Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

14 SEPTEMBER 2018

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.3 FINANCIAL PERFORMANCE REPORT – IN-YEAR PERFORMANCE AGAINST THE BUDGET AT END OF JULY 2018 AND LONG TERM FINANCIAL FORECAST UPDATE

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide an overview of the Council's financial position against the budget as at the end of July 2018 and to present an updated forecast on an on-going basis as part of developing the budget for 2019/20 and beyond.

EXECUTIVE SUMMARY

- In a significant change from previous years, this report aims to present the overall financial position of the Council by bringing together information that was previously reported within corporate budget monitoring reports and performance monitoring reports along with timely updates on the development of the long term forecast and budget for 2019/20 and beyond.

- The above approach follows the commitment to provide regular updates on the long term financial forecast as agreed as part of the move to a long term financial sustainability plan last year and to bring the reporting of key financial performance together in one report.

- The report is therefore split over two distinct sections as follows:

  1) The Council's in-year financial position against the budget at the end of July 2018

  2) An updated long term financial forecast and estimated position for 2019/20.

In respect of the in-year financial position at the end of July 2018:

- The Council's financial position against the approved budget has been prepared for the period to the end of July 2018. Given the timing of the report, the reporting period was extended beyond the first quarter to include July to provide the most up to date position.

- In respect of the position at the end of July 2018, it is relatively early in the financial year and therefore some expenditure or income trends may still be emerging. However any significant issues arising to date have been highlighted and comments provided as necessary.

- The position to the end of July 2018, as set out in more detail in the Executive Summary attached, shows that overall the General Fund Revenue position is behind the profiled budget by **£2.143m.** As has been the case in previous years, the variance at the end of the first period of the year primarily reflects the timing of expenditure and income although as previously mentioned, underlying trends are likely to emerge or be confirmed over the next quarter.

- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, apart from additional details set out later on in this report, there are no major issues that have been identified to date.

- Any emerging issues will be monitored and updates provided in future reports which will include their consideration as part of updated financial forecast.

- In a further change from last year, it is proposed to respond to in-year budget pressures and other changes as they emerge rather than wait until the detailed estimates are prepared in December / January of each year as part of the annual revised budget process. This will not only provide a more up to date budget monitoring process over the course of the year, but it will also 'unbolt' the revised budget process from the work associated with developing the subsequent years forecast which in turn will allow a greater level of focus on these two separate strands of work. However, both strands of work will be brought together when the budget is reported to Council in February each year.

- With the above in mind, **Appendix H** has been added, which sets out a number of changes to in-year budgets with an associated recommendation also included within this report.

- **Appendix H** also provides for the continuation of the 'banking' of savings as they arise, which will be contributed to the Forecast Risk Fund as required to support the long term forecast. The long term forecast relies upon **£0.500m** of in-year outturn savings being set aside over the course of the whole year within the Forecast Risk Fund to support the long term plan.

- As set out later on in this report it is proposed to delegate changes to in-year employee budgets to the Chief Finance Officer to ensure the budget reflects the most up to date position as internal reorganisations are agreed by the Chief Executive.

- As also discussed later on in this report, it is proposed to delegate to the Finance and Corporate Resources Portfolio the decision on whether or not to continue as a member of the Essex Business Rates Pool along with supporting a bid for Business Rate Pilot status if it was advantageous for the Council.

In respect of the updated long term financial forecast:

- The forecast has been reviewed and updated from 2019/20 onwards. The required changes do not expose the Council to any additional risk and although the annual deficit or surplus position for each year of the forecast has been amended, they can still be accommodated within the overall projected financial position supported by an increased Forecast Risk Fund.

- A review of risks associated with the long term approach to the forecast has also been undertaken with the outcomes separately reported within **Appendix J.**

- As mentioned last year, it is important to continue to deliver against the new longer term approach to the budget as it continues to provide a credible alternative to the more traditional short term approach which would require significant savings to be identified over 2019/20 and 2020/21.

- Work remains on-going across the 5 key work strands of:

  1) Increases to underlying income
  2) Controlling expenditure / inflationary increases
  3) The identification of savings / efficiencies
  4) Delivery a positive outturn position each year
  5) The mitigation of cost pressures wherever possible.

