

**CABINET**  
**01 OCTOBER 2020**

**MID DEVON DISTRICT COUNCIL EMERGENCY BUDGET REVIEW 2020/21**

**Cabinet Member(s):** Cllr Andrew Moore  
**Responsible Officer:** Andrew Jarrett – Deputy Chief Executive (s151)

**Reason for Report and Recommendation:** To assess the financial impacts of the Covid 19 pandemic and to enable the Council to meet its obligations to maintain a balanced budget whilst holding reserves at the recommended minimum level. This report therefore seeks to present a revised budget for 2020/21 which will address the loss of income and the additional expenditure arising from the pandemic and those actions that have been taken to control it.

**RECOMMENDATION(S):**

- 1. It is recommended that Cabinet notes the Council's revised spending proposals in respect of its General Fund.**
- 2. As part of the Council's pledge to become carbon neutral by 2030, there is an intention to create a Climate Coordinator post on a fixed term contract for one year. The annual cost is expected to be £30k. The post is expected to be recruited by January and Cabinet is therefore asked to approve an amendment to budget of £7,500 in 2020/21 accordingly.**
- 3. The Heritage Action Zone (HAZ) project relating to Cullompton spans the 4 years from 2020/21 to 2023/24. Current year expenditure is budgeted to be £270k and it is recommended that Cabinet approves the inclusion of this in the current year capital programme. It can be noted that £130k is funded from external bodies with the balance coming from existing ear marked reserves.**
- 4. The project to install a solar array at Carlu Close is intended to be increased in capacity to maximise its environmental advantage. There is an existing approved budget for 2020/21 of £18k. It is recommended that Cabinet approves additional expenditure in the current year of £14k accordingly.**

**Financial Implications:** Good financial management and administration.

*Approved by Finance: yes – Ian Chilver - Group Manager for Financial Services*

**Budget and Policy Framework:** The Local Government Finance Act 1992 places a legal requirement on a council to approve not only the budget but also any changes to the budget proposed during the year. Council has a legal duty to ensure that the budget is balanced and that any changes to the budget are fully funded.

**Legal Implications:** The Council is legally responsible for setting a balanced budget each year and for taking action when there are adverse movements in the projected financial position during the year. Therefore, if a decision is taken to remove a proposed reduction, then Council must identify how that will be funded.

**Risk Assessment:** Understanding and mitigating the risk of unforeseen over or under spends arising at year end and so allowing the Council to direct its resources to key corporate priorities.

**Equality Impact Assessment:** It is considered that the impact of this report on equality related issues will be nil.

**Relationship to Corporate Plan:** The financial resources of the Council impact directly on its ability to deliver the Corporate Plan; prioritising the use of available resources brought forward and any future spending will be closely linked to key Council pledges from the updated Corporate Plan.

**Impact on Climate Change:** This report references initiatives relating to the Councils pledge to be carbon neutral by 2030, for example the creation of the Climate Co-ordinator post, and provides funding for their facilitation.

## 1. Summary

- 1.1. This report reviews the budgetary implications of the Covid 19 measures which largely relate to the general fund. The resulting budget gap is forecast to be £4.4m as detailed in section 6.1.
- 1.2. Further analysis details how this gap might be part filled, utilising government grants, making short term cost savings within existing operations and other budget savings. These total £3m, leaving a net gap of £1.4m extant (section 7.1).
- 1.3. Section 8 examines the extent to which the income protection guarantee will recover the net gap and how the Council may choose to manage any deficit that persists further to this scheme.

## 2. Background

- 2.1. In February 2020, Council approved the budget for 2020-21, including setting the Council Tax for the District. This resulted in a balanced budget for the year, which had a nil effect on the General Fund Balance at year end.
- 2.2. On 23 March of this year the government announced a national lockdown in response to the Covid 19 pandemic. This has had, and continues to have, a significant impact on the finances of local authorities. It has led to many, if not most, councils struggling to balance the books and warning of the possibility of section 114 notices. The situation is being closely monitored by Government and we along with all councils have been submitting regular reports on income losses and additional expenditure. The Government has taken several measures to support the sector. This ranges from advance payment of the 2020/21 s31 NDR claim to ease immediate cash flow concerns, to delivery of a specific compensation package over 3 tranches. Further, the Council has participated in the Job Retention Scheme or furlough scheme. However, the scale of income loss and additional expenditure

incurred because of Covid-19 and the lockdown exceeds by a significant margin this additional funding received from Government.

- 2.3. Other government schemes have been announced, the most promising of which looks to be the Income Protection Guarantee whereby Authorities will receive 75p for each £ of lost income after the first 5%. Important details of this scheme are awaited so that we may ascertain its true worth to MDDC.
- 2.4. Also of note, is the following statement from Robert Jenrick MP, at the MHCLG, included in the press release of 2 July: “In the next Spending Review, the government will agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020 to 2021.” This hints at further support in respect of collection fund losses.
- 2.5. The current estimate for income losses due to the pandemic in 2020/21 for Mid Devon District Council is £3.02m. This compares to a net budget of £11.52m. This includes the losses over the lockdown period as well as an estimation for the rest of the year. Service activity levels will not recover overnight. Many residents remain cautious about returning to their old habits. Some activities are limited by ongoing restrictions. Indeed, it is likely that most service areas will continue to be depressed going in to 2021/22. As so often said, these are unprecedented times with really no past experience or historical data on which to fall back. Future outcomes will also be impacted by other unknowns. Will there be further infection peaks with accompanying lockdowns? How will the economy fare over the coming months and years? How will local companies respond to the end of the furlough scheme? What does future government policy look like? Not only this, but the Brexit transition period finishes at the end of December. At the time of this report there is no certainty that a succession agreement will be ready, let alone its scope.
- 2.6. The Council is obliged to take action to ensure its books balance at the end of the financial year. This report therefore seeks to set a revised budget for 2020/21 to address the additional expenditure and loss of income experienced as a result of the restrictions imposed to combat the Covid-19 pandemic. Projections of the financial impact on the Council show a position where the Council will be unable to simply use its General Fund Balance to offset the additional expenditure and losses. As a result Council needs to take action early to protect the overall financial position of the Council. The projections are of course based on a number of assumptions. In general, being that there are no further significant periods of lockdown and that over time things will return to how they were, albeit slowly.
- 2.7. These assumptions may well change as the response to the pandemic progresses. The purpose of this report therefore is to deliver a balanced budget, bearing in mind that this is a new and evolving situation. There will be an ongoing need for the Council to respond and adapt accordingly. It may be that the proposals made to address the shortfall are such, that if the financial position of the Council improves, then elements of the reductions being proposed can be reinstated or reserves can be strengthened.

