	(626,000)	(626,000)	0
Transfer to/(from) Reserves		(422,300)	(1,307,800)	150,000	150,000	150,000
Total Net budget Surplus/Deficit		**0**	**0**	**3,200**	**(138,600)**	**(161,500)**

Appendix B

REVISED CAPITAL PROGRAMME PROJECTIONS 2020-21				Explanations
EXPENDITURE SUMMARY	**Current**	**Projected**	**Projected**	
	Budget	**Actual**	**Variance**	
	£000	**£000**	**£000**	
Transformation	22,917	4,277	(18,640)	Slippage on the construction of Bingham Hub and The Crematorium anticipated although both projects are still anticipated to be completed to original timescales.
Neighbourhoods	3,846	1,840	(2,006)	Support for RHPs not wholly committed, slow DFG grant release due to COVID19 impact.
Communities	2,471	2,322	(149)	Balance of Skatepark grants not yet committed.
Finance & Corporate Services	8,967	5,028	(3,939)	Balance of the Asset Investment Strategy not yet committed.
Contingency	170	0	(170)	Capital Contingency balance not yet allocated.
	38,371	**13,467**	**(24,904)**	
FINANCING ANALYSIS				
Capital Receipts	(13,330)	(7,848)	5,482	Intention to use capital receipts to fund expenditure before recourse to internally/externally borrow.
Government Grants	(3,258)	(517)	2,741	
Use of Reserves	(651)	(607)	44	
Grants/Contributions	(610)	(610)	-	
Section 106 Monies	(4,052)	(1,234)	2,818	
Borrowing	(16,470)	(2,651)	13,819	Intention to use capital receipts to fund expenditure before recourse to internally/externally borrow.
	(38,371)	**(13,467)**	**24,904**	
NET EXPENDITURE	**-**	**-**	**-**	

Appendix C

Transformation Programme 2020/21 - 2024/25					
Savings (£'000)	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Service Efficiencies & Management Challenge	**1,767**	**1,757**	**1,747**	**1,737**	**1,737**
Total Thematic Reviews - With Potential Savings	**1111.5**	**1111.5**	**1111.5**	**1111.5**	**1111.5**
Income Reviews					
Wheeled bin charges for new houses	10	10	10	10	10
Fees and charges Generally	104	104	104	104	104
Street Trading Licences	5	5	5	5	5
Car Park - Increase charges	174	174	174	174	174
RCP - compulsory charging	20	20	20	20	20
Additional Green Bin Income	382	382	382	382	382
Planning pre-application Advice	30	30	30	30	30
Total Additional Income	**725**	**725**	**725**	**725**	**725**

Transformation Programme 2020/21 - 2024/25					
Savings (£'000)	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Additional (Growth)/Savings					
Savings Target	0	500	500	500	500
Planning Income	100	100	100	100	100
Room Hire	7	7	7	7	7
Net impact of relocation to Eastcroft	(273)	(273)	(273)	(273)	(273)
Leisure Community Interest Company	120	120	120	120	120
Procurement	50	50	50	50	50
Event Sponsorship Income	9	9	9	9	9
Finch Close	67	67	67	67	67
Co-op	69	69	69	69	69
Units at Moorbridge	0	0	0	0	0
Cotgrave Phase 2	0	34	91	91	91
Asset Investment Projects	147	323	657	910	992
Total Additional (Growth)/Savings	**296**	**1,006**	**1,397**	**1,650**	**1,732**
Overall Total	**3,899**	**4,599**	**4,980**	**5,223**	**5,305**
Additional savings	**159**	**700**	**381**	**243**	**82**

Appendix D

Council Tax
COVID-19 Hardship Fund Policy 2020-21 – Update

1. Introduction

1.1 This paper is an addition to the policy agreed by Cabinet on 14 May 2020.

1.2 All working age claimants who had a live claim as at 1 April 2020 were granted their CTS Hardship payment on 28 March 2020. This allocated £217,716.26. Since this date, there has been an increase in new claims and changes in circumstances where these awards also had to be made. These have been awarded on a weekly basis up to the end of April (£225,083.17).