As highlighted above, this is the first time that a complete financial position for the Council has been brought together within one report. It is proposed to continue to report on this basis to cover:

- The in-year position against the budget along with updating the in-year budget on an on-going basis to react to issues that emerge over the course of the year that replaces the previous annual revised budget approach.

- An updated long term financial forecast on a 'live' basis.

- Key financial performance in areas such as the delivery of the on-going savings required within the forecast along with the forecast risk fund balance that supports the new long term approach.

It is also important to highlight that members will still receive all of the financial information previously reported over the course of the year, albeit in a different format.

RECOMMENDATION(S)

That in respect of the financial performance against the budget at the end of July 2018, it is recommended that:

(a) The position be noted;

(b) the proposed in-year adjustments to the budget as set out in Appendix H be agreed;

(c) future amendments to in-year employee budgets to reflect organisational changes be delegated to the Chief Finance Officer on the basis that they do not increase the Council's overall net budget; and

(d) the decision to continue to be a member of the Essex Business Rates Pool and associated bid for pilot status in 2019/20 be delegated to the Finance and Corporate Resources Portfolio Holder if advantageous to the Council.

That in respect of the Updated Long Term Forecast, it is recommended that:

(a) The updated forecast be agreed; and

(b) the Resources and Service Overview and Scrutiny Committee are consulted on the updated position.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability and awareness plays a key role in delivering the Council's corporate and community aims and priorities.

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the long term approach being taken seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are considered in the body of the report.

Risk

In respect of the position at the end of July 2018, a number of variances will be subject to change as the year progresses although at this stage it is expected that any adverse position can be managed within the overall budgets. The budget position will be monitored and reviewed as part of both the future budget monitoring arrangements and Financial Strategy Processes.

In respect of the long term forecast, there are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

However the forecast is based on relatively conservative estimates with no optimistic bias included. **Appendix J** has been included which discusses the various risks to the forecast with a Red / Amber/ Greed risk assessment approach taken.

As discussed last year, another potentially more important action to manage and mitigate risk is the Council's ability to financially underwrite the forecast. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, there are two important aspects to how this will be managed.

1) Along with additional contributions included within the outturn position for 2017/18, **£1.934m** has already been set aside within the Forecast Risk Fund to support the budget in future years. This is significantly more than the estimated position from last year and excludes the additional contribution of **£0.717m** to fund initiatives aimed at supporting the long term forecast, which is also being held in the reserve. This money is available to be drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year.

2) The forecast will remain 'live' and be responsive to changing circumstances and it will be revised on an on-going basis. If unfavourable issues arise that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will, therefore, need to be considered but can be taken over a longer time period where possible. In such circumstance the Council may need to consider 'topping' up the funding mentioned in 1) above if required in the early years of the forecast. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten year forecast and supports the thinking behind the new approach of protecting Council services wherever possible.

Set against the above foundations, the forecast includes the need to identify on-going savings of **£0.300m** each year. This figure will need to remain flexible and react as a counterbalance to other emerging issues as it is accepted that this figure may need to be revised up or down over the life of the forecast.

It will also be important to deliver against the forecast in the early years to continue to build confidence in the revised approach. This will, therefore, need robust input from members and officers where decisions may be required in the short term or on a cash flow basis.

Another aspect to this approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service one year but increase it again when the forecast allows.

In addition to the above it is important to note that the Council has already prudently set aside money for significant risks in the forecast such as **£1.608m** (NDR Resilience Reserve) and **£1.100m** (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council also holds **£4.000m** in uncommitted reserves which supports its core financial position.

To support the forecast, sensitivity testing has been undertaken which is set out in more detail later in this report.

LEGAL

The Local Government Act 2003 makes it a statutory duty that Local Authorities monitor income and expenditure against budget and take appropriate action if variances emerge.

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation providing the right of veto for residents on excessive council tax increases.

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council as part of the budget process on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications that significantly impact on the financial forecast. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver the necessary savings.

PART 3 – SUPPORTING INFORMATION

SECTION 1 - IN-YEAR FINANCIAL PERFORMANCE AGAINST THE BUDGET AT THE END OF JULY 2018

The Council's financial position against the approved budget has been prepared for the period ending 31 July 18.