2.8. The report will set out the additional expenditure incurred, the projections of income lost, broken down between irrecoverable and potentially recoverable, and proposals to balance the budget.

### **3. Covid 19 - Additional Expenditure (General Fund)**

3.1. The pandemic caused massive disruption to services. Some were completely suspended eg leisure services and other new services were set up to deal with the special needs of residents during the crisis. A hub was set up in Tiverton to support residents who were shielding which set up in unit 10, Market Walk, and special efforts were made in respect of rough sleepers in the district. Suspended services saw many officers placed on furlough under the government Job Retention Scheme with other officers being redeployed to support new services or backfill positions vacated by colleagues for whom it was important to isolate. There were additional costs relating to PPE particularly for property services and also grounds maintenance. Many officers who continued to work, did so from their own homes. This has brought its own challenges, not least in respect of connectivity issues and ensuring that IT infrastructure was sufficiently robust to deal with the extra demands made upon it. This was also hugely important for the continued good governance of the organisation with face to face meetings no longer possible, many quickly became proficient in new technologies such as Zoom.

3.2. To support the economy generally, the government quickly implemented a grant programme. Businesses in receipt of Small Business Rates Relief of Rural Rates Relief and also those in the retail, hospitality or leisure sectors were awarded funds according to the rateable value of their properties. £22.7m was received in respect of this in April and the Revenues and Benefits team have made a supreme effort to distribute these funds. This has involved redeployment of officers as well as some additional charges relating to the overtime that has been incurred to get these funds out to local businesses as soon as possible. Those businesses not captured by this scheme have been able to apply to a discretionary fund to access much needed support.

3.3. Whilst the lockdown has largely been relaxed, social distancing and other measures to avert a recurrence of high infection rates still exist. Phoenix House is now open for officers to return to work, albeit recent announcements have meant that substantial proportions of working at home is likely to be required for many months ahead. Ensuring that Phoenix House is covid-safe has required extensive planning with one way systems being implemented internally and access to cleaning materials. There have been some adaptations to the building to accommodate this new traffic system. Elsewhere, the leisure centres have been reopening over 4 phases from 3 August, broadly being fitness studio and fitness classes, outdoor facilities, swimming pools and finally, all other facilities, the cafés and retail. The speed of this programme will be driven by how events evolve generally together with what is learnt along the way. This is new territory for us all.

3.4. These costs are summarised in the table below:

<b>Covid 19 Cost Pressures</b>	
	<b>Forecast (FY) £k</b>
PPE	33
IT including connectivity costs	21
Waste Services – vehicle hire and additional agency costs to support additional rounds	70
Revs & Bens – overtime costs	20
Leisure – reopening and social distancing costs	107
Public Health	10
Rough sleeping	33
Property services including Phoenix House works	33
<b>Total</b>	<b>327</b>

#### 4. Covid 19 - Income Losses (General Fund)

4.1. The greatest stresses to the general fund budget that was set before there was any knowledge of Covid 19 and its implications, relate to income streams arising from the delivery of our services. The table below set out the lost income incurred to date / projected for the year. Some of the income loss is immediate and irrecoverable e.g. car park income /closure of facilities such as the leisure centres, some is projected e.g. commercial rent. This is due to the fact that it has been invoiced but not yet paid and may be recovered once the economy starts to recover. It will only be an actual loss when a bad debt provision is made or it is written off. Therefore there is scope for the position to be better or worse than projected:

	Income Loss	
	Actual Apr - Jul £k	Forecast Full Year (FY) £k
<b>Fees &amp; Charges</b>		
Building Control Fees	11.3	40.0
Planning Fees	59.2	282.0
Land Search Fees	14.0	25.0
Car Parking Fees	209.6	466.5
Leisure Fees & Charges	931.0	1,935.0
Trade Waste Income	74.3	110.0
Licensing	6.6	34.0
Market Income	16.3	35.0
	<b>1,322.2</b>	<b>2,927.5</b>
Other Income	52.6	92.7
<b>Total</b>	<b>1,374.8</b>	<b>3,020.2</b>

4.2. Total income losses attributed to the lockdown and other ongoing pandemic factors to the end of July of £1,374k represent 45% of estimated losses for the year at £3,020k.

4.3. Building Control (FY loss £40k) – Mid Devon has a partnership arrangement with North Devon to manage building control. The expectation is for performance to remain flat for the rest of the year with income losses c17% of budget. The end of the furlough scheme is causing concern and uncertainty regarding the economic outlook. The assumption is that the demand for domestic construction work will remain strong with low demand for commercial projects and projects >£100K build cost.

4.4. Planning Fees (FY loss £282k) – There has been some recovery in July with the easing of lockdown however the bounce is expected to be short lived. There has been a distinct move to smaller, reduced value household applications rather than the larger commercial projects. The economic concerns persist together with the long term outlook for the sector and its ability to access borrowing. The projection is for income losses in the year of 35% of budget.

