

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

14 DECEMBER 2018

REPORT OF FINANCE AND CORPORATE RESOURCE PORTFOLIO HOLDER

A.6 UPDATED FINANCIAL FORECAST / BUDGET 2019/20

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To enable Cabinet to consider the updated financial forecast for 2019/20 for consultation with the Resources and Services Overview and Scrutiny Committee.

EXECUTIVE SUMMARY

- As part of maintaining a 'live' forecast, further updates to the position for 2019/20 have been made since the financial forecast was last considered by Cabinet on 9 November 2018.
- Changes to the in-year budget (2018/19) are not included within this report as they are now reported via the quarterly financial performance reports presented during the year.
- At this stage of the budget process, there is a net surplus of **£0.002m** forecast in 2019/20, an overall change of **£0.511m** compared with the **£0.509m** deficit reported to Cabinet on 9 November 2018. The long term forecast therefore remains on target.
- It is important to highlight that the 2019/20 budget includes an estimated collection fund surplus of **£0.710m**. Although this is an on-going item in the budget it is reviewed each year based on in-year collection performance and can therefore only be deemed a one-off 'saving' in 2019/20. Although the amount is available to support the 2019/20 budget, if this was excluded from the forecast, there would be a budget deficit of **£0.708m** for 2019/20.
- Although subject to potential changes to the forecast over the remaining budget setting period, the current forecasted surplus of **£0.002m** will be paid into the Forecast Risk Fund.
- Any necessary changes emerging from the detailed Local Government Finance Settlement will be reported directly at the meeting if received in-time, otherwise they will be included in the figures that will be presented to Cabinet in January 2019 when it considers the final budget proposals after consultation with the Resources and Services Overview and Scrutiny Committee.
- Once the final position for 2019/20 is determined, the remaining years of the 10 year forecast will be revised, set against the revised 2019/20 position and will be reported to members later in the budget setting process.

RECOMMENDATION(S)

It is recommended that Cabinet:

- a) Thanks the Resources and Services Overview and Scrutiny Committee for the work they have done to date in reviewing the forecast as it has developed and agrees the comments of the Finance and Corporate Resources Portfolio Holder in response to issues raised by the Committee as set out in this report;
- b) agrees the updated Financial Forecast 2019/20 as set out in this report and Appendices and;
- c) requests the Resources and Services Overview and Scrutiny Committee's comments on this latest financial forecast for 2019/20.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING 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 10 year approach to the forecast 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 set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets and IT.

Risk

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 additional 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.

As previously discussed, the Council's ability to financially underwrite the forecast is an important element of the 10 year plan. 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) To date it is estimated that **£2.290m** will have been set aside by the end of 2018/19 within the Forecast Risk Fund to support the budget in future years. This is more than previous forecasts 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.

The 2019/20 position includes net savings of **£0.328m** which is slightly ahead of the annual target of **£0.300m**. 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 is important to deliver against the forecast in the early years to continue to build confidence in the revised approach. This will, therefore, continue to 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 potentially 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 **£1.609m** (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.

LEGAL

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 2011 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.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils. Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council's view, a special expense should properly be charged over the whole of the district's area, the Council may pass an express resolution to this effect (known as a **contrary resolution**).

In order for expenditure to be a Special Expense, there are two conditions that must be fulfilled:

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

The proposals set out in this report are in accordance with the Council's budget and policy framework.

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.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

Following the establishment of a longer term approach to the budget setting process that was agreed last year, the forecast is updated on an on-going basis with the most recent position (at the end of September 2018) reported to Cabinet at its 9 November 2018 meeting and it was resolved that:

- (1) in respect of the financial performance against the budget at the end of September 2018:
 - (a) the position be noted;
 - (b) the proposed in-year adjustments to the budget, as set out in Appendix H to item A.6 of the Report of the Finance and Corporate Resources Portfolio Holder be agreed; and
 - (c) in respect of the Council's Treasury Management Practices, the aggregate amount of money that can be placed overnight with the Council's bankers be increased temporarily from £1.000m to £1.500m for each day the offices are closed over the Christmas break.
- (2) in respect of the Updated Long Term Forecast revised at the end of September 2018:
 - (a) updated forecast be agreed; and
 - (b) the Resources and Service Overview and Scrutiny Committee be consulted on the updated position.

The Resources and Services Overview and Scrutiny Committee considered the report referred to above at its meeting on 29 November 2018, with their comments set out below along with the comments from the Finance and Corporate Resources Portfolio Holder:

Resources and Services Overview and Scrutiny Committee's Comments	Response of the Finance and Corporate Resources Portfolio Holder
The Committee requests that the Section 151 Officer undertakes a review of the digital transformation business case in terms of estimated costs and planned savings and the performance against the budget to date, with an update to be provided in the quarter 3 Corporate Budget Monitoring Report 2018/19.	Noted and supported
The Committee requests that the Head of IT attends the Resources and Services Overview and Scrutiny Committee on 11 Feb 2019 to discuss digital transformation, as part of the review of the Performance Report 2018/19, third quarter.	Noted and supported

UPDATED FINANCIAL FORECAST 2019/20

The forecast has been subject to a number of changes since it was last considered by Cabinet at its 9 November 2018 meeting. **Appendix A** sets out an updated forecast for 2019/20 that

reflects these changes which deliver an overall surplus of **£0.002m**.