As this is the first such report on the Council's financial position against the budget for 2018/19, some expenditure or income trends may still be emerging as it is still relatively early in the financial cycle. However comments are provided below where necessary against the following key areas:

- General Fund Revenue
- HRA Revenue
- Capital Programme – General Fund
- Capital Programme - HRA
- Collection Performance
- Treasury Activity
- Proposed Changes to the 2018/19 Budget

GENERAL FUND REVENUE

The position to the end of July 2018, as set out in more detail in the Executive Summary attached, shows that overall the actual position is behind the profiled budget by **£2.143m**.

After excluding the variance for employee costs of **£0.187m**, the remaining net variance is **£1.956m**

As set out in the appendices, elements of this remaining variance are due to the timing of expenditure and income or where commitments / decisions have yet to be made.

Appendix B provides further narrative around variances with some highlights as follows:

- Employee Costs – as set out above, employee costs are behind profile by **£0.187m**. Following a detailed review, it is estimated that **£0.100m** of this amount relates to vacancies where there is no associated commitment and therefore is the accrued amount that can be 'banked' at the end of July 2018 as a saving. This is included within the proposed adjustments to the budget set out in **Appendix H** as part of the net contribution to the Forecast Risk Fund.
- Income is running ahead of the profile in areas such as parking, cemeteries, the crematorium, street naming and numbering and building control. This income trend will be monitored over the remainder of the year and will be considered for inclusion in the long term forecast as it develops.
- In a reversal of a trend from previous years, planning income is running behind the profile. This will need to be considered as the long term forecast develops as it was anticipated that income growth in this area could contribute to the long term net savings target which may need to be reconsidered based on the current position.

It is also worth mentioning that a number of budgets are being reviewed where they have remained uncommitted for more than one year as highlighted by Cabinet / Resources and Service Overview and Scrutiny Committee. This review is scheduled to be completed by the end of September 2018 and updates provided within future reports.

HRA REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**.

As at the end of July 2018, the HRA is **£0.042m** behind the net profiled budget. The most significant issue contributing to this position is rental income. Void loss has been higher over recent periods due to issues such as taking time to undertake major repairs etc. when properties become vacant but it is expected that this should stabilise in the long term. This issue remains under on-going review.

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix D.**

As at the end of July 2018 the programme is behind profile by **£0.127m**. Detailed comments are provided within the appendix. Following a review, a number of schemes are scheduled to be reprofiled into future years to reflect lead in times or the development of the associated project, with the necessary adjustments set out in **Appendix H.**

Some projects are also starting to overlap, such as those associated with the wider office rationalisation project. Where this is the case, it is proposed to merge the budgets together to provide greater flexibility in their delivery.

Apart from the issue highlighted above or within the appendix, there are no additional issues to highlight at present.

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

As at the end of July 2018 the programme is behind profile by **£0.235m.**

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings. There are no specific issues to highlight at this stage and the expectation is that expenditure / commitments will be broadly in line with the budget over the course of the year as work is progressed and procurement processes completed.

COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix E**.

There are no significant issues to highlight at the present time. Income will continue to be collected over the reminder of the year with recovery arrangements and action taken as necessary.

In respect of general debt it is worth highlighting that although the position for 2018/19 is behind the position reported for the same period last year, a significant amount of money is owed by one public sector debtor, which is being reviewed, along with the impact from the issue previously highlighted regarding theatre income where action is being taken to recover money owed in connection with a potential fraud committed against the Council.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix F.**

Apart from the issue set out below, there are no significant matters to highlight at the present time with investment and borrowing activity on-going in line with the Treasury Strategy and associated practices / requirements. Is it useful to also note that income from investments is running ahead of the profiled budget, supported by increases in interest rates, which will be considered for inclusion on an on-going basis as part of developing the long term forecast if this currently advantageous position continues.