- 4.5. Land search charges (FY loss £25k) – Income reduced significantly in quarter 1 (46% of budget) due to the lockdown and the temporary halt to house sales. A good month in July is once again tempered by concerns of the longer term prospects for the housing market. Annual income losses are expected to be c21% of budget.
- 4.6. Car parking (FY loss £466.5k) - With an annual budget of £866k, this is an important revenue stream for MDDC. The quarter 1 / lockdown period saw revenues fall to c11% of budget. The Council have also implemented a free parking scheme which covers selected car parks in Crediton, Cullompton and Tiverton. The scheme which allows free parking for up to 2 hours during August and September will cost c£50k in lost income and was introduced as a direct action to assist with the reopening of town centres as per the government directive. The forecast is for car parking losses to recover to 54% of budget.
- 4.7. Leisure (FY loss £1,935k) – The 3 sports centres – Culm Valley, Exe Valley and Lords Meadow – closed during the lockdown period with income virtually eliminated. They reopened on 3 August but with reduced capacity for all activities. It is assumed that social distancing will remain in place during 2020/21, preventing a return to full capacity and so keeping income down. Local demand for leisure facilities remains unknown, so forecast income levels assume low demand initially before a partial recovery to levels achievable within the reduced capacity caused by social distancing measures. Some activities are unlikely to restart in the year including squash, birthday parties and saunas, with other activities being able to use the space. The sum loss of these activities is c£278k. Gym membership losses are expected to be c£676k over the year largely due to capacity issues arising from social distancing measures. Wetside losses are expected in the region of £648k. Losses across all leisure activities are expected to be 62% of annual income.
- 4.8. Trade Waste Income (FY loss £110k) – the majority of trade waste customers are billed twice a year in April and October. As the crisis developed it quickly became apparent that this would be a difficult time for local businesses. To assist, the 30 day cancellation period for trade waste contracts was waived and quarter 1 losses were in the region of 20%. Since then customers have slowly began returning and the forecast loss for the year is 14%.
- 4.9. Licencing – (FY loss £34k) – the loss for the year has been predicted at 25% of income.
- 4.10. Market income – (FY loss £35k) – in Q1 losses were unsurprisingly high at 96% of income due to a suspension of market tolls and a reduction in traders due to shielding. Since the end of lockdown there has been renewed interest amongst traders with several units being let which has seen expectations improve. Annual losses however, remain estimated at 42% of budget.
- 4.11. Other income (FY £92.7k) – this includes recycling income (£15k) which saw depressed prices during the lockdown as demand slumped;

private water sampling income (£27.8k); and Piper lifeline income (£5.8k) as installations have been halted since the lockdown.

## 5. Summary of Shortfall

5.1. Throughout the crisis the MHCLG have monitored local authorities with data collection requests (Delta returns) regarding cost pressures and income losses as described above. The request also looks at the impacts on the collection fund, the distribution of council tax hardship funding (MDDC received £475k at the beginning of April), and consideration is given to the resilience of cash flow over the coming months, together with the ability to fall back on reserves if necessary.

5.2. To make this process as relevant as possible, service managers have also reviewed their areas for budgetary pressures being faced but not relating to the pandemic:

	£k
Pay	117
Non pay	309
<b>Non Covid Budget Pressures</b>	<b>426</b>

For further details of the larger items contributing to the non Covid budget pressures please see Appendix A. One item that merits mention, not by itself large in value, but which heralds a new era as the Council embarks on its policy to be carbon neutral by 2030, is the creation of a Climate Coordinator post (£7.5k). Other measures to promote this policy include renewed efforts and further funding in respect of the Hydro Mills Electrical Project (however it is likely that expenditure on this project will not be incurred until 2021/22); expansion of the Carlu Close solar panel scheme and a greener procurement initiative. Many officers were forced into home working during the lockdown but have found it beneficial, both personally and professionally. Exploratory work is to follow to see how this learning is best retained into the future. The action list for this policy continues to grow. The Environment PDG considered the Climate Action Plan at its meeting in September whilst a new Energy Officer has been appointed to the HRA. The Council's housing stock of 3000+ dwellings represents the greatest portion of its carbon emissions. Work here, focusing on energy efficiency, will make a significant contribution to the reduction of its overall carbon footprint.

5.3. In summary therefore, the budget pressures are as follows:

	£k
Additional Expenditure	327
Income Losses	3,020
<b>Total Covid 19 Budget Pressures</b>	<b>3,347</b>
Non Covid 19 Budget Pressures	426
<b>All Budget Pressures</b>	<b>3,773</b>



Total Covid 19 budget pressures are therefore £3.3m. When the non Covid budget pressures of £0.4m are added to this, the total budget pressure rounds up to £3.8m. This represents 33% of the net budget of £11.5m.

## 6. Collection Fund

6.1. Mid Devon is a billing authority for council tax and NDR. A shortfall in their collection during the year impacts the finances of the Authority in a couple of ways:

- The immediate impact is a cash flow deficiency and any shortfall in collection fund receipts will have a disproportionate effect on the cash flow of the Council. As a collecting authority we collect on behalf of Devon County Council, Devon and Cornwall Police and Devon and Somerset Fire and Rescue Service, as well as the Council itself. The Council is committed to making precept payments to these bodies regardless of the amount that it actually receives. That is, from a short term cash flow perspective, MDDC must manage the full amount of the deficit in receipts for ndr and council tax. The table below indicates an expectation that across the collection fund as a whole, receipts will under-perform by £3,772k.

£k	Collectable	Forecast Collection	Deficit	Deficit %
NDR*	9,569	8,777	792	8.3%
Council Tax	59,497	56,517	2,980	5.0%
<b>Total</b>	<b>69,066</b>	<b>65,294</b>	<b>3,772</b>	<b>5.5%</b>
<ul style="list-style-type: none"> <li><i>After allowing for 100% relief granted to retail, hospitality and leisure sectors.</i></li> </ul>				

- The secondary impact is that on funding for budgetary purposes. Due to the mechanisms of collection fund accounting, the reduced amounts received in 2020/21 will actually flow into 2021/22 and impact the funding available in that year's budget. The shortfall in receipts is entered into a tool provided by CIPFA and this indicates what level of funding deficit should be carried forward into the following year.
- Based on the shortfalls in the table above, the funding deficits in 2021/22 would be:

	<b>£k</b>
NDR	739
Council Tax	304
<b>Total Collection Fund Deficit</b>	<b>1,043</b>

The causes of the shortfall in receipts leading to this funding deficit occur in 2020/212. To fully understand the in-year cost of Covid 19 therefore, it would be necessary to include them here. The mechanism would be to defer funds in the current year by way of an ear marked reserve which would compensate for the funding shortfall in 2021/22. If we do not, the risk is that next year will continue to suffer financial

impacts from Covid. Even if the current recovery continues, it is unlikely that revenues will be back to pre-pandemic levels by April 2021. If the recovery is thwarted by a re-emergence of the virus, fees and charges and collection fund receipts would be expected to slump.