1.3 The policy agreed by Cabinet allowed awards to continue up to the maximum of £150 until the end of quarter 1 (30 June 2020) and that a further review be undertaken at the end of quarter 1 with regards to the remaining balance of the fund.

1.4 It was agreed that if there were sufficient funds available, a further award of up to £150 would be made to all working age claimants (using the same underlying principles as the first award), therefore giving a maximum award of up to £300.

2. New software

2.1 There have been challenges for the Council's Benefits system software provider (Capita). Capita initially issued software that allowed automatic awards to be made in respect of the hardship fund payments. However, following meetings with the User Groups and MHCLG it was decided the software did not meet MHCLG's policy intention.

2.2 The advice from Capita was that LA's should wait until the new software was provided before making any awards (the awards previously made up to the end of April were done manually and were extremely resource intensive).

2.3 Capita finally issued the new software on 14 July. It is a fully automated process that considers all changes that may have an impact on the level of the award. Following testing of the software (it was loaded into our test system on 23 July) it was loaded onto the live system on 3 August 2020.

3. Potential expenditure

3.1 Initial testing shows the following expenditure, with the hardship parameter set at a maximum of £250 per claim:

2,293 claims - £370,141.44

By way of comparison- with a parameter of £300 this would have committed £417k and left £98k for further payments.

3.2 It is recommended that £250 is the maximum amount to be used in the parameter setting. The current spend is £389,922.05 as at 23 August - which leaves a balance of £125,466.95 for the remainder of 2020/21.

3.3 Analysis has been done on the potential number of number claims that when processed, could be entitled to a hardship payment of up to £300. This is as follows:

	2018/19	**2019/20**	**2020/21**
April	54	50	126
May	75	61	164
June	49	55	102
July	56	45	73
August	58	44	
September	64	41	
October	62	47	
November	49	70	
December	28	27	
January	49	49	
February	52	45	
March	58	63	

3.4 From August 2019 to March 2020 a total of 420 claims for CTR were processed (53 per month). Based on an average hardship payment of £161.42 per claim (£370,141.44 divided by 2,293 claims) – this would allocate a further £68,443.07. This would leave a potential balance of £57,033.88 to be used if there is a second wave of COVID-19 or once the furlough scheme draws to a conclusion (ie if there are further job losses and residents requiring further support). Obviously, this is very difficult to predict.

4. Action Taken

4.1 The parameter is set at a maximum of £250 per claim. There should be enough funding to cover the further claims received up to 31 March 2021. If there is a large increase in claims the funding will be capped at the amount allocated unless Government provide further resources. However, it is considered reasonable to assume that we will now receive a consistent level of new claims for the remainder of 2020/21 subject to the impact of the end of the furlough scheme or a local/national lockdown.

4.2 The scheme will continue to be reviewed and any further changes anticipated in January 2021 and reported to Full Council in March 2021 as part of the MTFS.

Appendix E

Anticipated Position on Organisational Stabilisation Reserve

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Organisation Stabilisation Reserve					
Estimated Opening Balance	**2,401**	**2,493**	**2,014**	**1,933**	**1,933**
Planned transfer to/(from) reserve	362	(479)	(81)		
Add carry forwards	(270)				
Estimated Closing Balance	**2,493**	**2,014**	**1,933**	**1,933**	**1,933**
Post Covid 19 Position					
Revised Opening Balance	**2,493**	**2,071**	**284**	**353**	**503**
Planned transfer to/(from) reserve		(479)	(81)		
Additional transfer to/(from) reserves	(422)	(1,308)	150	150	150
Revised Closing Balance*	**2,071**	**284**	**353**	**503**	**653**

* the above does not include the expected transfer in relation to Business Rates of £2.864m. This is expected to be reversed out (ie a net nil effect) as a result of the timing mis-match from receiving s31 grant for the reliefs and the payments that are required to be made to preceptors via the Collection Fund