One issue did emerge over the period being reported relating to a treasury performance indicator being exceeded through no fault of the Council. On 1 May 2018 the Council arranged a ‘roll over’ deal of £1 million with another Local Authority. On paper this would require the repayment of £1m from the local authority that relates to the original deal, with the same amount being relent to them on the same day. In practise no money should change hands apart from the payment of the interest due, as in effect all that is happening is the period of the short term loan given to the other Local Authority is being extended. However, unexpectedly the relevant Local Authority repaid the **£1.000m** to the Council relatively late in the day and following discussions with the bank, it was not possible to send the money back to that Council the same day. Therefore the money remained with Tendring District Council overnight before the required transfer was completed the next day. As a result, the Council carried a total of **£1.717m** overnight in its bank account against a limit of **£1.000m**. There was no additional risk associated with this issue as the money was only held overnight. This was a rather unusual situation as such deals are completed on a regular basis with other local authorities with no such issues emerging. In practical terms, all the Council can do is make it clearer in any communication it has with local authorities when such deals are agreed in future.

PROPOSED CHANGES TO THE 2018/19 BUDGET

Making changes to the budget on an on-going basis during the year is a departure from previous years where most adjustments were made as part of the annual revised budget process in December / January. The change in approach allows the most up to date budget position to be reported at any one time and fits well with the aim to provide updates to the long term forecast on a regular basis so the overall financial position of the Council remains ‘live’ throughout the year.

Set against the proposed approach above**, Appendix H** sets out changes to the budget along with additional comments.

Many of the revenue adjustments proposed are net neutral and largely respond to the managed approach within the Council’s Leisure facilities that aim to manage changes in income and expenditure during the year within their overall net budget position.

In respect of the Capital Programme changes, these primarily reflect the reprofiling into future years where it is unlikely that schemes will be deliverable in 2018/19. This responds to an action emerging from the recent LGA peer review with the changes aiming to give the Council a clearer focus on resource allocation and deliverability timescales.

As previously mentioned, it is proposed to ‘bank’ the accrued saving from employee costs so far to date. This has been offset by additional expenditure of **£0.019m** incurred to date following the clearance of rubbish at a site at Jaywick Sands. To date it has not been possible to identify legal liability relating to the relevant site and so it is unlikely that this amount can be recoverable from a third party.

Taking the above into account, a net contribution to the Forecast Risk Fund of **£0.081m** is proposed. It is expected that this amount will increase as further adjustments to the 2018/19 budget are identified over the remainder of the year.

In addition to the changes set out within the appendix, a number of changes to employee budgets emerge over the course of the year following restructuring / reorganisational activities agreed by the Chief Executive. Where these result in a net neutral position or deliver a saving, it is proposed to delegate the authority to make the related changes to the budget to the Chief Finance Officer so they can be finalised on a timely basis. An associated recommendation is included within this report.

SECTION 2 – UPDATED LONG TERM FORECAST

Following the establishment of a longer term approach to the budget setting process that was agreed last year, the forecast is being updated on an on-going basis with the latest position set out in **Appendix I.**

The detailed context to the revised longer term approach was included in the report to Cabinet on the 5 September 2017 and so it is not intended to repeat it within this report. However key elements to the forecast and any further developments are set out below against the following key principles / strands:

- **Increases to Underlying Income (Council Tax and Business Rates)**

The updated forecast includes a total estimated increase in underlying income of **£0.942m** for 2019/20, with figures for future years reflecting this change to the 'base' position. The forecast is still based on an increase of £5 in the level of Council Tax for Tendring District Council Services over the life of the forecast.

Similar assumptions to the last year in respect of additional income from property growth have been reflected within the forecast although updated where necessary for actual performance in 2018/19 so far to date. Housing growth remains linked to Local Plan projections.

One of the most significant changes relates to the collection fund balance that is expected to remain available to support the budget in 2019/20. As reported within the outturn report for 2017/18, a significant balance of **£0.446m** was carried forward into 2018/19**.** There is currently no indications that this will be 'eroded' by lower collection performance over 2018/19 so is expected to remain available or potentially increase, to support the 2019/20 position. Amounts for future years are reduced down to more cautious levels which may be revised upwards to follow historic trends as the longer term position develops.

- **Controlling Net Expenditure / Inflationary Pressures**

This has become an increasing challenge given the significant impact of the 2018/19 and 2019/20 pay award. However as the recent pay offer was front loaded and to some extent reflected pay restraint in prior years, it may be the case that the longer term position will revert to more manageable increases such as the 1% commitment previously promoted by the Government, which is included from 2020/21 onwards within the forecast.