- Once again, these can be added to the budget pressures to show the total effect of the pandemic in 2020/21:

	£k
Covid 19 Budget Pressures	3,347
Collection Fund Deficit	1,043
<b>Total 2020/21 Covid 19 Funding Deficit</b>	<b>4,390</b>
Non Covid 19 Budget Pressures	426
<b>TOTAL BUDGET DEFICIT</b>	<b>4,816</b>

Total pandemic funding losses are therefore £4.4m. When additional non Covid pressures are included the total budget deficit in the year will be £4.8m which, similar to the before, represents 42% of the net budget of £11.5m.

- 6.2. The detrimental effects of the pandemic containment measures on the economy are now clear. As income streams and cash reserves are cut, the very survival of some companies is at risk, with many cutting jobs to manage the crisis. Certain sectors are affected more than others and in response to this the government have implemented a scheme granting 100% relief from ndr for all retail, hospitality and leisure businesses throughout 2020/21. The Council will instead receive these monies by means of an s31 claim from government in year (£7.33m).
- 6.3. The table above shows that after allowing for this scheme, and a budgeted collection rate of 98%, collectable ndr in 2020/21 is £9.6m, whilst £792k is expected to go uncollected being a default rate of 8.3%.
- 6.4. If the economy suffers it is inevitable that household incomes will be stretched ever further impacting their ability to pay council tax. As redundancies mount, and more applicants chase fewer vacancies, not forgetting the imminent close of the furlough scheme, it is likely that the situation will worsen before it starts to improve. With so much uncertainty forecasts are at the mercy of events. However, the best current estimate is that of the £59.5m that is collectible after allowing for the budgeted collection rate of 98%, defaults will reach c£3m or 5%.

## 7. Addressing the Shortfall

7.1. The remedy for addressing this shortfall will include a mix of approaches.

	£k	£k	£k
Additional Income			267
Pay Savings			491
Non Pay Savings			332
<b>Total Direct Savings (Appendix B)</b>			<b>1,090</b>
<b>Other savings</b>			
Statutory Adjustments		104	
Interest Payable on Other Activities		290	
Interest Receivable on Investments		155	
Government Grants:			
Covid 18 Grants	994		
Job Retention Scheme	323		
		1,317	
<b>Total Other Savings</b>			<b>1,866</b>
<b>TOTAL SAVINGS</b>			<b>2,956</b>
<b>TOTAL BUDGET DEFICIT</b>			<b>4,816</b>
<b>OUTSTANDING BUDGET DEFICIT AFTER SAVINGS</b>			<b>1,860</b>

7.2. Income gains – With so many people restricted to their homes over the spring period, it is not surprising that many took the opportunity to tend their gardens. The additional waste created a £25k over-performance for garden waste collection. Of the remainder £236k relates to Revenues and Benefits and of this £170k is a new burdens grant relating to the administration of the business grant schemes detailed above. Revs and Bens have also benefitted from other grant surpluses and another new burdens grant in respect of housing benefit initiatives delivered within the existing resource (total - £66k).

7.3. Pay savings - generally this relates to vacancy management (posts being held vacant) with service managers coping in the short term with less resource to deliver their services. In some cases this may be made possible as the pandemic has forced lower demand as reflected in the losses to income streams.

7.4. Non pay savings – notable savings include £38k being a 1 year saving on GESP maintenance being a fallow year and £20k consultancy saving in General Fund Housing. Trade waste have made savings due to the reduction in trade totalling £80k. The reduced volumes have led to lower disposal charges and the fall in fuel prices over the lockdown period also boosted savings. Scrutiny of the budget has also identified a provision of £131k made for the potential further impairment of the working capital loan made to 3 Rivers Developments Limited. Provision was made in the 2019/20 financial

statements on the basis of IFRS 9 and no further impairment is currently expected to be made.

7.5. Other savings – the next 3 items relate substantially to 3 Rivers. 3 Rivers Development Limited being the 100% subsidiary of the Council, were unable to continue on site construction over the lockdown period and the return to work since then has varied from site to site. There is also a well-publicised ongoing review of the company during which the commencement of new projects has been prohibited. This has all contributed to the construction programme being pushed back and it will not now fully restart until later in the year. The intended programme was to be financed by loans from Mid Devon. The funding for the loans was embedded into the Council’s treasury strategy with initial drawdowns to be funded internally whilst reserves allowed, before borrowing from the market, in all likelihood the PWLB, later in the year. With the restriction of the building programme, 3 Rivers has a reduced borrowing requirement, which in turn means that so does MDDC. With reduced borrowing from the PWLB, the projected “Interest Payable on Other Activities” is reduced by £290k.

7.6. The reduction in borrowing has further reduced the Minimum Revenue Provision or MRP. This reflects in the “Statutory Adjustments” line being a saving of £104k.

7.7. There is also a benefit as “Interest Receivable on Investments” is expected to exceed budget by £155k. This derives from a prudent budgeting approach to interest income receivable from loans made to 3 Rivers. Even during more “normal” periods the drawdown rate against loan facilities by the company is difficult to predict. The risk is that overstating interest income in the budget could mean funds needing to be found from elsewhere. To mitigate this risk, interest receivable is budgeted at cost whilst the actual amounts received are at the higher rates as per the loan agreements, resulting in a budget surplus. This budget surplus totals £200k and is offset by £45k pressure as interest rates on treasury investments has fallen against budget expectations.

7.8. Government Grants – to date the government has supported local authorities with a Covid 19 grant that has been paid over in 3 tranches: £39k in March, £825k in May and £130k in August – total £994k. All local authorities have suffered financially as a result of the crisis and these funds provide some immediate relief against the budgeting concerns that are being felt. There are no criteria attached to the grants which may be applied as best seen fit.

7.9. Government also implemented the Job Retention Scheme or furlough. This covered employee costs at 80% of salary up to £2500 per month, national insurance costs plus pension costs up to 3% from the start of April. From 1 August the claim was reduced to salary only, with the salary portion claimable dropping to 70% and 60% in September and October respectively. The table below shows how MDDC have claimed under this scheme.

£k	April	May	June	July	Total
Leisure	53	90	81	61	<b>295</b>
Other	19	5	11	3	<b>38</b>
<b>Total</b>	<b>72</b>	<b>95</b>	<b>92</b>	<b>64</b>	<b>323</b>

The majority of the claim clearly relates to leisure staff and with the leisure centres' phased reopening from 3 August, any further claims under the scheme will be minimal.