Work remains on-going as part of the continuing development of the budget which will need to react to a number of issues such as any announcements from the Government as part of the annual local government financial settlement process. Any changes will be reported to members as they arise throughout the remainder of the budget setting process and will be included in the final budget proposals to be considered by Cabinet in January before recommendations are made to Council.

The following table provides a commentary on the changes to the initial forecast set out in **Appendix A** (excludes items where there has been no change to the relevant line of the forecast considered by Cabinet on 9 November 2018):

Item in the Forecast	Change since forecast was considered on 9 November 2018	Comments
<i>Underlying Funding Growth</i>		
Growth in business rates - Inflation	Increase in Income of £0.018m	This reflects the most up to date inflation forecast and increases income by a total of £0.110m compared with 2018/19.
Growth in business rates / council tax - general property growth	Increase in Income of £0.446m	Reflects the latest property base estimates for 2019/20 with total additional income of £0.576m forecast compared with 2018/19.
Collection Fund Surpluses b/fwd	Increase in Income of £0.007m	This reflects the latest collection fund position for the year with the total income figure estimated at £0.710m . This is a one-off increase as the collection fund surplus or deficit is updated each year based on actual collection performance etc.
<i>Net Cost of Services and Other Adjustments</i>		
Inflation - Employee Costs (including annual review adjustments)	Increase in forecasted expenditure of £0.027m	This reflects the latest salary forecasts which include restructures implemented so far to date.
Inflation - Other	Increase in forecasted expenditure of £0.114m	This primarily reflects the 'rebased' cost of the Waste Collection, Recycling and Street Cleansing Contract as part of the extension of the existing contract. The actual RPI increases across 2018/19 and projected into 2019/20 have been higher than those previously anticipated.
Specific Changes in Use of Reserves	Increase net use of reserves – £0.009m	This reflects a number of issues such as the use of £0.120m from the election reserve to meet the associated cost of the district

		elections in May 2019 along with the removal of the one-off increase of £0.100m to the big society budget
On-going net savings	<p>Net Savings of £0.328m have been included in the 2019/20 budget.</p> <p>(£0.028m greater than the allowance of £0.300m included in the initial forecast)</p>	The figure reported to Cabinet on 9 November 2018 as part of the updated long term forecast was £0.279m . This has increased to £0.328m with the full list of net savings set out in Appendix B .
Unmitigated Cost Pressures	<p>Unavoidable cost pressures of £0.126m have been included in the 2019/20 budget.</p> <p>(the total amount included in the budget is £0.024m less than the allowance of £0.150m included in the long term forecast)</p>	<p>The full list of cost pressures is set out in Appendix C. Only those that are deemed to be unavoidable have been included at this stage, which recognises that the total cost of the items identified will rise from £0.126m in 2019/20 to £0.193m from 2020/21.</p> <p>As set out within the appendix, all other items are subject to further review including those that are optional but support the delivery of Council priorities.</p> <p>In respect of those items that are optional but support council priorities, consideration is being given to funding them from the anticipated benefit from being a member of the business rates pool in 2018/19. This would be on a one-off basis but would enable the activities to continue into 2019/20 and provide the time necessary to consider how they can potentially be included on an on-going basis via adjustments elsewhere in the long term forecast.</p> <p>Work therefore remains on-going throughout the remainder of the budget setting process to investigate the funding options further, and comments from the Resources and Services Overview and Scrutiny Committee would be welcomed on the cost pressure list as part of the associated budget consultation process.</p>
Other Adjustments	Reduction in forecasted net expenditure of £0.120m	<p>This line in the forecast recognises other changes that do not necessarily fit elsewhere in the table within Appendix A.</p> <p>Along with some minor budget amendments,</p>

		the figure primarily reflects changes to the recharges between the GF and the HRA.
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The above position excludes changes to indirect costs such as internal recharges within the GF and technical accounting adjustments that do not have an overall net impact on the budget.

As set out in **Appendix A**, taking the above adjustments into account in the forecast results in an estimated surplus for 2019/20 of **£0.002m**, compared with the forecasted deficit of **£0.509m** considered by Cabinet at its 9 November 2018 meeting.

Reserves will be adjusted as necessary in line with the above changes to the forecast and will be included on this basis within the final budget proposals that will be presented to Full Council in February 2019.

The mitigation of cost pressures continues to form an important element of the long term forecast. To date, significant cost pressures have been avoided by identifying alternative options / approaches such as those associated with the Waste, Recycling and Street Cleansing contract, accepting a higher excess level on some insurance policies along with the restructuring of services to react to changes in associated income such as the expected reduction in housing benefit administration grant receivable from the Government that reflects the roll-out of universal credit.

ADDITIONAL INFORMATION

Council Tax Levy 2019/20

Based on a proposed £5 increase, the Council Tax for a band D property would be **£167.64** in 2019/20. The updated property base is **47,455.2**, an increase of **715.7** over the 2018/19 figure of **46,739.5**.

