

Committee:	Scrutiny	Date:
Title:	Medium Term Financial Strategy - Mid Year Update	Thursday, 24 September 2020
Portfolio Holder:	Portfolio Holder for Finance and Budget Cllr Hargreaves	
Report Author:	Adrian Webb, Director of Finance and Corporate Services Angela Knight, Assistant Director - Resources	Key decision: N

Summary

1. This report provides an updated financial position for the Medium Term Financial Strategy (MTFS) approved at Council on 25 February 2020 and reflects the impact on the General Fund budget due to the Covid-19 pandemic.
2. The updated MTFS also incorporates the Commercial Strategy and all agreed investments to date.

Recommendations

3. The Committee is requested to review the report and the MTFS summary and provide commentary for Cabinet on 20 October

Financial Implications

4. All financial implications are included in the body of this report.

Background Papers

5. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

Impact

- 6.

Communication/Consultation	None
Community Safety	None
Equalities	None

Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Revenue – Income and Expenditure

7. The MTFS was approved as part of the budget setting process for 2020/21 in February 2020. The updated MTFS is set out in Appendix A.
8. The Covid-19 pandemic and the lockdown period had significant impact on the council's finances, in particular the income from Sales, Fees and charges and local taxation.
9. Although the lockdown period has ended the ongoing social distancing and safety measures continue to impact on the council finances.
10. Government has provided the following funding;
 - £1.047m – to cover the cost impact of Covid-19
 - £1.169m – to support lost income from Sales, Fees and Charges. The Council has to absorb the first 5% of the **budgeted** income and then funding is provided at 75% of **actual** income lost.
 - £0.080m – to support the reopening of the high street safely
11. All losses incurred due to the non payment of Council Tax and Business Rates are expected to be managed by the Council and no additional financial support is expected. To help councils manage this, an amendment to legislation has been made to allow losses to be accounted for over 3 years instead of the year they are incurred. This report assumes all losses will be accounted for in the year they are incurred.
12. The Fair Funding Review and Business Rates Reforms have been delayed for a further year and a one year settlement will be made. This means that New Homes Bonus will also continue for a further year and a prudent assumption of an additional £0.400m has been assumed for 2021/22 and no change to any years after that.
 - The updated position for 2020/21 reflects the Budget Outturn Quarter 1 position presented to Cabinet on 9 September plus the following areas have been updated to reflect the current position;

- i. Development Control and Building Control income – income losses of 75% were reported in quarter 1, this has now been reduced to 60% (2020/21 only)
- ii. Planning Policy and Garden Communities budgets have been updated to reflect the New Local Plan Process, (2020-2025)

13. The other key factor of significant change is the additional income generated from the investment in Commercial Properties as set out in the Commercial Strategy. Since the original MTFS was approved the Council has acquired a number of commercial assets;

- 1 Deer Park Road, Livingston
- Skyway House, Takeley
- Phase 1, Stane Retail Park. Colchester
- Regional Distribution Centre, Chorley

14. The Council is also in advanced contractual discussions on several other potential acquisitions. These additional acquisitions are not built into the MTFS until 2021/22 giving time, should they not complete, to find alternatives.

Reserves

15. As part of the updated position, the use of reserves has been updated and new allocations to key areas have been included;

- Climate Change allocation of £1.000m over the next 3 years
- Business Recovery Fund of £1.000m in 2021/22 to support the Economic Development Recovery Plan referenced in the Corporate Plan Deliver Plan
- £0.450m over the next 3 years for up to 3 large scale sports projects across the district
- A top up to the Waste Depot relocation project of £1.500m over the next 2 years
- A £0.500m Emergency Reserve to support cash flow in the event of further lockdowns either local or national

16. After allowing for all the above adjustments to our income and expenditure and the additional reserve allocations, the MTFS is predicting a 5 year deficit of £2.881m. However it should be noted that £1.518m of that sum is offset by the release of monies from the Business Rates Reserve to support the additional business rate reliefs put in place by the Government during the Covid-19 emergency and the allocation to the Business Recovery Fund.

17. When the original MTFS was set there were three main themes identified for addressing the predicted shortfall

- Investments
- Efficiencies
- Fees and Charges

This MTFS does not include potential efficiency savings or the impact of any review of fees and charges.

18. The following table sets out the deficit position for each year and the proposed use of funding to manage this.

	2020/21	2021/22	2022/23	2023/24	2024/25	
	£'000	£'000	£'000	£'000	£'000	
(Surplus) / Deficit	0	(9)	1,518	327	764	281
Business Rates Reserve	0	0	(1,518)	0	0	0
MTFS	0	9	0	148	(289)	194
Funding Reserve	0	0	0	0	0	0
Damping (Gov Transitional Funding)	0	0	0	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	0	0	0	0	0

19. It should be noted that the Damping (Gov. Transitional Funding) figures are an estimate based on information available and is associated with the Business Rates and Fair Funding Reviews. If the Damping is not provided then the shortfall will be met from the MTFS and Business Rates Reserves.

20. As the Council now relies on its investment income, it is prudent to set aside monies in case of tenant failure at any one of the commercial assets. Accordingly the £1.060m in the Funding Reserve is to be transferred to a new reserve - Investment Income Protection Reserve.

Key Risks

21. The current position is subject to change outside of the Council's control and the key elements that could impact on the position presented in this report include;

- A further lockdown either National or Local is implemented, which would significantly impact on the level of costs and would further reduce our income
- The government funding to compensate for the loss in sales, fees and charges income has not yet been finalised and the figures entered in this report are calculated based on the current information and are subject to change

Risk Analysis

22.

Risk	Likelihood	Impact	Mitigating actions
The assumptions made in this report are subject to variation as set out above in the key risks section 18	3 – the current figures are all based on estimates and predictions	3 – Significant; as further budget impacts are unlikely to be fully supported by additional funding	The financial position is being constantly monitored, monthly returns to the Gov't are submitted for both cost implications and income losses

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Appendix A

Reserve Allocations

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Emergency	500	0	0	0	0
Climate Change	380	300	320	0	0
Sports Facility	150	150	150	0	0
Business Recovery	0	1,000	0	0	0
Waste Depot cont.	1,000	500	0	0	0
	2,030	1,950	470	0	0