## 8. Balancing the Budget

8.1. The outstanding budget deficit after savings equates to £1.9m. This is before accounting for the income compensation scheme.

8.2. In a press release on 2 July the MHCLG announced the scheme to protect Councils from lost income: "All relevant" losses over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound."

8.3. The 5% deductible allows for an acceptable level of volatility whilst the marginal rate of 75% is to encourage Councils to still manage and minimise losses as much as they can.

8.4. The scheme guidelines specifically exclude commercial and residential rents and investment income. It does extend for the whole of this financial year and losses should be measured against budget.

8.5. Based upon the losses forecast in section 4, and after applying these guidelines, the income protection scheme would be expected to return £1.6m to this Authority.

	£k
Budget Deficit After Savings	1,860
Income Protection Guarantee	1,608
<b>Budget Deficit After Savings and Income Protection Guarantee</b>	<b>252</b>

The budget deficit then remaining, after allowing for savings and Income Compensation Scheme receipts, would be £252k. It is recommended that this should be funded by a combination of:

- Ongoing vacancy management;
- Contributions from reprioritising ear marked reserves;
- Transfer from the general fund balance;
- Some slippage in the capital programme or planned revenue maintenance spend in 2020/21.

Note – due to all the unknowns/volatilities the Council may find itself needing to utilise more or less of the above.

8.6. At 31 March 2020 the balance on reserves was: general fund £2,252k and general fund ear marked reserves £13,688k. The general fund reserve is under pinned by the Council's policy, approved in Cabinet meeting in January 2020, to retain the general fund reserve in excess of £2m. The ear marked reserves meanwhile have each been built up over time to prudently provide for the maintenance of services to our residents. These reserves also provide

a financial buffer to weather any kind of temporary or medium term storm associated with changes to the Fair Funding review, business rate review and changes to NHB. Whilst Covid 19 dominates in the present, each of these challenges, along with the end of the Brexit transition period, await us in the future.

## 9. Housing Revenue Account (HRA)

9.1. HRA rental income has so far proved resilient in the face of the Covid 19 challenge. In Delta returns and monitoring reports some provision has been made with a full year deficit attributable to the pandemic estimated at £344k. The HRA will encounter the same economic challenges as the other funds. With job losses already mounting and the end of furlough looming, along with Brexit and what will be a rocky economic road for the foreseeable future, this provision is made to reflect the uncertainties that lie ahead. Time will tell us whether it is enough. Similarly an under performance of £120k in commercial rental incomes is being provided to recognise the potential for loss but without knowing its sufficiency.

9.2. Total predicted losses are therefore £464k. The focus of this report, however, is the general fund where it is clear the deficit is much larger and the funding challenge is greater and more complex.

9.3. This is not a frivolous approach. All losses are regrettable. The HRA deficit will be offset to some extent by vacancy management. Moreover, due to its sound financial management the HRA benefits from significant ear marked reserves which are statutorily ring fenced (£18.3m at 31 March 2020). Within this is the Housing Maintenance Reserve which, also at the end of March this year, stood at £14.2m. In the absence of alternative recourse, the final deficit for the year will be funded from this reserve.

## 10. Cash flow

10.1. The significant challenges from Covid 19 to cash flow have been detailed above. In summary, those relating to 19/20 are:

	<b>Inflows £k</b>	<b>Outflows £k</b>	<b>All Flows £k</b>
<b>Inflows</b>			
Covid 19 Income Losses		(3,020)	(3,020)
Collection Fund losses		(3,772)	(3,772)
Additional Income		267	267
Interest Receivable		155	155
Government Grants (Covid 19 & Furlough)		1,317	1,317
<b>Outflows</b>			
Covid 19 Cost Pressures	(327)		(327)
Other Cost Pressures	(426)		(426)
Other Cost	692		692
Interest Payable	290		290
<b>Total</b>	<b>229</b>	<b>(5,053)</b>	<b>(4,824)</b>

10.2. The indication is that cash flow will under-perform by £4.8m. Once again, this does not take an account of the Income Guarantee Protection as not only are the computational details of the scheme yet to be announced, but also the payment schedule is unknown. Assuming however, scenario “C” above, and that it is also paid in year, the cash flow deficit reduces by £1.2m to £3.6m.

10.3. For this purpose, the collection fund deficit attributable to Mid Devon (£621k) is replaced with £3,772k reduction in the amounts expected to be collected in the year. As detailed above, this Authority seeks to fulfil its commitments to its precepting authorities. That means shouldering the cash flow burden by maintaining payments out even though receipts in are reduced.

10.4. How will Mid Devon cope with a £4.8m/£3.6m cash deficit?

- Section 7.5 above details how the sound and prudent financial management of this Council over recent years has led to the accumulation of reserves for the maintenance of services and resilience in times of financial stress. These partially reflect in the short term investments of £20m which the Council held at the beginning of the crisis (31 March balance sheet value as per the financial statements). Generally, the difference between general fund accounting and cash flow accounting is timing difference. In the short term the cash flow is able to “borrow” from those monies held which represent the Council’s reserves (general fund and HRA).
- There is a similar effect within the Collection Fund. The inflow deficit this year of £3.8m will result in reduced precept payments in future years. As has been shown, the Council must still fund its own shortfall of £621k.
- Some leeway has been granted by the government regarding how quickly the 2020/21 collection fund deficit should be absorbed into future funding. As we have said, generally it is absorbed in the following year. With enlarged deficits expected in 2020/21 due to the pandemic the government have allowed for this year’s deficit to be spread over the following 3 years. This is a voluntary dispensation. It will ease the funding burden but extend the cash flow burden as the reduced payments to preceptors would be divided over the longer period.
- Further cash flow advantage arises from the capital programme. Due to the complexity of projects, this programme can fall behind its schedule. This effect is amplified by Covid 19 with the project progress slowing or even halted as operations are interrupted. In particular, we have seen this in respect of 3 Rivers and it leads to a postponement of payments to suppliers for the duration of the delay.