A number of activities remain on-going within the Council's overall financial framework such as reviewing the outturn position from prior years to identify possible budget reductions. The Council also continues to explore opportunities to bring services back in-house which has the potential to reduce overall increases in costs. It is also worth highlighting the proposed changes to the Waste, Recycling and Street Cleansing contract which reduces what would have seen a significant price increase down to a level that can be managed within the forecast.

Departments continue to take a proactive approach in delivering quality services against the context of the financial forecast in mind. Examples of actions taken include managing emerging issues within existing budgets wherever possible or reprioritising activities to reduce / limit pressures on the budget over the course of the year.

- **Savings and Efficiencies**

The allowance built into the forecast remains at **£0.300m** at the present time. Although there are pressures as set out elsewhere, they are currently expected to be able to be managed via the longer term nature of the forecast. However it is recognised that this line of the forecast provides the 'safety valve' to the overall long term approach and may have to be increased if significant / on-going adverse issues emerged over the life of the forecast.

- **Delivering a favourable Outturn Position**

As set out last year, the Forecast Risk Fund relies upon in-year outturn contributions of **£0.500m** per annum to support the overall balance on the reserve which in turn underwrites the various risks to the forecast.

In respect of 2017/18, the requirement to contribute **£0.500m** to the Forecast Risk Fund was delivered. In respect of 2018/19 to date, a net contribution to the Forecast Risk Fund of **£0.081m** is proposed with expectations that additional contributions will be possible over the remaining quarters of the year.

- **Cost Pressure Mitigation**

Although discussed in more detail below, this line of the forecast presents one of the most significant risks, as in many instances it is outside the control the Council, such as reduced income from external bodies / the Government.

However, a recent example of where this approach has been successful relates to the renewal of the Council's insurance policies. The Council was facing increases of up to **£0.100m** in the cost of insurance but through analysis of historical claims etc. the excess for one of the major classes of cover has been increased to **£0.025m** from **£0.001m.** This change has reduced the overall cost pressure to a negligible amount and any excess payments that may be required will be met by reprioritising existing budgets to ensure that the Council can secure the saving from this revised approach.

The Council has also ensured that it has set aside money to meet one-off pressures by allocating money to reserves for example, and more specifically by allocating **£0.717m** from the outturn position for 2017/18. This amount was identified to support the delivery of the long term forecast and could for example be used to support a review of operational assets to identify likely cost pressures emerging over the life of the forecast which could be met from this fund rather than having to be accommodated within the forecast on an adhoc basis, which would present a significant financial challenge to the long term plan.

Other potential cost pressures were also recognised when further allocations from the money from the outturn position in 2017/18 were considered, which included **£0.300m** towards the office transformation project and **£0.200m** for a programme of health and safety work, which could both have emerged as additional items of expenditure that would otherwise have had to be accommodated within the long term forecast.

Other items included within the forecast for 2019/20 reflect known changes or previous decisions such as the reduction in the Revenue Support Grant, removal of one-off items from 2018/19, reductions in the level of grant to Town and Parish Councils, changes to the use of reserves and the savings accruing from earlier Portfolio Holder Working Party Initiatives.

In respect of the removal of one-off items from 2018/19, it is worth highlighting that the following items no longer appear within the on-going forecast and their continuation in 2019/20 and beyond will depend on either including them as future cost pressures or met via the identification of additional income or savings from elsewhere in the budget:

- Mental Health Hub Contribution - **£0.023m**

- Airshow Night Flight - **£0.010m**
- Sea and Beach Festival - **£0.020m**
- TV advert promoting the district - **£0.025m**

Sensitivity Testing of the Forecast
There are numerous risks inherent in forecasting and **Appendix I** includes the potential impact if assumptions within the forecast change such as inflation, reduction in income, the level of costs pressures or underperformance in securing the required on-going savings.

Although there will always be a large number of permutations, all sensitivities tested are still expected to deliver an annual surplus within the life of the forecast.

The sensitivity test that would have one of the greatest impacts on the forecast is if council tax rises were 1% less than the base position. In aggregate, the annual deficits would be **£4.944m** compared with base position of **£1.890m,** but the budget would still return to an annual surplus by the last year of the forecast.

If a number of issues came together at the same time then it is possible that the forecast becomes unsustainable in the longer term. This will be monitored as the forecast continues to be developed as it may be that the level of savings required needs to be increased to ensure the long term sustainability of the Council's financial position or the Council reverts back to the historic short term approach to setting the budget which would require significant savings early in the process.