The ability to increase Council Tax by £5 remains subject to confirmation from the Government. This is expected to be confirmed within the Local Government Financial Settlement which is expected shortly.

If such an increase is not permissible and it is necessary to revert back to an increase of 1.99%, on-going income would be reduced by **£0.082m**, which would need corresponding savings to be identified over the life of the forecast.

Locally Retained Business Rates

As set out above, an increase in income is forecast due to an inflationary uplift and an increased property base.

The Council has agreed to join a revised Essex Business Rates Pool in 2019/2020, which has also bid to become a pilot area for 75% retention of business rates. No income is currently included in the forecast for either being a pool member or being successful in the bid for pilot status. It is expected that the Government will announce pool / pilots for 2019/20 shortly and once received the necessary adjustments to the forecast will be considered.

Fees and Charges

Similarly to previous years, Departments have been asked to review their fees and charges on an individual basis as changes may need to be made to meet specific aims or strategic objectives or in some cases in response to external factors such as market forces.

Detailed fees and charges will form part of the final budget proposals to Cabinet in January and Full Council in February, with proposed fees and charges set against the following key

principles:

- general inflationary increases or lower where appropriate
- amounts rounded for ease of application, which may result in a slightly above inflation increase.
- on a cost recovery basis as necessary
- reflect statutory requirements.
- increases where market conditions allow

GENERAL FUND CAPITAL PROGRAMME

As highlighted last year, only 2 schemes are included in the base budget on a recurring basis each year and these relate to the on-going cost of replacing the Council's core IT infrastructure along with disabled facilities grants. **£0.100m** and **£0.757m** have therefore been included within the 2019/20 Capital Programme respectively. The investment in IT core infrastructure is funded by a direct revenue contribution, with disabled facilities grants funded by estimated external grant funding from ECC.

The only other changes to the Capital Programme reflect the reprofiling of schemes as set out in the quarterly financial performance reports considered by Cabinet earlier in the year.

The capital programme incorporating the above changes will be included within the final budget proposals that will be considered by Cabinet in January before being presented to Full Council in February.

SPECIAL EXPENSES 2019/20

Special expenses amounts cannot be finalised until the budget for the year has been completed and the associated technical adjustments reflected in the budget. Therefore at this stage of the budget process it is more practical to review the principles against which the special expenses will be calculated rather than the specific amounts themselves, which are subject to change as the budget develops.

It is not proposed to make any changes to the principles behind the calculation of special expenses with the key principles remaining the same as in 2018/19 as set out below:

- A de minimus amount of **£0.025m** is applied to determine which expenses are excluded from the special expenses calculations;
- Any allocation to specific areas less than **£0.001m** is excluded for the purposes of determining special expenses.

Although subject to the final budget calculations, expenses to be allocated as special expenses are likely to remain as in 2018/19 and apply to open space and recreation area costs.

For completeness, the underlying technical background to the calculation of special expenses is set out below:

Certain expenditure referred to as 'Special Expenses' is regarded as being chargeable to only certain parts of the district. The rest of the Council's expenditure is regarded as being chargeable over the whole district and is referred to as 'General Expenses'. Local authorities have the power to pass a resolution in respect of any particular Special Expense to the effect that the amount of that expense should be charged across the whole district. This is referred to as the contrary resolution.

In exercising this power the Council also has to consider how the burden of Special Expenses will be charged to the taxpayers of the district.

Information from parish/town councils

Each year parish councils complete a return to identify changes to the services they undertake

Consideration of Determining the Contrary Resolution

In judging whether the contrary resolution should be passed in respect of any special expenses, the following matters are relevant:

- i) Whether in respect of this Council's expenditure the function is to be provided generally for the whole district or is to be restricted to a part or parts of the district?*
- ii) To what extent, if any, are restrictions placed on any part of the district as to the accessibility of the function?*
- iii) The use of the facility/activity to which the Special Expense relates.*

These matters must each be considered and a view taken as to whether it would be appropriate to pass the contrary resolution in respect of some of the budgeted expenditure on Special Expenses.

In determining how the burden of special items should be charged to the taxpayer of the district, the following matters need to be considered.

- i) Where is the facility situated?*
- ii) Who uses it?*
- iii) How much expenditure is to be spent in the various parts of the district?*

Wherever possible the Council aims to charge the cost incurred in performing a function in a part of the district, to the taxpayers of that part. In assessing the area of benefit to which a function identified as a special expense relates, parish boundaries have been treated as the appropriate areas.

The tax base for apportioning Special Expenses to each parish and the unparished area is that used to determine the Council's overall Council Tax base.

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

Where relevant, figures included in the 2019/20 budget are based on the Policy Statement agreed by Council at their 27 November 2018 meeting which is as follows:

In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2019/20 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.

BACKGROUND PAPERS FOR THE DECISION

Working papers held in Accountancy

APPENDICES**Appendix A** Updated Financial Forecast 2019/20**Appendix B** Updated Net Savings Items 2019/20**Appendix C** Updated Cost Pressure Summary 2019/20