## 11. Capital Programme

11.1. The capital programme is summarised in the table below:

£m	Approved Capital Programme 2020/21	Brought Forward	Budgeted Capital Programme 2020/21	Forecast (Under) / Overspend 2020/21	Forecast Slippage to 2021/22	Deliverable Programme 2020/21
General Fund	22.0	7.5	29.5	(0.1)	18.3	11.1
HRA	5.2	2.2	7.4	(0.3)	3.7	3.4
<b>Total</b>	<b>27.2</b>	<b>9.7</b>	<b>36.9</b>	<b>(0.4)</b>	<b>22.0</b>	<b>14.5</b>

11.2. This shows the slippage referred to in section 9.4 above, although not all of this will be a result of Covid 19.

11.3. The extent to which capital is funded from the general fund is limited (£138k). As such, it can make very little contribution to resolving the general fund budget gap.

11.4. A couple of projects of note:

- The Hydro Mills Electricity Project currently slipped to 2021/22, will be amended as part of the Medium Term Financial Plan to go to Cabinet in October.
- The Heritage Action Zone (HAZ) project (Cullompton) planned spend in 20/21 amounts to £270k. This project will span 20-21 to 23-24 with a total cost of £2.3m. The years 21/22 to 23/24 being picked up on the MTFP as above.

## 12. Medium Term Financial Plan

12.1. The MTFP that was presented to Cabinet in October 2019 is summarised below:

£m	19/20	20/21	21/22	22/23	23/23
Budget Requirement	10.2	12.0	12.6	12.1	12.4
Funding	10.2	11.6	10.8	10.9	11.0
Gap	-	0.4	1.8	1.2	1.4
Annual Gap Variance		0.4	1.4	(0.6)	0.2

This indicates a funding challenge in 21/22 over 20/21 of £1.4m.

12.2. In this report the financial implications of the Covid 19 measures have been reviewed for 2020/21. This short term review indicates substantial unknowns hiding the potential for significant volatility. The optimistic outlook is for a steady recovery in the months/years ahead. Even if this manifests, the income losses are expected to extend in to next year and economic events may worsen and prolong the recovery period.

12.3. The budget process for 2021/22 is underway. Many challenges lie ahead. Starting from a position with a £1.4m funding challenge in an



environment of losses and uncertainty will require innovative and open thinking to achieve a balanced budget for the years ahead.

### 13. Conclusion

- 13.1. It is clear that the financial impacts of Covid 19 are severe with general fund budget pressures totalling £4.4m or 38% of a net budget of £11.5m.
- 13.2. This may be funded by savings and relief from government grants of £3.0m leaving a £1.4m gap.
- 13.3. A great deal of reliance is being placed upon the government's Income Protection Guarantee to plug this gap. It is imperative that local authorities have the detail of this scheme as soon as possible so that we might evaluate any residual position. In the scenario adopted in this paper, the scheme delivers £1.2m leaving a budgetary imbalance of negative £0.2m. The Council has a menu of options with which to manage this (section 7.4).
- 13.4. Appendix C compares current and revised budgets showing the impact by service line and the imbalance assuming scenario "C."
- 13.5. Impact on the HRA and capital programme is of less immediate concern.
- 13.6. Cash flow is resilient thanks to the prudent level of reserves built up by this Council. The timing effect of many impacts will balance out over time. It is extremely important to maintain reserve levels as many challenges await us in the future; not least, the impacts of the virus can be expected to extend beyond the current year.
- 13.7. Woven throughout this report is the caveat of uncertainty arising from the uniqueness of this situation and the difficulties of forecasting without historical data. This is exacerbated by the inherent volatility, such that predicting future events relies on assumptions that may prove to be flawed. As such it is imperative that this Council continues to monitor its financial position closely and maintains a response that is both flexible and swift.

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#### **Circulation of the Report:**

Cabinet Member seen and approved – Cllr Andrew Moore - TBC

Leadership Team seen and approved – 22 Sep 2020

## Appendix A Non Covid Budget Pressures

Service Area	Pressure Description	Periods				
		1-4	5-6	7-9	10-12	1-12
Waste Services	Agency costs	10,000	-	-	-	10,000
Finance And Performance	Agency overspend - Temp GM for Finance	16,820	26,640	13,320	-	56,780
Finance And Performance	Overspend on overtime Salaries - net overspend from moving market manager salary 100% to	4,150	-	-	-	4,150
Community Development: Markets	markets (50% previously paid from Economy & Dev) and 6 mth delay in recruitment of vacant post	-	-	3,900	3,900	7,800
Planning And Regeneration	Change to FTE from 0.5FTE and delay in recruitment for 5 mths - Principal Housing Enabling & Forward Planning Officer FTE 2 Yr Fixed Contract	-	750	5,625	5,625	4,650
Planning And Regeneration	PD09 Planning Support Officer moved from PR110 and additional hours taken from PD10 Validation Technician	7,350	750	5,625	5,625	4,650
Legal & Democratic Services	Legal Services - Changes to staffing	7,200	3,575	5,363	5,363	21,500
Corporate Management	Climate Coordinator post (possible fixed term contract) - start Jan 21	-	-	-	7,500	7,500
	<b>PAY TOTAL</b>	<b>27,270</b>	<b>32,925</b>	<b>31,148</b>	<b>25,338</b>	<b>116,680</b>
Corporate Management	Bank charges	4,933	2,467	3,700	3,700	14,800
Waste Services	Delay in recruiting shared Transport Manager with ECC	6,668	3,332	-	-	10,000
IT Services	Delay in telecoms project. Maintenance costs	3,510	1,755	2,633	2,633	10,530
Revenues And Benefits	Forecast under recovery of Single Occupancy Discount Penalties	3,750	11,250	-	-	15,000
Revenues And Benefits	Forecast under recovery of Court Costs for C/Tax & NNDR - Issuing 'soft' reminders No Courts booked in 20/21	18,780	31,220	-	-	50,000
Revenues And Benefits	HB Subsidy & Overpayment recovery	22,780	9,300	13,950	13,970	60,000
Property Services	Reduction in rental income on Fore Street flats due to postponed Tiverton Regeneration Project	5,500	1,375	2,063	4,125	11,000
Planning And Regeneration	Development Management - supplies & services overspend on defending appeals, consultancy and advertising fees	-	22,000	22,000	-	44,000
Legal & Democratic Services	Legal Services - 3 Rivers Reports	12,500	2,500	3,750	3,750	22,500
Legal & Democratic Services	Electoral Services - Reduction in IER funding	-	-	-	-	17,000
Finance And Performance	Upgrade of E-Financials (current version un-supported)	-	-	-	44,000	44,000
Property Services	Budget overspend on the Cleaning contract	-	2,500	3,750	3,750	10,000
	<b>NON PAY TOTAL</b>	<b>78,421</b>	<b>87,699</b>	<b>51,845</b>	<b>75,928</b>	<b>308,830</b>