Risk Assessment of Individual Lines of the Forecast
Given the inherent risks outlined within this report, additional work has been undertaken with commentary on the various issues set out in **Appendix J** for each line of the forecast.

Attention is drawn to the following key areas of the forecast which have been given a higher risk rating compared with other lines of the forecast:

- **£5 increase in Council Tax** – the ability to increase Council Tax to a point that does not require holding a referendum is based on permission from the Government which is only confirmed on an annual basis. Although it is expected that above inflationary increases are likely to feature in future financial settlements, this risk will need to be carefully monitored and if there is any indication from the Government that it will not be allowable in later years of the forecast then the necessary adjustment to the estimated position will need to be made, which could include increasing the required savings allowance above **£0.300m** per annum.

- **Inflation –** Given the recent significant increases from the pay award negotiations, this pressure on the forecast may have subsided in the immediate term with only 1% increases included in future years of the forecast. However annual increases are currently outside the direct control the Council and will be reviewed on an annual basis with comments provided to the relevant national negotiating body as necessary. Inflation for items such as utilities and other similar items have historically been managed on a corporate basis with increases in some service areas being met from reductions in other areas. It is expected that this approach will continue in the immediate term. Inflation for major contracts is included within the forecast based on the Bank of England's long term CPI target of 2%.

- **Ongoing Savings –** a target of **£0.300m** remains within the forecast. For 2019/20 the activities underway to deliver this amount include a review of the historic outturn position, taking a confident but cautious approach to income streams which are currently or have historically outperformed the budget, along with securing on-going savings from re-organisational reviews. In terms of delivering against future year's targets, associated discussions will need to be commenced over the rest of the current year to be able to secure the required savings from 2020/21 and beyond. This approach is backed by money set aside to support spend to save initiatives as discussed earlier in this report.

- **Unmitigated Cost Pressures –** as highlighted within the appendix, this line of the forecast presents one of the more significant risks going forward. Some items are within the Council's control, such as repairs to assets etc., but many are not such as reduced income from outside bodies. One example is the continuing reduction in Housing Benefit Administration Grant from the Government which is expected to reduce at a faster rate than in previous years due to the workload transferring across to DWP following the continuing roll out of Universal Credit. In such circumstances, corresponding reductions in expenditure will be explored but it may not always be possible to fully offset such cost pressures on an on-going basis.

  To date the Council has also refrained from using one-off money such as the New Homes Bonus to support the on-going budget. The forecast is based on this prudent principle continuing which supports the robust approach being developed.

Taking all of the above into account, the forecasted annual deficit or surplus as set out in **Appendix I** is summarised as follows compared with the forecast from last year:

Year	Net Budget Position Reported Last Year (including adjusting for prior use of reserves to balance the budget)	Net Budget Position as Set out in the Updated Forecast (including adjusting for prior use of reserves to balance the budget)
2018/19	£0.536m (Deficit)	£0.144m (Deficit)
2019/20	£0.650m (Deficit)	£0.725m (Deficit)
2020/21	£0.857m (Deficit)	£1.083m (Deficit)
2021/22	£0.652m (Deficit)	£0.790m (Deficit)
2022/23	£0.441m (Deficit)	£0.491m (Deficit)
2023/24	£0.225m (Deficit)	£0.182m (Deficit)
2024/25	£0.004m (Deficit)	£0.134m (Surplus)
2025/26	£0.223m (Surplus)	£0.458m (Surplus)
2026/27	£0.454m (Surplus)	£0.790m (Surplus)

Although the deficits have increased in the short term, the forecast moves to an annual surplus position within broadly the same timescales, with increased surpluses forecast towards the end of the forecast period.

Appendix I also sets out the annual change in the Forecast Risk Fund with increased balances on this reserve estimated over the life of the forecast compared with the figures reported last year.

As part of their value for money work, the Council's external auditors have drawn attention to the risks associated with use of reserves to balance the budget, namely that it is not sustainable. Although this is acknowledged, the use of the Forecast Risk Fund is on a controlled basis with underlying income expected to offset the net increases in expenditure in the long term, which provides for a more resilient approach to resisting potential reductions in the provision of services if the more traditional annual approach was taken.