## Appendix B Direct Savings

Service Area	Savings Description	Periods				
		1-4	5-6	7-9	10-12	1-12
Waste Services	Garden Waste Income	-	-	-	-	-
Community Development	Community Development Grants - saving from claim no longer being made	23,347	1,653	-	-	25,000
Revenues And Benefits	NNDR New Burdens Grant for Grant administration	-	-	-	-	-
Revenues And Benefits	Various New Burdens grants from DWP in respect of Housing Benefits initiatives delivered within existing resource	3,000	-	3,000	-	6,000
Revenues And Benefits	Additional HB admin Grant than Budgeted	170,000	-	-	-	170,000
Revenues And Benefits	Additional CTB admin Grant than Budgeted	-	-	-	-	-
	<b>ADDITIONAL INCOME TOTAL</b>	<b>252,397</b>	<b>11,923</b>	<b>3,000</b>	<b>-</b>	<b>267,320</b>
Corporate Management	Andrew Pritchard pay not used in CMT uplift	-	-	-	-	-
Grounds Maintenance	Posts not in super, backfill for Operations Manager 0.80fte	6,667	3,333	5,000	5,000	20,000
Grounds Maintenance	Delay in recruiting vacant Grounds Maintenance Operative posts	-	-	-	-	-
Grounds Maintenance	Vacant Grounds Maintenance apprentice post - full year	-	2,500	3,750	3,750	10,000
Grounds Maintenance	Agency - less seasonal cover due to the pandemic	13,780	-	-	-	13,780
Waste Services	Street Cleansing Op - 0.40fte offset by recharge to HRA. Vacant driver post - using agency until service review	-	-	-	-	-
Waste Services	Delay in recruiting posts - Drivers and Loaders	3,073	1,537	2,305	2,305	9,220
Environmental Services incl. Licensing	Vacant part-time Public Health Officer	-	-	-	-	-
Environmental Services incl. Licensing	Vacant DO post within Environ Enforcement (recruitment Aug)	3,100	3,266	1,634	-	8,000
IT Services	Gazetteer Officer post on lower grade than budgeted	-	-	-	-	-
Recreation And Sport	Vacancies & reduction in casual claims for July	3,200	5,200	7,800	7,800	24,000
Recreation And Sport	Vacancies & reduction in casual claims in Q1	-	-	-	-	-
Finance And Performance	Vacant GM for Finance	15,000	-	-	-	15,000
Finance And Performance	Other salary savings within Finance (Pension, reduced hours, SCP)	4,930	2,460	3,690	3,690	14,770
Finance And Performance	Sickness & vacant post of Procurement & Contracts Officer	-	-	-	-	-
General Fund Housing	Salary savings - further delay recruitment for 0.65FTE Housing Options Officer hours	8,000	-	-	-	8,000
General Fund Housing	Salary savings - delay in recruitment for an Housing Options Officer	-	-	-	-	-
		20,089	10,040	5,020	-	35,149
		5,300	2,660	3,210	3,210	14,380
		7,830	5,080	-	-	12,910
		-	-	6,000	6,000	12,000
		8,000	2,500	-	-	10,500

General Fund Housing	Salary savings - full year apprentice vacancy	-	-	-	-	-
		3,000	1,500	2,250	2,250	9,000
Property Services	Vacant 22.2 hours of Open Space Manager for 7 month (Sept - Mar)	-	1,920	5,760	5,720	13,400
Planning And Regeneration	Forward Planning - savings from a further 7 mths delay in recruiting for the Affordable Housing Officer	-	3,750	11,250	11,250	26,250
Planning And Regeneration	Removal of PF02 Graphic Designer post	-	-	-	-	-
		6,500	3,250	4,875	4,875	19,500
Planning And Regeneration	Economic Development - savings from delay in recruiting Market Manager and once recruited moving costs 100% to CD300	-	-	-	-	-
		4,800	2,400	5,901	5,899	19,000
Planning And Regeneration	Enforcement - savings on salaries role moved to Development Management	-	-	-	-	-
		5,500	3,000	4,500	4,500	17,500
Planning And Regeneration	PD10 Validation Technician - 25HRS VACANT-delayed recruitment	-	-	-	-	-
		8,200	4,050	-	-	12,250
Planning And Regeneration	Other minor salary variances	-	-	-	-	-
		6,200	1,493	2,239	2,239	12,170
Planning And Regeneration	Apprentice Vacant Post - full year saving	-	-	-	-	-
		3,100	1,525	2,288	2,288	9,200
Planning And Regeneration	Economic Development - savings from delay in recruiting for CD07 Growth & Regen Officer	-	-	-	-	-
		6,600	2,400	-	-	9,000
Planning And Regeneration	Delay in appointment of PF05 Monitoring & Information Officer	-	-	-	-	-
		7,550	-	-	-	7,550
Planning And Regeneration	Building Control - savings from furloughing staff due reduced work levels as a result of COVID19	-	-	-	-	-
		5,000	-	-	-	5,000
Planning And Regeneration	Reduction in hours temporarily for PF04 Principal Forward Planning Officer	-	-	-	-	-
		4,600	-	-	-	4,600
Planning And Regeneration	PD03-2 Area Team Leader, delay in recruitment and increased to FTE	-	-	-	-	-
		-	2,580	-	-	2,580
Customer Services	Salary savings - delay in recruiting for vacant posts	-	-	-	-	-
		8,000	1,000	1,500	1,500	12,000
Human Resources	Vacant HR Business Partner (until Qtr 4)	-	-	-	-	-
		18,600	9,200	13,800	-	41,600
Human Resources	Part-time vacant Apprentice	-	-	-	-	-
		3,200	1,600	2,400	-	7,200
	<b>PAY SAVINGS TOTAL</b>	<b>240,319</b>	<b>79,494</b>	<b>97,046</b>	<b>74,150</b>	<b>491,009</b>
Corporate Management	Impairment allowance	-	-	-	-	-
		43,750	21,875	32,813	32,813	131,250
Grounds Maintenance	Town Councils are now paying for plants and shrubs	-	-	-	-	-
		4,000	2,000	3,000	3,000	12,000
Grounds Maintenance	Plant maintenance and fuel	-	-	-	-	-
		7,000	-	-	-	7,000
Waste Services	Fuel savings not as much as originally forecast	-	-	-	-	-
		2,000	2,000	3,000	3,000	10,000
Waste Services	Trade Waste - disposal charges are down due to less customers	-	-	-	-	-
		50,000	-	-	-	50,000
Waste Services	Fuel savings	-	-	-	-	-
		16,400	5,900	8,850	8,850	40,000
Recreation And Sport	Change in operating costs due to Covid-19 - additional to Q1	-	-	-	-	-
		600	1,575	2,363	2,363	5,700
Recreation And Sport	Savings against advertising budget - no promotions whilst leisure centres not accepting new members	-	-	-	-	-
		11,000	-	-	-	11,000
Recreation And Sport	Savings from going cashless	-	-	-	-	-
		1,900	900	1,350	1,350	5,500
Recreation And Sport	Change in operating costs due to Covid-19	-	-	-	-	-
		14,500	3,000	4,500	4,500	2,500

General Fund		-	-	-	-	-
Housing	Consultancy saving	10,000	2,500	3,750	3,750	20,000
Community Development: Markets	Supplies & services - further £1k savings to be offered up by deferment of special events in 20/21	-	-	-	-	-
		3,000	300	-	-	3,300
Community Development: Markets	Supplies & services - further savings from reduced advertising and special events	-	-	-	-	-
		-	1,000	-	-	1,000
Planning And Regeneration	Statutory Plan - 1 year saving on GESP membership as a fallow year	-	-	-	-	-
		12,500	6,250	9,375	9,375	37,500
Legal & Democratic Services	Member Services - savings against Member allowances, mileage, internet access payments & training	-	-	-	-	-
		6,500	2,000	3,000	3,000	14,500
		-	-	-	-	-
	<b>TOTAL NON PAY SAVINGS</b>	<b>177,950</b>	<b>39,300</b>	<b>57,000</b>	<b>57,000</b>	<b>331,250</b>

## Appendix C Budget Bridge

General Fund Summary	Current Budget	Budget Bridge	Emergency Budget
	£	£	£
<b>Cllr Bob Deed</b>			
Corporate Management	1,648,161	(128,950)	1,519,211
<b>Cllr Colin Slade</b>			
Grounds Maintenance	567,810	(55,000)	512,810
Cemeteries & Bereavement Services	(85,300)		(85,300)
Waste Services	1,714,920	71,000	1,785,920
<b>Cllr Dennis Knowles</b>			
Community Development	77,650	(6,000)	71,650
Environmental Services incl. Licensing	815,740	21,230	836,970
IT Services	994,650	23,530	1,018,180
Land charges	(19,200)	25,000	5,800
Public Health	(8,850)	29,750	20,900
Open Spaces	126,120		126,120
Recreation And Sport	434,750	1,969,100	2,403,850
<b>Cllr Andrew Moore</b>			
Finance And Performance	744,000	42,491	786,491
Revenues And Benefits	499,200	(91,320)	407,880
Car Parks	(632,962)	491,490	(141,472)
<b>Cllr Bob Evans</b>			
Private Sector Housing	(11,640)	12,150	510
General Fund Housing	315,520	(12,550)	302,970
Property Services	1,008,800	69,477	1,078,277
<b>Cllr Richard Chesterton</b>			
Community Development: Markets	60,640	38,500	99,140
Planning And Regeneration	1,259,750	215,050	1,474,800
<b>Cllr Mrs Nikki Woollatt</b>			
Customer Services	740,285	(12,000)	728,285
Human Resources	513,490	(48,800)	464,690
Legal & Democratic Services	1,052,350	29,300	1,081,650
<b>All General Fund Services</b>	<b>11,815,884</b>	<b>2,683,448</b>	<b>14,499,333</b>
Net recharge to HRA	(1,481,630)		(1,481,630)
Statutory Adjustments (Capital charges)	1,052,154	(103,628)	948,526
<b>Net Cost of Services</b>	<b>11,386,408</b>	<b>2,579,820</b>	<b>13,966,229</b>
Finance Lease Interest Payable	48,340		48,340
Interest from Funding provided for HRA	(49,000)		(49,000)

Interest Payable on Other Activities	439,878	(290,000)	149,878
Interest Receivable on Investments	(568,322)	(155,000)	(723,322)
Transfers into Earmarked Reserves	2,597,050		2,597,050
Transfers from Earmarked Reserves	(1,369,370)	(38,976)	(1,408,346)
Contribution from New Homes Bonus Reserve	(960,540)		(960,540)
<b>Total Budgeted Expenditure</b>	<b>11,524,444</b>	<b>2,095,844</b>	<b>13,620,289</b>
Revenue Support Grant			
Rural Services Delivery Grant	(466,700)		(466,700)
Covid19 Non Ring fenced Grant **		(2,886,509)	(2,886,509)
New Homes Bonus Grant	(1,418,190)		(1,418,190)
Retained Business Rates	(3,312,727)		(3,312,727)
Business Rates Deficit (20-21)		738,767	738,767
Business Rates Benefit from Devon Pool	(150,000)		(150,000)
CTS Funding Parishes			
Collection Fund Surplus (19-20)	(112,000)		(112,000)
Council Tax	(6,064,827)		(6,064,827)
Council Tax Deficit (20-21)		303,653	303,653
<b>Total Budgeted Funding</b>	<b>(11,524,444)</b>	<b>(1,844,089)</b>	<b>(13,368,533)</b>
<b>Forecast in year (Surplus) / Deficit</b>	<b>0</b>	<b>251,756</b>	<b>251,756</b>
General Fund Reserve			(2,250,987)
<b>Forecast General Fund Balance 31/03/2021</b>			<b>(1,999,231)</b>
<b>**Covid 19 Non Ring fenced Grant includes Income Compensation Scheme receipts of - £1,608k.</b>			