The approach to the forecast continues to be undertaken within a robust risk management framework which includes the regular reporting of a ‘live’ forecast as set out in this report which will enable timely actions to be taken in response to any adverse issues that may emerge. It is also important to highlight that delivery of the long term forecast in the early years will provide confidence to the revised approach being taken.

Other Changes to the Forecast
For completeness, there are a number of other budget changes that do not have an overall net impact on the budget. These include the removal of one-off capital items where they are funded from reserves, along with other one-off budgets where reserves have also been used such as the three year pension deficit contribution.

In the above cases the expenditure will be removed along with the associated call on reserves with no overall impact on the forecast. These will be set out in more detail later on in the year when the detailed budget for 2019/20 is presented.

Based on the updated position, the initial 2019/20 budget is forecast to be as follows:

Initial General Fund Budget 2019/20

	2018/19 Original £m	**2019/20 Initial Forecast £m**
Net Cost of Services	17.403	17.686
Revenue support for capital investment	0.100	0.100
Financing items	(4.632)	(4.632)
Net Expenditure	**12.871**	**13.154**
Contribution to /(from) Reserves	1.031	0.390
Total Net Budget	**13.902**	**13.544**
Business Rates *(excl. S31 Govt. Grant)*	(4.578)	(4.680)
Revenue Support Grant	(1.070)	(0.422)
Collection Fund Surplus	(0.652)	(0.446)
Council Tax Requirement	**7.602**	**7.996**

Although this will be subject to revisions and updates as the year / forecast progresses, it does set out the estimated position for 2019/20 which includes a draw down from the Forecast Risk Fund of an estimated **£0.725m** to balance the budget in accordance with the long term forecast.

The council tax requirement figure of **£7.996m** is based on the forecast increase of £5 along with the property base assumptions as set out in the updated forecast. This represents an increase of **£0.394** compared to 2018/19 and would result in an average Band D council tax of **£167.64** compared to **£162.64** in 2018/19.

To deliver various elements of the forecast and to react to any changes as the forecast develops, it will require significant member and officer effort and focus. However the approach being taken continues to be a credible alternative to the more traditional approach of taking a shorter term view, which would require significant savings to be identified in both 2019/20 and 2020/21.

As set out last year, as money has already been set aside to deliver a range of projects that supports the Council in delivering it priorities, there is a reduced expectation that the longer term forecast needs to generate additional funding for significant investments.

Projects identified to date where funding has already been identified include:

Project	2018/19 Budget
Garden Communities	£1.750m
Harwich Public Realm	£1.000m
Housing in Jaywick Sands	£0.500m
Office Rationalisation	£1.460m
Business Investment and Growth	£2.324m

There is still scope to make further investment decisions from existing one-off funding without adversely impacting on the long term forecast which provides a strong foundation to work from. With this in mind it is important to highlight that where such future investment is made, it would be beneficial if it also demonstrated a positive impact on one of the 5 key strands of the forecast as part of a joined up financial approach to the challenge that lies ahead.

It is also worth highlighting that the forecast excludes any benefit that may continue to accrue from being a member of the Essex Business Rates Pool. At the present time the option to continue the pool in 2019/20 along with bidding to be a pilot area for the new retention of business rates model is currently being considered across Essex authorities.

To remain flexible and able to respond to the associated Government deadlines, it is proposed to delegate the decision to continue in the Essex Business Rate pool and bid for pilot status to the Portfolio Holder for Finance and Corporate Resources in consultation with the Chief Finance Officer. This is based on the underlying principle that the Council would only join a pool or pilot bid if it was advantageous to do so with no detriment on its overall financial position or unfavourably increased its financial risk.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

RELATING TO SECTION 1 OF THE REPORT

Front Cover and Executive Summary

Appendix A – Summary by Portfolio / Committee
Appendix B – General Fund Budget Position by Department
Appendix C – Housing Revenue Account Budget Position
Appendix D – Capital Programme
Appendix E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts
Appendix F – Treasury Activity
Appendix G – Income from S106 Agreements
Appendix H – Proposed Adjustments to the 2018/19 Budget

RELATING TO SECTION 2 OF THE REPORT

Appendix I – Updated Long Term Financial Forecast
Appendix J – Risk Analysis of Each Line of the Forecast